

Company: ROS AGRO PLC
Conference Title: ROS AGRO PLC 12M and 4Q 2019 Financial Results
Speaker: Maxim Basov, CEO
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Operator: Dear ladies and gentlemen! Welcome to the conference call of Rusagro regarding the presentation the financial results Q4 and 12 months 2019. At our customer's request, this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulties during the conference, please, press *key followed by zero on your telephone operator assistance. May I now hand you over to Maxim Basov, CEO who will lead you through this conference. Please, go ahead.

M. Basov: Thank you! Good day, ladies and gentlemen! Today we issued accounts for 2019 and posted presentation on the Company's website. I will give you a short overview of the results of the situation in each business segment, and then I will open the floor to the questions.

Overall, the Company had one of the best year in terms of adj. EBITDA and net profit. Adj. EBITDA exceeded RUB 20 billion, and net income reached RUB 9.7 billion. If you look for the whole year, you will see that all the business units increased the sales – total sales of the Company reached RUB 138 billion. Two business units had adj. EBITDA smaller than in the previous year – they are the Meat and the Sugar divisions. Normally, they are the biggest divisions but last year they suffered from weaker prices – we will discuss it in more details in a short bit. The biggest business in terms of EBITDA results was agricultural business. This is the second time in the history of this business unit.

The net debt position of the Company at the end of the year was RUB 62 billion. The net debt to adj. EBITDA is 3.1 times, which is higher than a level comfortable for the Board of Directors, as the comfortable level for the Board is two times adj. EBITDA. Thus the Company planned to decrease this figure in the coming several years. Meanwhile, the cost of debt is not very high - it is approximately 2%. Most of the debt is long-term, so we have no problems and risks from the liquidity point of view, but we will be working to decrease multiple level through EBITDA and CAPEX in the coming 24 months.

Now I would like to discuss the situation in each of the business segment. I will start with the **Meat Segment**. Please, refer to the page 12 in the Investors Presentation which presents the results for the whole year. The situation was very simple – Rusagro increased the production of pork, but the prices of pork fell. The prices in 2019 were below the prices 2018. This is the result of increased production of pork combined with small increase in consumption and small opportunity for export of meat products. We exported some of pork products and we became No. 2 in export of pork products in the country. The biggest markets were Ukraine and Belorussia, as well as Hong Kong. But we could not enjoy the price increase that happened in many places in the world because we are

close to main Asian markets. The cost of grain was slightly higher last year, so, in fact, though our sales reached RUB 26 billion and this is one of the highest results in the Company's history, the Meat Segment adj. EBITDA margin has fallen to 19%, and the adj. EBITDA reached RUB 4.9 billion.

Sugar Segment was similar in situation. On the meat market Russian companies together with Rusagro continued to increase production despite limited market for the extra products, which led to the prices drop. Sugar market experience the same situation, but export barriers included lack of proper infrastructure. Last year Rusagro had elevated production level with record high beet sugar output of 881 thousand tonnes. Overall, Russia produced this season c. 7.7 million tonnes, which is an absolute record which led to the current surplus of approximately 1.5 million tonnes. Though sugar prices in Russia now are the lowest in the world, it will take at least a month to offload the products from the Russian market to the foreign markets. As a result of oversupply of the domestic market, the prices have fallen to the lowest level in the history in USD terms. In December, the price was 18.6 rub/kg excluding VAT. The adj. EBITDA margin for the full year fell to 13%, while adj. EBITDA fell to one of the lowest levels in the history for the segment – to RUB 4 billion.

Agriculture Segment had one of the best seasons in the history. The adj. EBITDA reached RUB 6.1 billion and adj. EBITDA margin achieved 24%. The adj. EBITDA could have been even higher if not the losses of the sugar beet sales, as a result of the lower sugar prices. The Company had relatively good harvest and managed to sell most of the products at good prices, including for export to Asian countries.

Oil & Fats Segment had a very big increase in the sales. The sales of the Segment augmented to RUB 62 billion, which accounts now for almost half of the Company's total sales. Adj. EBITDA has increased to RUB 3.7 billion. This EBITDA does not include all the financial results of the segments from the sales, because some of the profit was left on the Solnechnye Produkty Group, which now goes through the process of bankruptcy. This money, which is left there, will be distributed among creditors this year and the year after next year.

This is in short the results of the previous year and I am ready to answer all of your questions. Please, go ahead.

Operator: Thank you. Ladies and gentlemen, we will now begin our Q&A session. If you have a question for our speaker, please, dial 01 on your telephone keypad now to enter the queue. Once your name has been announced, you can ask a question. If you find your question is answered before it's your turn to speak, you can dial 02 to cancel your question. If you are using speaker equipment today, please, take a headset before making your selection. One moment, please, for the first question. As a reminder, if you'd like to ask a question, please, press 01 on your telephone keypad now. And we received our first question from Marat Ibragimov of Gazprombank. Marat, your line is now open, please, go ahead.

M. Ibragimov: Thank you very much for taking my question. And it relates to sugar, your strategy on sugar market. In Q4 you have been actively selling down your stock of inventory sugar. And according to the average price, it reached much higher price than the current market price. So, the question. Did you realize that the sugar prices would be going down and that was your decision to sell down white sugar or you wanted to generate cash to convert

inventory into cash in order to comply with financial restriction? I mean, net debt to EBITDA, to make it not that high as it could be. Thank you.

- M. Basov: This year our strategy is based on the assumption that we do not expect large increase in prices. Of course, this was happening before the fluctuation of the RUB, and today the prices started to go up because of the currency change. But at the beginning of the season we did not anticipate increase in the prices on Russian market. So, we were selling sugar more or less linearly, so that we would not need to rent the third party storage and would in the end of December have almost all our sugar in our own warehouses. So, we sold all extra-sugar in Q4. And at the moment, we have more than 400 tonnes of sugar still to be sold before the new season. Our price normally is higher than average price on the market, because we sell to several channels, which provide us additional margin. Most of this is B2C channel and factory channels. At some moments, export prices are also higher than the domestic prices. This season we are selling, whenever we think, we can maximize the price of the product.
- M. Ibragimov: Given the RUB weakening yesterday, do you expect the sugar price will go up because of that or the reaction will be with some lack or some delay?
- M. Basov: Well, normally the market is quite efficient. What happened yesterday on Monday is that international sugar price, which has some correlation with the oil price has fallen from 13 cents per pound to 12.5 cents per pound. On the other hand, as we know, RUB weakened, and today the price on the Russian market for sugar went up. We hope that we don't know what the price will be, because currently there is a big volatility and there is a big deficit of sugar on the international market. So we believe that the sugar price will not go down more. Maybe, we will start going up. As if RUB continues to be weak, this sugar segment will have benefits from it and the sugar price will be higher.
- M. Ibragimov: Another reason of that is why the sugar margins should be higher? I think it is because the sugar beet prices given the higher season is also low, as I guess. Am I correct or not?
- M. Basov: Of course. The sugar beet price in the past of the season is a functional the sugar price approximately 8% to 8.5%. The sugar price in Q4 was low. It was on average around RUB 18 excluding VAT. As a result, the sugar beet price was also very low. Thus, in Agricultural Segment we lost some money on the sugar beet harvest in selling. The cost of the sugar segment is already there, it will not change much. It is already in the inventory and all increase in price will now go to the profit.
- M. Ibragimov: And last question on the Sugar Segment: I heard, there are some incentives from local governments to make local sugar beet producers to reduce the crop under sugar beet in order to reduce production and to support sugar prices. Have you heard anything on that? And what is your outlook on sugar harvest in this year and the results on sugar prices? Thank you.
- M. Basov: Yeah, the Russian government is advising the farmers not to plant sugar beet season, That is true. However, I think that influence of the Russian government on the farmers is very limited, and the farmers will be doing what they believe is right. From country-level point of view, probably, it makes sense to decrease the volume of sugar. On the other hand, as we discussed many times, many farmers think that everybody else will decrease the farming area, but they will not, and, as a result, the price will go up, and they will earn a lot of money. It is one obstacle to the big decrease in sugar area.

The second obstacle is the fact that for the vertical integrated companies like the biggest six or seven companies in Russia. Even with the current prices it makes sense to

produce sugar beet, because if you calculate the vertically integrated economics, it is better to continue to produce sugar until you can utilize your plants at least 120 days. And this is, of course, true only for the efficient producers in good areas, which include Central Russia and South of Russia. So, in my view, the area under sugar beet will decrease, but this decrease will not be very big. My estimation is around 10%. The biggest factor, which influences the sugar beet production is actually the weather. Last year, we had the record high sugar per hectare, because of improving weather and also because of improving technologies. If weather continues to be good for agriculture Russia, we continue to have big sugar harvest and will continue to be a net export of sugar.

- M. Ibragimov: But there are still a lot of sugar plants, who have production cost much higher than higher market price. I guess that they leave the market. What is your view on that?
- M. Basov: I agree with you, but it will take several years. Also I hope that the current oversupply of overproduction of 1.7 million tonnes will never happen in Russia again. This is the result of combination of very unique factors, but in general I still believe that Russia will be producing around 0.5 million sugar more than it consumes.
- M. Ibragimov: Thank you very much! That is it.
- Operator: Thank you. The next question is from Alexander Nosov. Please, go ahead, your line is now open.
- A. Nosov: Greetings, I just have a couple of questions. I'll ask them one-by-one. The first question: what is your capital expenditures planned for 2020? And what is your net debt EBITDA projected by the year of 2020?
- M. Basov: CAPEX projection for this year is RUB 15 billion and we expect that we will have similar net debt level at the end of a year, since we will have positive free cash flow, but we plan to continue paying dividends. So our estimate would be to have similar net debt position, while we expect that in 2021 our free cash flow will be much for positive. As a result, we will manage to start decreasing debt in 2021. These were our estimate before the fluctuation of currency we are having now. This might change the situation but at the moment it is difficult to say how much because of the big uncertainty. Overall I think the RUB continues to be weaker than originally expected, and the prices of grain and sugar and oil will stay at current level, and probably, our financial results will be better. And the net debt position will be smaller.
- A. Nosov: Okay. And the second question. It relates to the Sugar Segment. What are the current estimations on beet planted area? And what is dynamics for prices for sugar, if it is possible on cost on the basis of your estimates?
- M. Basov: I answered part of these questions before, so I'll be very brief. I expect that area under sugar will go down, but this decrease will not be very significant. Probably, it would be round 10%. The biggest uncertainty would be the sugar per hectare, which will depend much upon the weather conditions. If weather conditions are as good as they were the last season, which were the best, I think, in our history for sugar beet, then we will have another huge harvest. At the moment, Russia has approximately 1.5 million tonnes of extra-sugar in Russia, which needs to be taken away, because in the long term given there are no droughts, I expect that Russia will now be export oriented sugar country. However, there is a problem of the efficient logistics. I believe that it is cost efficient to ship no more than 120 thousand tonnes of sugar from Russia. It means that we will have enough sugar to ship until this season. It also means that the sugar price in Russia, probably, will stay at today's level, given that RUB and international sugar price also be at similar level. And today's prices went up, but today is a very strange day. We will see what will happen next week. We have around 400 thousand tonnes r to be sold in Q1, Q2, and Q3.

- A. Nosov: Okay, that's clear. Thank you.
- Operator: Thank you. Now we've received another questions. The first one is follow up question of Marat Ibragimov of Gazprombank. Your line is now open, please, go ahead.
- M. Ibragimov: Thank you. Your CAPEX is usually function of RUB-USD exchange rate. Your 15 billion guidance is at what exchange rate? Can you provide this?
- M. Basov: Well, RUB 15 billion was calculated at last week's RUB rate, and it is difficult to say what it will be now, given the sole utility, but given the current RUB rate, CAPEX will be bigger, but not all the CAPEX is tight to dollars. I think that my estimate that is probably approximately 30% of CAPEX. But again, now we are not at the balance decision, we need to understand what happens to construction costs, what happens to other things, but 15 billion, again, was with last week's RUB rate.
- M. Ibragimov: And with this 15 billion how much accounts for Far East mid cluster? Have you acquired for the equipment, which is, I guess, dollar denominated, or not?
- M. Basov: Around RUB 5 billion, as we already bought most of the equipment last year. But we still need to buy the animals this season, which will be shipped to the Russian Far East. But, again, it is difficult to say what will happen to the animal price. Since Russia is not open to China yet, I think the animal price will be the same. So I don't think there will be big changes.
- M. Ibragimov: But the spot prices in the Far East are a bit higher than in European part of Russia, am I right?
- M. Basov: Yeah, but we have to buy the animals not in the Far East, because they don't exist there. We have to buy them from local producers in Central Russia. These animals what we have to buy to put to the farms, which need to start growing, and then if another animals, which next year will be sold to the market.
- M. Ibragimov: On your China expansion policy. You have established at least two legal entities in Hong Kong. What is your view? What are your plans for China? How is the progress with China regulating authorities is going on?
- M. Basov: We established two companies in Hong Kong. One company, which is called Rusargo Trading, will be used for the trading activities, this will replace the existing trade company called Limeniko and it has nothing to do with China investment project. The next company, which we called Rusagro China and it has subsidiaries, was created for four projects. We are in process of discussing with the banks and agreeing on the land rise. We haven't yet decided to invest. We are discussing on the Board level, and if we decide to go ahead, we will announce it.
- M. Ibragimov: But your best scenario will be establishing production facilities, creating production facilities there and selling your products there, am I right?
- M. Basov: This is the possibility. This one of the projects that is been under consideration now.
- M. Ibragimov: But if you manage to do that, will you be doing that in cooperation with some local partner or will be doing that on your own?
- M. Basov: Well, we will have the partner, the question is what kind of partner. And we also now negotiating with a couple of companies. There are two types of possible partners: financial partners and strategic partners. Since we have time, the coronavirus situation delays some decisions at the China level for at least three months. We took away our core team at the moment, they are not in China. So there is a delay, and now we are

looking at the moment, there are a lot of uncertainties. We are looking at the situation with the coronavirus, we are looking at the situation with African flew. We are understanding what will be the new policy of China government in terms of credit rates for the construction. There are many uncertainties which we now go through. We have not progressed as we planned because all activity in China was seriously impacted for the past three months because of coronavirus.

M. Ibragimov: Okay, got it. Thank you very much.

Operator: Thank you. The next question is from Alexey Phillipov, JP Morgan. Please, go ahead, your line is now open.

A. Phillipov: Yes, hello! Thank you for the presentation. Could you please explain what are the implications of weaker RUB for other segments except for the Sugar Segment? And what percentage of revenue and costs are USD denominated on the Group level? Thank you.

M. Basov: Our Company is quite big now and complex, and there are many changes going around us. Today it's not only the RUB, EUR or USD that change the rates also. The situation with the commodities, as I said, for example, last day we saw that grain prices didn't fall, almost increased. But oil prices and sugar prices were down today, while in the morning they went up. But, answering your questions, so, there are many, many things that are interconnected and influence each other. But, answering your question, I would say that if before the Company gained significantly from weakening RUB, at the moment we believe that the Company still gains from weakening RUB but this gain is not that big as before. And we are now deciding whether it is neutral or it is slightly positive.

As we discussed the Sugar Segment is a clear beneficiary of RUB weakening. So, it is the Agricultural Unit. The agricultural Segment is also a big beneficiary of RUB weakening. With other segments the story is not so simple. In Oil & Fats which is now the biggest unit we have in terms of sales and quite big this year in terms of EBITDA also. We have several business there. One part, which is extraction, is gaining. Another part, which is B2C, is also gaining. But the third part, which is industrial fats, is losing because it imports a lot of raw materials. And probably we will not be able to pass over the price to the customer price. So, we need to see how the situation will develop further.

The Meat Segment given there is an overproduction of pork in Russia which will continue for the coming several years, as players continue to produce more and more pork. And unless China opens the markets for Russia than, probably, this Segment will become one that looses from the RUB weakening, because some of the components are USD connected, especially the soybeans, sunflower meal and the vaccines, which are becoming a bigger cost than before, as they are used to fight disease in the animals.

So, it means, probably, as I said that we will be winning but not as much. Also we still have some CAPEX which we will need to finish up and some CAPEX which we will need to invest in Oil & Fats, which are investment with a quick paid back period. And some of this CAPEX is also linked to USD, because it usually involves the European equipment. Thus, if you look at the total balance of the Company in the long term, I would say that we are slightly gaining from RUB weakening. But this effect is not very big anymore.

A. Phillipov: Thank you very much, very clear.

Operator: Thank you. The next question is from Sergey Beiden of Renaissance Capital. Your line is now open. Please, go ahead.

S. Beiden: Good afternoon! Thank you very much for the presentation. I just have a technical question. Given the volatility we are seeing on the market, do you see any possibility for shifting the launch of the pork cluster in the Far East from 2021 or you are pretty committed to launch it next year? Thank you.

- M. Basov: We are very committed. In fact, we are very committed to launch it this year. But because of the construction problems, delays, we will launch it next year. But everything except for the slaughter house and one pig farm will be constructed this year. As I said, we planned to transship animals there in summer. And, of course, even though the prices of pork now are much weaker than they were several years ago, it makes sense to populate the farms and start production and we plan to do it, no doubt.
- S. Beiden: Okay, thank you.
- Operator: Thank you. There are no further questions.
- M. Basov: Ladies and gentlemen, thank you very much! We also released now the information on the recommendations of the dividends, as well a Audited consolidates IFRS accounts. Please, feel free to ask any further questions to Svetlana Kuznetsova which is our Director of Investor Relations. Thank you very much!

Disclaimer: This transcript is prepared in accordance with the audio record of the conference call on Financial Results of 4Q and 12M 2019 held on 10 March, 2020 by Maxim Basov, member of the Board of Directors of ROS AGRO PLC and CEO of Rusagro Group. The audio record is available [on the Company's website](#). The wording and content of this transcript represent an edited version of the audio record to improve the clarity and brevity of the original presentation, correct possible grammar or lexical mistakes and avoid confusion in interpretation of the said. Thus this transcript might not fully correspond to the actual words and sentences used in the oral presentation. In case of discrepancy, the transcript should prevail. In question of doubt or if you need clarifications please contact Svetlana Kuznetsova (ir@rusagrogroup.ru) for further inquiries.