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Ukrproduct Group Ltd ('Ukrproduct' or 'the Group')

AGM STATEMENT AND TRADING UPDATE

Speaking at Ukrproduct's Annual General Meeting today, Iryna Yevets, Chief Executive Officer of Ukrproduct made the following comments:

“During 2006, the Group was challenged by a combination of trading difficulties, including the Russian import ban on Ukrainian dairy products and weak prices for skimmed milk powder on world markets. Notwithstanding these, Ukrproduct finished the year with a good operating profit and a strong balance sheet. In an extremely challenging environment, we strengthened the group's asset base, retained our market-leading positions and preserved our core distribution capability.

Since the start of the current year I am pleased to report that the difficulties of the past year have alleviated. Trading overall has been fully in line with expectations in all three product segments.

In *processed cheese*, low-quality, low-price domestic competitors active in the aftermath of the Russian export embargo found themselves under increasing pressure by a mixture of internal and external factors such as their inability to secure trading terms with supermarkets, quality problems, inadequacy of their existing distribution networks, financial insufficiencies and the return of consumers to quality products. Under these conditions, the Group has preserved its market position by careful differentiation of its brands through selected retail and wholesale partners. Stable quality and predictability of supply from the Group has proved a major factor of attraction for the emerging retail chains. As a result, sales volumes of the Group's processed cheese products stabilised and, in the opinion of the management, will remain steady for the remainder of the summer. Later in the year, volumes should pick up due to the traditional autumn increase in consumption. Margins have remained satisfactory and supporting merchandising and store promotion campaigns for selected varieties of processed cheese are being carried out by the Group.

Packaged butter has enjoyed a continuing good run since the beginning of the year. Regarded as a commodity elsewhere, butter plays an important role in the context of the Ukrainian dairy sector and the Group's product portfolio. While butter is produced on a substantial scale in Ukraine by some 200 manufacturers, the quality, packaging

and branding, by and large, continue to remain inadequate. Over the last several years, Ukrproduct has invested in quality, branding and new packaging of its butters. These efforts have borne fruit by providing the Group with stable sales volumes and good margins. Owing mainly to the increase in volumes of production of skimmed milk powder (SMP) in the current year, the Group has had an extra supply of its own butter for packaging and has thus captured the incremental margins that hitherto went to third-party butter producers. With volumes of butter increasing, the Group has the potential for further improvement in margins, although the management expect such progress to be very gradual due to the significant increase in margins already achieved in 2006.

Skimmed milk powder (“SMP”) has remained buoyant since the beginning of the current year. The timing of the installation of the new SMP dryer facility in December 2006 proved prescient; in January 2007, world SMP prices started increasing by some 15% per month. This price run continued unabated until June when supply-demand parity was somewhat restored at a price level favourable to the Group. The new SMP dryer is the newest such facility in Ukraine with the capacity to produce milk powder of premium quality. Consequently, the Group’s own skimmed milk has a distinction in quality grade and thus commands a material price premium vis-à-vis other SMP producers in Ukraine. The ongoing programme for improvement of milk quality, the progress of which was recently reported to the market, has also been a significant factor in securing the uninterrupted supply of quality milk to the Group’s processing plants. Going forward in the current year, management expects continued strong demand for skimmed milk powder. While the recent price increases are likely to take some time for end consumers to absorb, the strong world demand remains conducive to the successful financial performance of the Group’s SMP operation.

Final preparations for the production of the Group’s new product, *hard cheese*, are continuing to plan. The hard-cheese facility is currently undergoing full operational testing, and equipment is being examined by the supplier’s quality check team. Production of trial batches of hard cheese product is currently under way and personnel are receiving the appropriate training. Increasing milk loads for the new facility and initiation of the maturation process for trial batches are expected to result in the gradual accumulation of mass-supply stocks of hard cheese within the next several months. The packaging design has been agreed, and the suppliers of the label materials, a crucial element of the Group’s branding strategy, have been notified of the quantities required. Marketing, merchandising and store promotion are planned in time for the release of the initial stocks of hard cheese into certain retail channels.”

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