

Company: ROS AGRO PLC
Conference Title: ROS AGRO PLC 1Q 2018 Financial Results
Date: Monday, 14th May 2018
Conference Time: 4:00 PM (UTC+03:00)

Operator: Good day and welcome to the ROS AGRO PLC Q1 2018 Financial Results Conference Call. Today's conference is being recorded. At this time I would like to turn the conference over to Mr Maxim Basov, CEO. Please go ahead, sir.

Maxim Basov: Good day, ladies and gentlemen. Today we published the results for the first quarter of 2018. We issued a press release and a presentation, and I want to go over the presentation with quick explanation and then we will open the call to questions.

In the first quarter of 2018, the company had sales of RR 15.3 billion, which is less than in the first quarter of last year; adjusted EBITDA of RR 1.7 billion, which is less than EBITDA in the first quarter of 2017; and profit of RR 209 million, which is higher than the results for the first quarter of 2017.

In the presentation, on page number 4, you can see there a break down of our revenue change and EBITDA change. You will see that in revenue the company decreased sales in three business units: in agriculture, sugar and meat. The only reason to that was a decrease in prices, which I will go through later when I discuss the business units.

In EBITDA the biggest decrease in comparison to the last year was the book in items, which is done in accordance with the requirements of IFRS, in our report it's called Eliminations and Others. Basically, such eliminations happen when the businesses sell the product to other businesses, for example, when sugar beet is sold to sugar business, and when grain is sold to the meat business. In our accounts we reflect EBITDA, in the previous instance, then there is a devaluation item below EBITDA. And when the final product is sold to the customers, like sugar primarily here, but also meat, this below the line adjustment goes into the EBITDA adjustment. So, basically, the loss of RR 909 million in the first quarter of this year in EBITDA reflects the loss we had in production of sugar beet in the third and fourth quarter of last year when the sugar beet was sold to the sugar division. And again, when sugar is sold by the sugar division, the sugar division shows the profit in EBITDA, but agriculture division shows the result on the sugar beet sold to the sugar division, which happened when we discussed last year's result and appeared as a loss in the agriculture division.

Meanwhile, the debt position of the company is still quite good, the company is liquid. The net debt of the company at the end of the period was RR 8.2 billion, and this was below one times EBITDA.

Now, I would like to comment on the performance and the current situation of the business segments. And, let me start with the meat segment, page number 9.

In pork business, which today is our meat business, there were two important developments. One development was decrease in price of pork and live animals. The price of live animals fell from RR 94 net per kg in the first quarter of 2017 to RR 80 net per kg for live animals in the first quarter of 2018, so the price fell down by 15%. The second development was the increase in processing of

pork in our division. As you can see on page number 9, in the first quarter this year we sold only 7,000 tonnes of meat of livestock, and the rest was sold in processed form in cuts, in B2C cuts and carcasses. The slaughterhouse operations were profitable for the company and the EBITDA result is better than it would have been if you would just take into account the price – the fall in the price of the live animal. So, EBITDA was RR 1.1 million, which is approximately RR 200 million less than last year results for the first quarter. EBITDA margin reached 26%, which we believe is quite good.

Now, we experience the seasonal increase in the price of meat. At the moment, the price of live animals is above RR 95 net per kg. In the price dynamics, the price level in Russia is quite good. And, we believe the price will be very strong at least until the autumn in Russia.

In sugar segment we also experienced a decrease in price. The price in sugar fell from RR 33 net per kg to RR 28 net per kg, which is a decrease of 16%. The second development was that our sugar division didn't produce much sugar beet in the first quarter. This is a normal situation. The first quarter of 2017 was abnormal in this sense, as we had the longest in our history sugar producing season. So, this season's production was only 9,000 tonnes, and sales of 166,000 tonnes, which is 16% less than last year. On a low price we still earned the same amount of money, and our EBITDA margin reached 13%, which is very healthy. But, this is the result of a low price of sugar beet, which was bought in autumn last year because of low sugar price in Russia at the end of last year. Which in turn leads, if you remember, to the loss in sugar beet production in our agriculture division.

If you look at the price trends showed in the price graph, that you can see on page number 10, you will see that at the moment the price of sugar started to recover in Russia. Currently, the price reached last year level of around RR 30 net per kg. We believe that will have the same trend like last year and the price will probably go up until July. And, then in August we also expect a large decrease in sugar price.

Russia is still planting sugar beet. At the moment, the planting of sugar beet is going to be finished at the end of the month or so. We believe that Russia will have similar to last year planted area and depending on the weather conditions it will also have similar sugar beet harvest, which in turn will lead to the decrease in price, as the surplus of the new season will add to the surplus which will be left in Russia at the end of the season. Thus, we expect next season to be a season with low price of sugar. It, of course, also is influenced by the low international sugar price which is, at the moment is at the level of \$0.11 per pound in America.

In agriculture, on page number 11, we have virtually no EBITDA. And this reflects the low price of all commodities which we were selling in the first quarter new grain. The prices at the moment started to go up for almost all of the agriculture crops, with the exception of sugar. At the moment we are planting. The planting probably will be over at the end of the month, and we will issue a press release on the result of the planting season. As I said, the prices in Russia and internationally started to recover. But, in agriculture we will see the results in the third quarter of this year when we'll start the harvesting season.

Oil and fat had a good result in the first quarter. EBITDA margin went up from minus 1% to plus 9%, to EBITDA of RR 400 million. The business showed good results with all three plants performed well, Samaraagroprompererabotka and Primorskaya on the back of availability of raw material and the

commercial margin of Mechta knoziayki and on the back of good export and domestic sales of beauty soap products. We believe that the second quarter will also be very good for our oil and fat division.

So, this is the end of my short presentation and I open the call for your questions.

Operator: Thank you. If you would like to ask a question at this time, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, if you would like to ask a question at this time please press star one on your telephone keypad. We will pause for just a moment to allow everyone an opportunity to signal for questions. Once again, if you would like to ask a question at this time please press star one on your telephone keypad.

We will now take our first question from Artur Galimov of Sova Capital. Please go ahead.

Artur Galimov: Good afternoon, thanks so much for the call. My first question is about the sugar segment. It's cost of sales calculated of production cost in the first quarter, it appears it was up 30% quarter-on-quarter from the Q4 level, even though as far as I understand sugar beet that you used for sugar production in the first quarter was pretty much secured at lower prices of – at the end of 2017. So what was the main reason behind production cost growth in Q1 relative to Q4? My estimated production cost per kilo was around to RR 25.

Maxim Basov: The question is why the cost of goods sold in the first quarter is higher than in the fourth quarter, yeah? That was your question?

Yeah, there are two basically reasons for that. One is with the difference in the product mix. In the first quarter we sold much more as a share our B2C products than the fourth quarter last year. And, we sell of course B2C products at a much higher price but also costs are higher. The second reason is that the accounting of fixed costs in the first quarter of this year compared to the fourth quarter last year as we sold less sugar and there was very little sugar produced. So location of fixed costs to the one tonne of sugar was different, and that's why the cost of sugar in the first quarter in accordance to that is higher in the first quarter than the fourth quarter.

Artur Galimov: Okay. So, the first reason is sales mix changes. And, the second one is the higher share of operating costs due to lower production, seasonal production, in the first quarter. Thank you.

And, the second question is basically the same question about pork division. Because, production costs for pork also increased in the first quarter, making it around RR 86 per kilo versus the low RR 80 that you – that you showed in Q4. What was the reason for that production cost in the pork segment?

Maxim Basov: Yeah, pork business consists of three divisions: the processing, the live animal division and the feed division. For simplicity reason let's say that there are two parts: the processing and the live animal division together with the feed division. If you look at the cost of production of live animals, then the cost of production of live animals is the same throughout the whole season. And it's actually net amortisation, this is around RR 50. So, it's very low cost, and this continues to be so. All the rest is the cost of products sold in a processed form. Thus, since the products that we sell in a processed

form are different if they are up the value chain, and the share of these products is significantly higher this year than last year, then the corresponding cost to the product that is sold is also different. So, in other words, if you look at the price, at the cost of the products that we sell, like the carcass or the cut, of course the cost will be very different. So, the key here would be to look at the EBITDA, EBITDA per kilogram, and compare this with the price per kilogram. Is it clear?

Artur Galimov: Okay. And is it also the reason why energy expenses in the pork segment year-on-year?

Maxim Basov: Yes.

Artur Galimov: Okay, thanks very much. So having said all of that, should we expect a much flatter or a little bit higher margins in the pork segment during Q2, Q3 given the high prices?

Maxim Basov: Yeah, I would say that if nothing terrible happens with the rouble or with diseases or with the war then, yes.

Artur Galimov: And the same for sugar, because as you thought sugar production – sugar margins should also probably be a little bit better because of the higher prices.

Maxim Basov: That's right.

Artur Galimov: Thanks very much, Maxim.

Operator: Once again, if you would like to ask a question at this time please press star one on your telephone keypad. We have no further telephone questions at this time.

Maxim Basov: Well, thank you very much. Ladies and gentlemen, we'll be issuing press releases on our news and we are looking forward to meet you in three months. Bye.

Operator: Thank you. This does conclude the ROS AGRO PLC Q1 2018 Financial Results. Thank you for your participation, you may now disconnect.