

KP Media

KYIV POST KYIV BUSINESS DIRECTORY bigmir.net АФІША Корреспондент Pink ІНТЕРНЕТ МІГРОЗИН МІЛЛІОН ПАНІ 15 МИНУТ ПАНІ ВОНА НОВИНАР

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October 31, 2007
3Q/2007 Report
(2Q of financial year)

Dear all:

Enclosed is the 3q report for KP Media. Overall, we are very excited and happy with the results.

Strong Revenue Growth, Improving EBITDA Margins

We have seen very strong growth throughout the company. Overall, we posted 76% revenue growth compared to 3q/06. Total revenue was just over \$5 mln for the quarter and 11% higher than was budgeted.

Each of our 5 biggest projects grew at rates between 47% to 130% this quarter - significantly faster than the estimated 20% growth in the advertising market. Additionally, the operating margins on the leading projects have increased significantly. Overall EBITDA margins on mature products (those over 2 years on market) are 12.5% in 1h/07.

Overall, 3q/07 EBITDA of the company was USD (-791k). This is significantly less than the budgeted loss of USD 1,9 mln. As outlined, negative EBITDA are due to the rapid launch of numerous projects since the completion of the IPO. If projects of less than 2 years (existing projects on charts) are removed, the operating profits of the company in 3q is USD 555k and over USD 1 million for 1h/07.

Initial Expansion Plan Completed:

During 3q, KP Media successfully launched *15Minutes* in 4 cities, completing outlined plan for nation-wide coverage in all "Million" cities in Ukraine. The circulation of *15Minutes* is now over 270K copies per day and has the 2nd largest reach of any Ukrainian newspaper.

Additionally, *Vona*, a Ukrainian-language women's monthly was launched as well *Novinar*, Ukrainian news magazine, both in print and internet. *Novinar* expands KP presence in news, complimenting *Kyiv Post* and *Korrespondent*.

These most recent launches mark the completion of the planned new print launches in the immediate aftermath of the IPO. We believe that the next 9-12 months will be focused on developing and managing these projects before we begin any further new launches in print.

Rapid Expansion in Internet:

We have seen strong growth in the internet properties, both in Bigmir and new sites. Our total internet revenues have grown 130% compared to 3q/06. The new Bigmir home page was launched in August and has been a success. It has both increased audience as well as driven traffic to higher margin pages. Bigmir video continues to grow, reaching over 25,000 persons per day. Additionally,

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we have launched Mystery, a massive multi-player on-line game during the last week of the quarter.

While no new print launches are planned for the immediate future, substantial expansion is planned for the internet, both in expanding and improving existing sites as well as launching new projects. New email for Bigmir will be launched in 4q as well as new functionality for Korrespondent.net. We are budgeting a 50% increase in internet audience over the next 12 months, substantially faster than the total growth in internet in Ukraine.

Ad and newsstand rates increasing; expenses rising less so:

On existing projects, we have seen strong growth in ad rates for our major titles. Our yield per advertising page has increased significantly – over 50% on average – in our leading titles. Additionally, we have raised the cover price on *Korrespondent* by 20% and our subscription prices on all titles. This is following with our strategy of position our titles as premium products on the market.

Expenses have risen in some cases, but significantly less than revenue growth. Printing costs have increased by about 12%. This was mainly due to the appreciation of the Euro in comparison to the Hrivnya. It is likely there will be additional increases in 2008. Additionally, staff costs have continued to increase, increasing the cost of editorial content by 10% to 25% depending on publication.

Continued commitment to journalistic excellence:

During the heightened interest towards news and politics, KP journalists from *Korrespondent* and Korrespondent.net provided their readers with outstanding reporting and journalism. During the run-up to the elections, *Korrespondent* features exclusive material and interviews with Yuliya Tymoshenko, Yanukovitch, Litvin as well as Lutsenko. Additionally, the publication was a leader in exposing the land-grab scandal in the Kyiv City Council.

Continued strong growth expected:

Entering 4q/07, strong revenue growth is expected due to seasonality in advertising market as well as outlined factors above. This seasonality was a key factor in the 50% increase in total revenues in 4q/06 compared to 3q/06. A similar trend is expected for 2007, though perhaps slightly less substantial due to the increase in 3q/07 due to the elections.

Additionally, the new projects launched over the past 18 months should start seeing a rapid acceleration in revenue, further increasing growth. These new projects accounted for 3% of total revenue on 3q/06, but increased to 9% in 2q/07 and 11% of total revenue in 3q/07. EBITDA losses for these new projects should narrow substantially as revenue increases.

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KP Media Total Q3'07 vs Q3'06

(\$)	Q3 '07 Total	Q3'06 Total	Variance	Var, %
Total Revenue	5 027 101	2 853 060	2 174 041	76%
Cost of Revenue	- 3 423	- 2 151	- 1 271	-59%
less Intercompany Eliminations	196	485	711	
	25 171	35 013	- 9 842	-28%
Gross Margin	1 629 076	736 588	892 488	121%
Gross Margin %	32,4%	25,8%		
Operating Expenses	- 2 624	- 2 065	- 558	-27%
less Intercompany Eliminations	479	973	506	
	35 248	35 012	236	1%
Operating Margin	- 960 155	- 1 294 373	334 218	26%
Operating Margin %	-19,1%	-45,4%		
Non operating Income/(Exp.)	11 634	41 266	- 29 632	-72%
Net Income Before Tax	- 948 522	- 1 253 107	304 585	24%
Income Tax	- 36	50 007	- 86 880	-174%
Net Income	- 985 395	- 1 203 100	217 705	18%
Net Income %	-19,6%	-42,2%		
Operating Margin	- 960	- 1 294	334 218	26%
Depreciation	155	373	- 81 406	-93%
EBITDA	- 791 335	- 1 206 959	415 624	34%
EBITDA %	-15,7%	-42,3%		

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KP Media Existing Projects

Q3'07 vs Q3'06

(\$)	Q3 '07 Existing Projects	Q3'06 Existing Projects	Variance	Var, %
Total Revenue	4 450 755	2 766 115	1 684 640	61%
Cost of Revenue	- 2 212	- 1 789 659	- 422	-24%
less Intercompany Eliminations	236 25 171	35 013	577 9 842	-28%
Gross Margin	2 263 690	1 011 469	1 252 221	124%
Gross Margin %	50,9%	36,6%		
Operating Expenses	- 1 909	- 1 885 430	- 23	-1%
less Intercompany Eliminations	207 35 248	35 012	777 236	1%
Operating Margin	389 730	- 838 949	1 228 679	146%
Operating Margin %	8,8%	-30,3%		
Non operating Income/(Exp.)	11 672	41 266	- 29 594	-72%
Net Income Before Tax	401 403	- 797 683	1 199 086	150%
Income Tax	- 36 873	50 007	- 86 880	-174%
Net Income	364 530	- 747 676	1 112 206	149%
Net Income %	8,2%	-27,0%		
Operating Margin	389 730	- 838 949	1 228 679	146%
Depreciation	165 648	84 322	- 81 326	-96%
EBITDA	555 378	- 754 627	1 310 005	174%
EBITDA %	12,5%	-27,3%		

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KP Media Total

h/07 vs h/06

(\$)	h/07 Total	h/06 Total	Variance	Var, %
Total Revenue	9 707 410	6 068 985	3 638 425	60%
Cost of Revenue	- 6 642	- 3 881	- 2 761	-71%
	485	292	193	
less Intercompany Eliminations	54 492	67 239	- 12 747	-19%
Gross Margin	3 119 416	2 254 932	864 484	38%
Gross Margin %	32,1%	37,2%		
Operating Expenses	- 4 595	- 3 472	- 1 123	-32%
	327	310	017	
less Intercompany Eliminations	76 396	57 787	18 609	32%
Operating Margin	- 1 399 515	- 1 159 591	- 239 924	-21%
Operating Margin %	-14,4%	-19,1%		
Non operating Income/(Exp.)	50 236	62 709	- 12 473	-20%
Net Income Before Tax	- 1 349 279	- 1 096 882	- 252 397	-23%
Income Tax	- 69	- 5	- 63	-1155%
	328	525	803	
Net Income	- 1 418 607	- 1 102 407	- 316 200	-29%
Net Income %	-14,6%	-18,2%		
Operating Margin	- 1 399 515	- 1 159 591	- 239 924	-21%
Depreciation	317 340	156 214	- 161 126	-103%
EBITDA	- 1 082 175	- 1 003 377	- 78 798	-8%
EBITDA %	-11,1%	-16,5%		

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KP Media Existing Projects

h/07 vs h/06

(\$)	h /07 Existing Projects	h/06 Existing Projects	Variance	Var, %
Total Revenue	8 699 170	5 981 214	2 717 956	45%
Cost of Revenue	- 4 614	- 3 410 053	- 1 204	-35%
less Intercompany Eliminations	54 492	67 239	12 747	-19%
Gross Margin	4 139 574	2 638 400	1 501 174	57%
Gross Margin %	47,6%	44,1%		
Operating Expenses	- 3 427	- 3 229 729	- 198	-6%
less Intercompany Eliminations	76 396	57 787	18 609	32%
Operating Margin	788 043	- 533 542	1 321 585	248%
Operating Margin %	9,1%	-8,9%		
Non operating Income/(Exp.)	50	62	12	-20%
	274	709	435	
Net Income Before Tax	838 317	- 470 833	1 309 150	278%
Income Tax	- 69	- 5	- 63	-1155%
	328	525	803	
Net Income	768 989	- 476 358	1 245 347	261%
Net Income %	8,8%	-8,0%		
Operating Margin	788	- 533	1 321	248%
	043	542	585	
Depreciation	311	153	158	-103%
	248	011	237	
EBITDA	1 099 291	- 380 531	1 479 822	389%
EBITDA %	12,6%	-6,4%		