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Ukraine



Antimonopoly Committee of Ukraine has recommended 10 poultry producers to bring the prices for their production to economically justified level

The Government of Ukraine again tries to stabilize prices for poultry meat in the domestic market.

Antimonopoly Committee of Ukraine (AMCU) has put forward the formal requirements to 10 largest local producers and suppliers of chilled poultry to bring wholesale selling prices for their products to the economically justified level and to refrain from unjustified price increasing.

Appropriate measures were to be taken by “Myronivsky Hliboproduct” (Kiev), LLC “Complex Agromars” (Gavrilovka village, Kiev region), JSC “Ptitsekombinat” Dniprovskiy “(Pervomaiskoye village, Dnipropetrovsk region), LLC Ruby Rose Agricole CA, LTD “(Morozovka village, Kyiv region), JSC” Kurgan Broiler “(Pyatigorsk village, Kharkiv region), JSC” Vladimir-Volyn Poultry “(Fedorovka village, Volyn region), LLC SF Agroukrptaha” (Luhansk), JSC “Landgut Broiler” (Cornea village, Donetsk region), JSC “Industrial-commercial firm” Varta “(Snyatyn, Ivano-Frankivsk region) and “Ptitsekompleks “Gubin” (Lutsk).

The Committee also ordered the companies to facilitate conclusion of direct contracts with retail network in order to avoid unjustified price increase due to intermediaries.

Thus, according to the results of monitoring of wholesale selling prices of the largest producers of chilled poultry, from August to September this year the minimum prices rose from 4.08 percent to 13.11 percent.

According to the Committee, the majority of producers of these products are parts of vertically integrated groups, and, therefore, they should provide maintenance of minimum cost of production of feed for feeding poultry. As it is known, this is the largest expenditure item in the production of chilled poultry meat which reaches 85 percent.

Based on analysis of the price situation in the market of corn and fodder, the Committee found that today there are no objective reasons for the rise in prices for poultry meat.

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

Translated and edited by: usapeec.kz

High prices for chicken meat are absolutely justified

According to Deputy General Director of the Ukrainian Agrarian Confederation (UAC) Oleksandr Yaroslavsky, the increase in the level of wholesale selling prices for poultry meat in Ukraine since the beginning of the year is absolutely justified. He said that this happened due to significant rise in grain prices and increase of the customs value of imported meat.

UAC expert informed that in Ukraine average purchase prices for poultry during January-September this year rose by 6 percent to UAH 10,200/MT (USD 1,286/MT) (excluding VAT). At the same time he said that in some regions of the country the price increase was rather significant, in particular, in Odessa region it made up 42 percent, in Khmelnytsky – 38 percent, in Ivano-Frankivsk – 24 percent and in Donetsk - 20 percent.

According to O. Yaroslavsky, the main factors of the increased cost for poultry, within the general framework of inflation in Ukraine, are: rise in price of crops in August-September 2010 and increase of the customs value of imported product in Ukraine.

Analyst of UAC considers that a 6-8 percent growth of the average price for poultry meat is absolutely normal. The expert also admitted that those enterprises which form the domestic prices in Ukraine are mostly large, vertically integrated holding companies and are engaged in growing grain and feed production.

Thus, he said, they do not depend on grain prices, but there is a serious competition among them, so this is purely a market barrier to increase domestic prices.

The expert of UAC pointed out that prices for sausage products, which are made from imported raw material, have risen much more significantly compared to poultry, pork and beef prices.

O. Yaroslavsky informed that as of October 29, the average wholesale selling price for poultry meat was 16 UAH/kg (USD 2.01/kg), which is 1 percent lower than a month ago, in a small wholesale the price dropped from 18 to 17 UAH/kg (from USD 2.27 to 2.14). This, according to A. Yaroslavsky, happened also due to lifting the 9-months ban on imports of U.S. poultry into the Russian Federation, which lowered the prices in the Russian market, where the Ukrainian manufacturers planned to increase exports of its products. Thus, after declining of the prices for poultry in the Russian market the Ukrainian poultry producers reoriented to the domestic market and this increased the volume of domestic supply.

Source: Meatinfo News Service

(www.meatinfo.ru); Translated by: usapeec.kz

In 2010 domestic production of poultry meat can reach 1 million MT

According to Deputy General Director of the Ukrainian Agrarian Confederation (UAC), O. Yaroslavsky, in 2010 domestic poultry meat production can reach 1 million MT, which is 1.4 times higher than in 1990. O. Yaroslavsky said this will ensure that consumption of poultry meat in Ukraine will amount to nearly 25 kilograms per capita per year; the same amount is consumed in the EU. Agricultural enterprises have sold 823,000 MT of poultry, including 785,300 MT of broiler meat over 10 months of 2010. According to him, poultry producers are moving toward consolidation, since this form of management is the most effective. 10 years ago, when domestic poultry meat production was just 193,000 MT and the price for it was higher than for pork and beef, significant resources were actively invested in this industry.



As a result, over the period of 2000-2010 production volumes have increased 5 times, companies engaged in production of broiler meat have enlarged and they still continue to absorb small poultry plants, which operate on the brink of bankruptcy. Thus, he said that according to Goskomstat (State Statistics Committee), in 2009 the profitability of small-scale poultry plants except for large agricultural holdings, which are usually vertically integrated structures, amounted to 19 percent. With such a performance and under a pressure from large holdings small companies stop to exist within 5-7 years.

As for export O.Yaroslavsky forecasts that in 2010 it can reach 35,000 MT.


He said that Russia is a potential country to which Ukraine can export poultry meat.

Russia restricts the use of frozen poultry in production of some food products beginning January 1, 2011 - this factor significantly improves the current position of Ukrainian exporters of poultry meat since Ukraine is able to deliver chilled poultry or live poultry for further slaughtering to Russia.

O.Yaroslavsky concluded that Ukrainian poultry producers have already met internal demand and reached a level when the volumes of their production are dictated by the needs of foreign markets.

*Source: ProAgro Information Agency
(www.proagro.com.ua)
Translated y: usapeec.kz*

Yuri Kosyuk: Russian market is interesting to us only for the short period of time

 Despite the lack of meat in the domestic market, one of the largest poultry producers in Ukraine, "Nasha Ryaba" (belongs to Myronivsky Hliboproduct (MHP)) is seeking for new markets.

The company plans to deliver its products to U.S., Europe, Russia and China. The Chairman of MHP Yuriy Kosyuk gave an interview to Kommersant daily newspaper in which he told about future investments, strategies and prospects of the company.

In his interview Yuri Kosyuk pointed out that the company's position in the market is very strong and they would boost the production after 2013 when new poultry plant will be put into operation. However, he said that there is still deficit in domestic meat market since the Government does not provide enough subsidies. According to Mr. Kosyuk meat consumption in Ukraine makes up about 50 kg per capita per year, while in nearby countries it is 70 kg.

When talking about plans of MHP to enter foreign markets he said that exports would allow them to sell those parts of chicken, which are not in demand in the domestic market. For example, in Ukraine, few people buy fillets, while in the U.S. there is shortage of this product, he said.

Yuri Kosyuk informed that in order to enter the U.S. market they are negotiating with several companies that could sell MHP's products there. "U.S. is one of the most capacious markets in the world; it is even larger than a Chinese one. Fillet and chicken wings are delivered to U.S. by companies from Latin America. We can offer a competitive price for these products - the cost of shipping is less than 10 percent of the wholesale value of the product. According to our calculations, if we sell products to U.S., we will be in the same zone of profitability, as in Ukraine," – Mr. Kosyuk said.

On the questions regarding procedures that are required to obtain permit to sell products to U.S. he answered that "procedure for obtaining permit in the U.S. is very similar to European one. In order to get permit the relevant U.S. departments should verify the conformity of Ukrainian legislation to U.S. veterinary requirements and requirements for quality and safety of livestock products. We have already addressed to the Veterinary Medicine Committee of Ukraine with the proposal to initiate such inspections." "Ukraine has harmonized its legislation with European one, which is even stricter than in U.S. However, we understand that it will take us a lot of time to get permission. The last country that has been authorized to supply its products to U.S. is Chile. This country had to pass all these procedures during 5 years. We hope that it will take us less time due to the fact that we have passed European inspections", - CEO of MHP said.

Also Yuri Kosyuk said that the issue of getting permits to supply products to EU can be resolved within a month. As for exports to Russia he emphasized that they are planning to export their products to Russian market only for the short period of time since due to the active state support in 5-7 years this country will be self-sufficient in meat.

He also informed that the ban on MHP's products which was recently imposed by Russia will be lifted soon.

*Source: Kommersant Daily Newspaper
(www.kommersant.ua)
Translated and edited by: usapeec.kz*

MHP: Unaudited financial results for the Q3 and the nine months of 2010

MHP S.A. ("MHP" or the "Company", LSE ticker: "MHPC"), one of the leading agro industrial companies in Ukraine, focusing on the production of poultry and the cultivation of grain, announced its unaudited results for the Q3 and the nine months of 2010.

Key operational highlights

Poultry and related operations

- o Volume of chicken meat sales to external customers for the nine months increased 29 percent year-on-year to 249,500 MT.

- o Demand for chicken meat during the first nine months of 2010 remained high as consumers continued to substitute other meats with locally produced chicken.

As a result, MHP was able to sell close to 100 percent of the chicken produced.

- o The average chicken meat price through the Q3 2010 increased by 12 percent year-on-year to UAH 14.05 (USD 1.77) per kg of adjusted weight (excluding VAT) primarily as a consequence of the local and global increase in grain prices (majority of the production costs).

- o The new sunflower crushing plant, launched in September 2009, allowed MHP to increase its sunflower oil production volumes by 64 percent during the first nine months of 2010 to 149,600 MT.

Grain growing

- o During the first nine months of 2010 the Company continued to execute its stated strategy of gradually increasing its land bank and at the end of the period it had more than 230,000 hectares of land under control.

- o The Company's harvest is on track, despite concerns over weather conditions and unfavorable preliminary forecasts across Ukraine and the wider region.

- o In general, yields are significantly higher than Ukraine's average but lower compared to 2009 yields.

Other agriculture

- o Throughout the first nine months of 2010, sausage and cooked meat production volumes increased by 32 percent to 24,100 MT (9M 2009: 18,250 MT).

- o MHP continued to invest in marketing of its processed meat brands and as a result market share has exceeded 10 percent.

Key financial highlights

Q3 2010 highlights

- o Revenue in UAH terms increased by 29 percent to 2,000 million (Q3 2009: UAH 1,548 million), and in US dollar terms by 28 percent to 253 million (Q3 2009: USD 198 million).

- o EBITDA in UAH terms increased by 43 percent year-on-year to 783 million (Q3 2009: UAH 547 million), in US dollar terms EBITDA increased by 42 percent to 99 million (Q3 2009: USD 70 million).

- o Consolidated EBITDA margin increased to 39 percent (Q3 2009: 35 percent), while EBITDA margin in the poultry segment increased to 43 percent (Q3 2009: 41 percent).

- o Net income in UAH terms increased by 330 percent to 441 million (Q3 2009: UAH 103 million), in US dollar terms net income increased by 325 percent to 56 million (Q3 2009: USD 13 million).

9M 2010 highlights

o Revenue in UAH terms increased by 38 percent to 5,364 million (9M 2009: UAH 3,884 million), in US dollar terms revenue increased by 35 percent to 676 million (9M 2009: USD 502 million).

o EBITDA in UAH terms increased by 21 percent year-on-year to 1,838 million (9M 2009: UAH 1,522 million), in US dollar terms EBITDA increased by 18 percent to 232 million (9M 2009: USD 197 million).

o Consolidated EBITDA margin decreased to 34 percent (9M 2009: 39 percent).

o Net income in UAH terms increased by 58 percent to 1,253 million (9M 2009: UAH 791 million), in US dollar terms net income increased by 54 percent to 158 million (9M 2009: USD 103 million).

Post period end

o Consumer demand for poultry meat continues to remain high and the average poultry price is higher year-on-year.

o The harvest is largely completed and yields are significantly higher than the Ukrainian average (rape yield is 3.0 MT per hectare, wheat - 5.7 MT per hectare, corn - 7.8 MT per hectare, sunflower - 2.6 MT per hectare).

Commenting on the results, Yuri Kosiuk, Chief Executive Officer of MHP, said:

“We are pleased with MHP’s third quarter performance, which demonstrates strong year-on-year growth and the continued improvement in our key financial metrics driven by the performance of our poultry business. The current market conditions show how beneficial MHP’s business model of vertical integration is, as it ensures stable profitability despite the fluctuations in grain prices. We continue to focus on increasing shareholder value by growing our chicken and meat processing production volumes, construction of new modern chicken plants and by expanding our agricultural land bank. High consumer demand for chicken meat, high yields across all crops, our focus on vertical integration and our ability to control costs makes us confident that the strong performance in the nine months will continue into the final quarter of the year and beyond”.

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

Ukraine: street protests over tax reform

Ukraine’s protesters have taken to the streets once again, this time in the thousands. Representing small- and medium-sized businesses (SME), they blocked traffic on Kiev’s main street on Monday, November 22, the 6th anniversary of the Orange Revolution.

Chants against the government’s tax reform plans could be heard near President Viktor Yanukovich’s office in the biggest demonstration since the 2004 pro-democracy Orange Revolution.

In 2004 massive crowds erupted, calling for democratic freedom; today protesters are demanding economic freedom.

The protesters call Yanukovich’s new tax code unfair because it focuses on smaller businesses, which are owned mostly by millions of cash-strapped families hit hard by the 2009 economic recession. Most problematic are tax reform plans that could see tax cuts for big businesses - including those owned by Ukraine’s oligarchs, who control most of the Ukraine’s economy and strongly back the president.

Yanukovich has not yet made clear if he will give in to the demands of protesters. They want the tax law vetoed, and tax privileges for small businesses preserved.

The tax reform plan that Yanukovich’s government had just months ago boasted as “one of the most liberal in Europe” for offering deep cuts on profit and value-added tax has turned against him politically.

Yanukovich’s administration says that by cutting profit tax rates gradually in coming years for big business - from a current 25 percent rate to 16 percent - fresh investment will pour into the economically troubled nation. Officials say that by reducing the amount of small businesses that pay a small monthly flat tax (USD 30-50) and make no contributions to the pension fund, they hope to start pulling half of the economy out of the shadows and fill cash-starved budget coffers. If the new tax code takes force, many small businesses that earn more than USD 75,000 a year will be forced to pay profit tax and pension contributions for each employee (equivalent to more than 30 percent of the salary). But some experts say such a policy will actually force more small businesses into the black market.

Small businesses want the burden of higher taxes placed on the rich, including hundreds of millionaires and dozens of billionaires in the country. Currently, this elite class pays the same 15 percent income tax that applies to all, but they are accused of hiding much of their fortunes in offshore tax havens.

Andrew Mac, managing partner in Kiev of Magisters, a leading law firm in Ukraine said: "The new tax code imposes a significant new tax burden and reporting regime upon millions of Ukrainian small and medium enterprises who have used and in many cases abused loopholes in previous legislation to avoid paying virtually any taxes."

Mac continued: "On the face of it, the government's approach is reasonable, given the huge budget deficits Ukraine faces. However, small and medium enterprises are frustrated with what they perceive is worsening institutional corruption and they perceive the code as not equally addressing the loopholes used by large business, much of which is held offshore. Also there is a fear the timing of the new code, which was just released about two weeks ago and is set to take effect upon years end if signed by the President, may ignite a reactionary tendency for some to revert back to the cash economy (as they will not have time to prepare implementing new reporting mechanisms, let alone absorb their new financial burdens)."

But small businesses are not the only ones nervous about Kiev's tax reforms.

The European Business Association (EBA), a leading advocacy group representing investors and domestic businesses, said the tax reform plan, if adopted in current form, could bring some good, and some bad for investors as well.

Below is a summary of the EBA's preliminary conclusions on the tax code:

Positive influence:

- Tax procedures are codified in a single tax code;
- Certain tax rates will be gradually decreased;
- The government will provide some support for certain industrial sectors;

- The tax code is a nice attempt to close certain loopholes in taxation;
- The code provides a possibility to get automatic VAT refunds however it might be difficult to get it;
- The code implements equal approach to residents and non-residents in terms of the individual income tax. The tax rates are similar for residents and non-residents.

Negative influence:

- No final version of the tax code yet is available and thus a thorough analysis may not be conducted. Business community is not sure what to expect;
- The code was introduced and passed with an extreme rush and thus business community and controlling authorities have little time for adjusting to new conditions;
- The document is pretty raw because of quick introduction. Therefore some norms are of low quality which could lead to difficulties with its implementation;
- Change of subsidy system for dairy and meat industry could lead to lack of milk and reducing quality of milk and meat;
- It is extremely difficult to comply with all criteria to be eligible for automatic VAT tax refund system. There are too many criteria;
- The code imposes limits on transaction and contracts with non-residents purchasing engineering, marketing services etc. This because of restriction to deduct payments in favor of non-residents;
- Another issue is joint liability for tax obligations;
- The new tax code provides extraordinary powers to tax authorities and law enforcement authorities to access companies' premises, conduct tax inspections, and the most harmful to sequester taxpayers' assets even without court decision. Assets may be sequestered for up to 94 hours or four days. This means that operational activity of a company may be stopped for this period. This may be associated with additional costs.

Source: *Financial Times* (www.ft.com)

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