

April 1, 2011

Tel: +7 987 2966 777 E-mails: bella\_usapeec@yahoo.com; usapeeckz@yahoo.com Website: www.usapeec.kz

### CONTENT:

#### Ukraine:

*European inspectors are satisfied with Ukrainian control systems over the production of poultry meat.*

*MHP is currently considering the possibility of acquisition of Russian assets.*

*State support will help maintain the development of meat industry in Ukraine.*

*Russia will toughen restrictions at the customs border with Ukraine in case if it creates FTZ with European Union.*

*Ukraine - American poultry investment.*

*Ukraine's Avangard 2010 net profit increased by 38%.*

*A draft decision of the Cabinet of Ministers of Ukraine "On approval of the Technical Regulations "Requirements for the production of poultry meat and poultry products" has been promulgated.*

*Statistics: Ukraine poultry import/export for 2010.*

### Ukraine



#### **European inspectors are satisfied with Ukrainian control systems over the production of poultry meat**

According to the Head of the Phytosanitary Service of Ukraine, Chairman of the Council for Veterinary Cooperation between CIS countries, Ivan Bisyuk, Chief Veterinarians of Ukraine were pleased with the European experts' report on the safety of Ukrainian poultry meat.

I. Bisyuk said that he has received the experts' report on March 21, 2011 and it contains a number of minor remarks with time periods set for removing the deficiencies at a certain enterprises.

But, nevertheless, he said he is quite satisfied with the results.

According to him, in general the report reads that "today state phytosanitary services of Ukraine are able to guarantee the safety of exported poultry meat".

On October 6-10, 2010 experts of FVO (Food and Veterinary Office) visited Ukraine. They inspected the current control system over the health of animals during production of poultry meat and egg products, so that these products could be further exported to European Union.

Earlier I. Bisyuk has noted that Ukrainian poultry producers have high chances to obtain the right to export their products to European Union countries.

Source: GolosUA Information Agency  
(www.golosua.com)  
Translated by: usapeec.kz

## MHP is currently considering the possibility of acquisition of Russian assets



Mironovsky Hliboproduct ("MHP"), the largest poultry producer in Ukraine, is considering the possibility to acquire assets in Russia.

"Our doors are open for potential sellers of Russian assets", the Chairman of the Board of "MHP", Yuri Kosyuk said.

According to him, the company disposes the funds for buying businesses in Russia and Europe. However, he noted that it is difficult to forecast when the relevant deals will be concluded.

In 2010 "MHP" increased its net profit by 34.7 percent reaching USD 215.45 million and revenues increased by 32.8 percent – up to USD 944.21 million

In addition in 2011 the company is planning to invest in its development about USD 320 million, that is 43.5 percent more than compared to the year 2010.

"We are planning to invest in the production of grain, increasing sales of finished meat products, but the main funds will be allocated for the construction of poultry plant in the Vinnitsa region, Yuri Kosyuk said.

It is assumed that about 85 percent of all funds will be invested in this project. MHP plans to put it into operation by 2013. And it is planned that its first production line will start operating at a full capacity (220,000 MT of poultry meat per year) by 2015. Total capacity of the complex will reach 440,000 MT.

Meanwhile, Yu. Kosyuk said that in 2011 they expect significantly higher revenues than in 2010 since MHP's land bank is 60 percent larger in 2011.

*Source: Apk-Inform Information Agency  
(www.apk-inform.com)  
Translated by: usapec.kz*

## State support will help maintain the development of meat industry in Ukraine



According to the Director of Department for the development of economy sectors under the Ministry of Economy of Ukraine, Oleg Pendzin, in 2011 the state support will help maintain the tendency of growth of livestock and poultry and increase meat production.

He also noted that the implementation of Government support measures will allow to increase the average consumption of meat as well as per capita consumption in Ukraine.

According to him in 2011 the Government is planning to take a number of measures aimed at further development of the domestic livestock industry, primarily dairy and cattle industries. For these purposes the Government has already budgeted UAH 2.7 billion (USD 340 million). UAH 500 million (USD 63 million) of this sum will be directed for the partial reimbursement of the cost of construction and reconstruction of livestock and poultry plants as well as enterprises for the production of fodder.

The remaining funds will be used to develop livestock breeding, the payment of direct budget and special budget subsidies to agricultural producers.

*Source: Meatinfo News Service  
(www.meatinfo.ru)  
Translated by: usapec.kz*

## Russia will toughen restrictions at the customs border with Ukraine in case if it creates FTZ with European Union

According to Russian Prime Minister Vladimir Putin, Russia will be forced to toughen restrictions at customs border with Ukraine if Kyiv decides to create the Free Trade Zone (FTZ) with the European Union (EU). He informed on this during press conference which was held following the meeting of the Interstate Council of Eurasian Economic Community (EEC – Supreme authority of the Customs Union) in Minsk, Belarus.

V. Putin pointed out to the difference in the levels of customs and tariff protection in Ukraine and the EU. He explained that if Ukraine decides to create FTZ with EU it will be forced to acquiesce in positions that are sensitive for Ukraine. And in this case Ukraine will expect that its goods will be sold at the Russian market.

He also noted that Russia will not let that happen. And he is confident that Belarus and Kazakhstan will immediately support the idea of closing borders with Ukraine. "It is quite difficult to enter the European market with traditional products, and Ukraine will not be allowed to sell its products in the Russian market", V. Putin noted. However, he added that Russia still welcomes Ukraine's accession to the Common Economic Space or Customs Union.

On February 10, 2011 Philip Kuisson, the Head of the Negotiating Group on FTZ creation stated that the agreement on Free Trade Zone between Ukraine and EU will be signed in 2011. He also noted that after signing the agreement it will have to pass ratification phase, and will take effect no earlier than 2013.

According to the expert of International Center for Policy Studies, Igor Shevlyakov if Russia imposes trade barriers with Ukraine in response to its establishment of FTZ with EU it will be Russia who suffers first.

"If Russia does indeed worsen the terms of trade with Ukraine, there will be certain risks for the separate industries where Ukraine's products are competitive, such as metallurgy, engineering and agriculture. Judging by previous experience, it will be Russia which will suffer more. Restrictions on imports of Ukrainian products will lead to a deficit, because Russian market is not able to fully satisfy itself. We have already observed the same situation when imports of dairy products from Ukraine had been restricted", he said.

The expert notes that unlike the EU, Russia does not make specific proposals to Ukraine about Customs Union.

I. Shevlyakov is confident that by such statements Russian side is trying to influence the course of negotiations between Ukraine and EU, which are now slowed due to discussions of export terms of agricultural products from Ukraine to Europe.

*Source: RBC Information Agency  
(www.rbc.ua)*

*Translated by: usapeec.kz*

## Ukraine - American poultry investment



Omtron, owned by Ukrainian businessman Oleg Bakhmatyuk is poised to buy the assets of chicken processor Townsends in a USD 24.9 million deal.

Townsends, which employs roughly 1,200 people and has contracts with hundreds of poultry farmers, filed for Chapter 11 bankruptcy in December, 2010.

After more than 100 years in business, the Delaware-based company was felled by rising grain costs and the declining price of chicken.

In March 2011 a bankruptcy judge approved the sale of Townsends' Delaware headquarters and its North Carolina operations to Omtron.

Omtron is a U.S. shell corporation created by Oleg Bakhmatyuk, a Ukrainian businessman who owns food, transportation, real estate and financial companies. Oleg Bakhmatyuk is also the largest shareholder in Agroholding Avangard, Ukraine's leading egg producer. Omtron will retain the Townsends name and doesn't expect to lay off any employees according to the Townsends management. All the contracts with the growers will probably be upheld. For Townsends, the Omtron deal provides an infusion of capital and the potential to expand into new markets.

The deal is unique in that Bakhmatyuk will now own both a chicken processing operation in North Carolina and grain supplies in Ukraine.

How exactly Townsends will be integrated into Bakhmatyuk's other operations remains to be seen. The cost of shipping grain from Ukraine to the United States would seem to be prohibitive unless somehow it was purchased below the price being paid on the world market.

Source: *Meat Trade News Daily News Service* ([www.meatradenewsdaily.co.uk](http://www.meatradenewsdaily.co.uk))

### Ukraine's Avangard 2010 net profit increased by 38%



Avangardco Investments Public Limited, the leading producer of shell eggs and egg products in Ukraine, announced its financial results for the year to December 31, 2010.

Nataliya Vasylyuk, Chief Executive Officer of Avangard, said: "I am very pleased to announce strong financial results for the year to December 31, 2010. Following the successful IPO on the London Stock Exchange, we have made excellent progress in advancing our strategy of expanding our activities and increasing the quality of our products. We have managed to meet most of our targets and our results demonstrate positive trends across all metrics despite the reduction in the market price for shell eggs in Ukraine during the first half of the year. The market environment in Ukraine is favourable for our sector and we are confident that we will be able to continue to trade well and deliver strong financial results. Our market positions are strong and we remain focused on achieving our primary objective - becoming one of the World's leading producers of shell eggs and egg products while retaining the position of local market leader. Avangard's financial position is very strong and we are confident that we have all the necessary skills, facilities and resources to provide value for our shareholders in 2011 and beyond."

#### **Financial results overview**

In 2010 consolidated revenue increased by 37% to USD 439.7 million (2009: USD 319.9 million) as a result of increased sales of eggs and powdered eggs.

Consolidated EBITDA increased by 27% to USD 193.5 million (2009: USD 152.1 million). EBITDA margin decreased from 48% in 2009 to 44% in 2010 due to the fact that 2009 EBITDA included a one-off waiver of a USD 22.5 million debt owed to related parties.

Net profit for 2010 increased by 38% to 184.8 million (2009: USD 133.7 million). Net profit margin in 2010 remained unchanged at 42%.

#### **Shell egg segment**

In 2010, revenues from egg sales to external clients reached USD 280.3 million, which is 17% more than in 2009 (USD 240.6 million). Shell egg sales represented 64% of total revenue.

This sales growth was due to a significant increase in the volume of egg production to 4.420 million units (2009: 3.634 million), due to the expansion of our poultry flock during 2010. The Company's total flock now stands at 24.3 million heads (2009: 16.1 million heads).

The average sales price per egg for 2010 increased by 2% over the year to 0.57 UAH (USD 0.072 VAT excluded) (2009: 0.56 UAH (USD 0.070). VAT excluded). The increase in the price per egg was lower than expected due to the unusually dry summer period and the associated reduction in demand for eggs in the Ukraine. In 2011 the Company expects a further increase in the average price of an egg.

During 2010, the Company continued to implement its stated strategy of focusing on developing relations with its major customers and the diversification of its sales channels. As a result, the share of the Company's sales through modern retail outlets has increased from 2% of total egg sales in 2009 to 16% in 2010. During 2010, the Company exported egg products to Georgia, Iraq, Kazakhstan, Syria, Turkey, Moldova and UAE. Export volume of eggs in 2010 reached 169.5 million units.

#### **Egg products segment**

Due to the acquisition of LLC Imperovo Foods in July 2009, there is no comparable financial information for the full year of 2009 for the egg products segment.

Proceeds from the sale of egg powder in 2010 totaled USD 91 million, which is more than four times higher than in 2009 (USD 22 million). Egg products sales represented 21% of total revenue.

During 2010, the Company processed 777.7 million eggs and produced 10.2 thousand tons of egg product. The average selling price of dried egg products during the reporting period amounted to USD 8.21 per kg (excluding VAT).

During 2010, the Company exported dried egg products to Jordan, Turkey, Saudi Arabia, Kuwait, UAE, Indonesia, Thailand, South Korea, Oman and Vietnam. Additionally, during the period, egg powder was exported to Pakistan for the first time. Total exports reached 67.04 kg.

#### ***Debt structure, cash flow and working capital***

Operating profit before working capital changes amounted to USD 163.418 million. Increase of working capital in 2010 by USD 298.8 million was primarily attributable to the following factors:

- Increase in inventories of raw materials by USD 93 million. The Company had sufficient funding during the period to purchase grain and other raw materials on forward contracts at the lowest seasonal prices in volumes that cover the needs of the Company for a period of 9 months. The ability to forward-purchase considerable amounts of raw materials on a periodic basis has allowed the company to significantly reduce raw material costs in 2010.
- VAT receivable increased by USD 24.3 million.
- Increase in prepayments for raw materials by USD 14.3 million to secure steady production volumes in the first months of 2011
- Repayment of payables and prepayments to related parties for USD 107 million. In accordance with stated plans, the Company has been gradually reducing relationships with related persons.

The volume of capital investments during the period amounted to USD 82.1 million.

This was primarily attributable to the construction of the new Avis and Chernobaevskoe plants in the Kherson and Khmelnytsky regions of Ukraine. The construction is progressing on schedule, and the plants are due to start operating by the end of 2011.

The Company closed deposits in its affiliated bank in the amount of USD 156.4 million in accordance with the covenants provided for Eurobonds.

Through its IPO in May 2010, the Company raised USD200.2 million (after deducting all fees and expenses) to fund the expansion and diversification of its egg business.

In October 2010, the Company placed USD 193.5 million worth of Eurobonds in net proceeds, to mature on October 29, 2015. The coupon rate was 10%. The Company's Eurobonds were included in the official list of the UK Listing Authority (UKLA) and admitted to trading on a regulated market of the London Stock Exchange on November 1, 2010.

Net debt was reduced by 24% during the period, to USD 77.8 million. The ratio of net debt to EBITDA decreased to 0.4 (based on EBITDA for 12 months) from 0.7 in December 2009. The current debt coverage level is low if compared with other agricultural market leaders in the Ukraine.

At the end of the period, the share of long term debt in the Company's debt portfolio (including current portion of long-term obligations) amounted to 97%.

#### ***Current trading and outlook***

The Company expects further growth in sales due to high demand for eggs and egg products in Ukraine, as well as the active implementation of its export plans. Furthermore, levels of sales will be supported by an increase in the Company's poultry flock. The Company will continue to diversify its customer base in Ukraine, paying special attention to retail networks.

As the Government of the Russian Federation has lifted its ban on Ukrainian products, Avangard is taking the appropriate actions to achieve the Certification of its enterprise companies from the Federal Service for Veterinary and Phytosanitary Supervision. Once the necessary visits and checks have taken place, the company plans to begin exporting shell eggs to Russia this year.

Currently, no Ukrainian companies have permission to export egg products to the EU. However, the Company is taking the necessary actions to obtain permissions. The first inspection in this regard was carried out by the EU Commission in May 2010 and the next one was expected in March 2011.

As a result of abnormally hot weather in the region, leading to droughts and fires, the market prices of grain increased considerably. The company has reduced the risks associated with grain prices by entering into forward contracts to purchase wheat. If grain prices remain high in 2011, we can expect inflation in the food market of Ukraine, which may push up prices for eggs.

*Source: FeedInfo News Service  
(www.feedinfo.com)*

**Want more hot news?  
Just visit our web site!  
[www.usapeec.kz](http://www.usapeec.kz)**

## **A draft decision of the Cabinet of Ministers of Ukraine “On approval of the Technical Regulations “Requirements for the production of poultry meat and poultry products” has been promulgated**

This Draft Decision has been developed pursuant to the Law of Ukraine “On standards, technical regulations and conformity assessment procedures” and, accordingly, in the thematic plan of scientific developments in standardization and certification of agricultural products for the year 2008, approved by order of Ministry of Agriculture No. 294 as of May 13, 2008.

The aim of the Technical Regulations is to establish uniform mandatory requirements for poultry meat and products thereof, requirements for production, management of the technological process, storage, sale and destruction, rules of identification, requirements for packaging and labeling of products, environmental protection. Technical Regulations are also developed in order to establish conditions for state regulation of the meat market, so that to protect domestic market from entrance of low-quality poultry products and the elimination of technical barriers to trade, which, in turn, will enhance the competitiveness of domestic production and further development of international Trade and integration of Ukraine into the WTO.

Draft Decision of the Cabinet of Ministers of Ukraine “On approval of the Technical Regulations “Requirements for the production of poultry meat and products thereof” is posted on the website of Ministry of Agriculture under:

[www.minagro.gov.ua](http://www.minagro.gov.ua)

*Source: The official website of the Ministry of Agriculture of Ukraine (www.minagro.kiev.ua)*

*Translated by: usapeec.kz*

***Ukraine poultry import/export statistics for 2010\****

Partner Country	Import		Export	
	Value	Quantity	Value	Quantity
<b>World</b>	<b>176,627.2</b>	<b>154,618.2</b>	<b>41,366.9</b>	<b>32,456.8</b>
<i>America:</i>				
<b>United States</b>	<b>103,647.1</b>	<b>88,233.0</b>	---	---
Brazil	29.6	26.0	---	---
<i>Europe:</i>				
Belgium	14,351.8	12,999.7	---	---
England	7,545.2	6,993.2	1.3	0.2
Germany	16,273.6	13,522.3	7.1	1.3
Hungary	6,294.2	8,250.0	---	---
Italy	4,107.3	2,812.0	---	---
Netherlands	9,381.8	9,115.0	0.7	0.2
Poland	10,276.2	9,139.1	---	---
<i>CIS:</i>				
Armenia	---	---	1,238.1	767.6
Kazakhstan	231.2	113.2	24,242.6	15,792.2
Kyrgyzstan	---	---	802.6	517.3
Moldova	---	---	5,116.3	2,509.3
Russia	359.0	227.9	199.3	95.0
<i>Asia:</i>				
China			618.2	956.7
HongKong	---	---	1,599.0	2,502.2
Iraq	---	---	796.0	524.0
Georgia	---	---	2,324.8	1,374.3
Vietnam	---	---	3,498.5	6,898.8
<i>Other countries</i>	4,130.2	3,186.8	922.4	517.7
<b>Value Unit:</b> Thousands of USD; <b>Volume Unit:</b> MT				
* Source: State Statistics Committee of Ukraine. Share of U.S. in total volume of poultry imports into Ukraine during 2010 made up 57 percent.				