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Speaker: Maxim Basov, CEO
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Operator: Dear ladies and gentlemen, welcome to the conference call of ROS AGRO PLC regarding the presentation of the financial results of the Q1 of 2020. At our customers' request, this conference will be recorded. As a reminder, all participants will be in listen-only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulties during the conference, please press star key followed by zero on your telephone operator assistance. May I hand you over to Maxim Basov, CEO of Rusagro, who will lead you through the conference. Please go ahead.

M. Basov: Good day, ladies and gentleman. Today we issued a press release on our Q1 IFRS results. I think that results were quite good. The revenue of the Company increased by 18% to RUB 33 billion. All business units except for agriculture showed an increase in revenue. Our EBITDA increased by 58% to RUB 5.2 billion. All business units increased EBITDA, and the net profit of the Company grew to the level of 3.2 billion. As a result of improvement in revenue growth and improvement in our EBITDA margin, we had good free cash flow, part of which we had to spend on the increased interest payment.

Unfortunately, following the disruption in the financial and commodity markets and development of COVID pandemic, the level of debt increased. We also had at the beginning of the year the pre-export financing in euros. So we decided to break down this financing in Q1. But, as a result of balance evaluation of the currency, we showed loss in Q1 of 1.1 billion, so the results would have been better, if not this change.

Now I would like to say a couple words about each of our business units. In general, as I've said, all our major business units did well. The biggest EBITDA-contributing unit in Q1 was Oil and Fat business. Second was Agriculture, third – Meat, and finally Sugar. Let me bring your attention to our presentation, to page No. 10, where we are giving a short update on the development of each of your key segment in Q1 2020.

The first business I would like to talk about is **the Meat**. In general, you can see that the Company significantly increased production of pork (+47%), but the prices went down. The prices of live animal went down from 71 to 67 RUB/kg (excl. of VAT), and the average price for the processed pork went down from 133 to 124 RUB/kg (excl. of VAT). The biggest sales category of Rusagro now by far is the industrial cut. Kindly note, that the sale price of live animals doesn't fully reflect the price on the market for the live animals, since only a small share of sold animals were commercial-quality animals sold at the market price, as they were mostly processed internally. So, as a result of increased production and sales volumes of processed pork, partially compensated by lower prices, Meat Segment of Rusagro achieved EBITDA of RUB 1.2 billion.

In the Q1 of this year, we saw pork market price drop, as Russia continued to increase production of pork – rise in production reached 11%. For the moment Russia is closed for the major markets of pork like China, Japan, Korea, and only started to export to Vietnam. In order to find the consumer for the increased supply of pork, pork suppliers have to decrease the prices and thus the prices are falling in Russia. I assume, Russia is the only market now in the world, where pork prices have been falling. While the pork prices in China, in the US, and in Vietnam now are quite high, since Russian producers' access to the global market is very limited, Russian market will continue to experience a decrease in pork prices.

In March, the prices started to go up, which is a seasonal development, and currently they remain at the March level, being quite steady. Russian pork producers experienced some disruption in the supply channels, but in general, the consumption of pork is increasing. Our view is that overall consumption of meat in Russia is not increasing, but the consumption of pork is growing. Rusagro managed to promptly react to the changing situation and adapt its distribution channels. I can say that Meat Segment has been quite successful in working in this new pandemic environment, with all our production facilities working at full capacity. Moreover, we are significantly increasing the sales of B2C products to the discounter chains in Russia. We believe that Russia will be able to avoid cutting production at the slaughtering facilities, on the contrary to North America and Brazil, which are experiencing a disruption in meat industry.

I think, that Meat business should continue to operate quite well. While increase in the grain and animal vaccine prices together with the going down of domestic pork prices will adversely influence the marginality of the business, increase in production volumes will allow the business to have a steady financial result this year.

On page No. 11, we can see the result of **the Sugar Division**. The sugar division is suffering from very low price internationally for sugar. Following the collapse in the price on the global market, the price of sugar also went down to the level of around 10 cents per pound. However, in Russia we were quite positively surprised with the level of demand, which we've started to experience in March and continue to experience even now. The demand for sugar in Russia and on our traditional major export markets is quite high.

Hence, we are now operating our B2C sales at 100%. This trend in B2C market is helping us to earn money, and we managed to earn a similar amount of EBITDA, in Q1 this year, compared to Q1 last year, even though the price is significantly lower than last year. We continue to see a demand for our sugar products, and we believe that Q2 of this year should also be quite strong.

The situation globally in sugar segment continues to be difficult. On the one hand, we see that the lower sugar price motivates resilient companies to shift from production of clear ethanol into the sugar. So the long-anticipated deficit in sugar globally now looks like not certain. On the other hand, today we've got news from India, that India decreased production in March about 16%. We see a big uncertainty on the world sugar market. The sugar market continues to be low but in Russia we found more certainty, and this certainty tells us that because of loss of last year by farmers in sugar beet cultivation, there is a decrease in planting of sugar beets. The planting is still ongoing, and it's still around three weeks ago, but we expect that planting will be below last year planting area by 15 to 20%, which together with not so good climate, climatic situation like last year, we will need to lower sugar production, sugar beet production and sugar per hectare production in all of Russia. This means that, probably, there will be no big surplus of sugar this season. I think that the market of sugar in the coming season from August will be balanced. We still have some excessive inventory from last seasons, but these inventories are fairly quickly going down because of very quick export from Russia to Central Asia. So, we believe that the sugar price might even go higher, and we expect this business to generate return, which would be better than, probably, the results of last year.

On page No. 12 there is an overview of **Agricultural Segment**. In Q1 this segment was not producing anything and it was just selling some of leftovers from the last season. This business is a big beneficially of devaluation, if the Russian government allows us to export. Russian government stopped export of soya in April, but we expect that the export of soya will resume after 1 July, which is of course a very right and rational decision by the Russian government. The Russian government stopped exports of grain, but we have already exported all of the grain we planned before this embargo.

We now have only little soya left which will be sold in Q2. We expect the result of this segment to be very good this year. But twe will see it only in Q3 and Q4 after we start to harvest. The planting didn't finished yet. We still have some soya left to plant both in Central Russia and the Far East. We experience now a very unusual climatic situation. In Central Russia we have very strong winds and relatively cool weather which negatively influence the harvest for soya, corn and sugar beet. But wheat and barley probably will not be affected by this situation. Currently, we expect relatively weak yields in soya, sugar beet and corn in Central Russia and good yields for barley and wheat.

On page 13 you can see the results of **the Oil & Fats Segment**. Oil & Fats Segment became the biggest segment not only in terms of revenue but also in terms of EBITDA for our company. Q1 this year we also reflected results from Solnechnye producty assets which had been leased by our company. And now these business results include most of the results produced by these assets. All our three segments performed well, the oil extraction segment which benefits from ruble devaluation similar to agriculture due to the export. So in fact, this segment in Russia became No. 1 in terms of export sales increased. That's because there is a huge demand for sunflower oil globally and also because the Russian government allows us to export freely without any restrictions. We also had good results in industrial fats subdivision and in our B2C segment in Oil & Fats. So generally this business is doing quite well.

We expect good results in Q2 and Q3 too. We believe that the harvest of sunflower in our region will be again very good compared to grains last year. The Company experienced a slight decrease in demand for some B2C products and products in industrial fats especially from HoReCa consumers, but we believe that it is fair given current epidemic environment that overall level of HoReCa demand will not be as high as last year. While, we think that in a month time HoReCa demand will start to improve, this sales channel probably will not give us a good revenue and profit this year. Despite this, overall we expect that Oil & Fats division will give us very positive results this year. As a result of these developments, Company's net debt decreased and EBITDA increased, leading to our net debt to EBITDA ratio improvement which reached 2.7. We are still committed to bring this net debt to EBITDA ratio to 2.0. We will optimize our Capex in order to have net debt below RUB 60 billion by the end of the year. But given our prior anticipation of our EBITDA this year, probably, we will be able to reach the level of 2 times net debt to EBITDA quicker, given that we don't do any acquisitions. In this respect we identified several interesting targets for us. But all these targets, which we thoroughly consider this year, should not be large. So our preference for this year would be to not make large acquisitions, to optimize our capital expenditure and so we could decrease our net debt level to EBITDA by the end of the year with the acceptable payment of dividends to our shareholders and the Board of Directors.

And I just want to say a couple of words about the COVID situation. Of course, our Company and the full industry were seriously affected by the changes in the situation globally. COVID has influenced some of our consumers both in Russia and Central Asia, as well as in other parts of the world. We see that China now is picking up and we now see an increased interest for the agriculture crops from China. We had several cases of COVID sickness among our employees. We manage to keep this situation in controlled manner. All our facilities are working at full capacity. We had to stop the Moscow plant for a week but it didn't have a material effect on our sales and production. We are now working very qualitatively with the governments of the regions. We are helping to build the necessary infrastructure for testing. And we believe that we did all necessary steps in order to, first of all, decrease the transmission of the disease at our factories and among our employees, to increase safety environment for our employees and improve the medical infrastructure in the main regions of our production. This ends my short presentation and opens the floor to the questions.

Operator: We will now begin our Q&A session. Our first question is from Sergey Kopylov of FP Capital. Your line is now open.

S. Kopylov: Yes, hello to everybody! I have three questions. I will start with one on your becoming the first important segment which is Oil & Fats. We saw a very good margin of 12% which is a bit higher than we usually consider for crushing and consumer business in this division. So my question: is this kind of result considered to be a high level for you? Or is it something that we should take as the mid-cycle results for the Oil & Fats. My second question is on your Far East project. Can you update us on the status of the project and how much of volumes in pork we should expect in this next year? And also what is the figure you are currently keeping in mind for CAPEX? Thank you.

M. Basov: Okay, well, frankly speaking, we are also quite pleased and surprised with the strong performance of our Oil & Fats segment. We are now doing our strategic updates and we see that our Oil & Fats division with the new management team will probably give us better financial results than we expected even one year ago. I would caution you from having such a big margin as a mid-cycle, mid-performance level. I think that there are several objective and subjective reasons why we managed to have such a good result in Q1. And generally I think that our EBITDA margin in this segment would be lower than this number. But in general we expect that this season Oil & Fats division will compete with agricultural division for highest EBITDA results. And the main reason for that is the opportunity to export our products. Since in Russia we experience the demand limitation because consumers are becoming less wealthy plus there are some local disruptions. So the subsegments which cannot export the products now have pressure for the margin and have no opportunity to grow. The businesses that can export the products given the

RUB rate of 70-80 will gain. So let's look at our results in Q2 and Q3 and only then I think we can with the big level of comfort see what the margins there would be.

Now the Far East. In the Far East of Russia we have finished, I would say, in general our feed mill and several farms. We have some problem now with putting these facilities on-line when we recently expected because of difficulty in bringing the foreign experts who should put these facilities, especially feed mill, in operation. And we would like to have feed mill operating before we start bringing the animals to the pig farms. My current expectation is that in June we will manage to resolve this problem with the Russian government. We'll bring the necessary specialists to start production of our feed mill. In June and July, our feed mill will start operating, and from July to September, we plan to bring all the animals to all pig farms but one. For the last pig farm, we'll bring animals probably at the end of the year–at the beginning of the next year. These animals will start growing, but we will see the revenue from this project only next year, when in first quarter we will start our slaughtering. So our animals will start growing in summer, and then they will grow to the necessary age and weight in the first quarter. In the first quarter we will start our slaughtering, and we'll start our production. After we bring the specialists to the construction sites, the launch dates will be much more certain. Otherwise, all our pig farms in Central Russia are now ready, and you can see that our production numbers are growing significantly.

The third question was about CAPEX. Well, three months ago, we planned to have the net debt no more than RUB 60 billion, given that we'll pay similar dividends in dollars compared to last year. We have not updated our figures since then, and I think that we should use these estimations for now. At that time, the balancing number of CAPEX in order to achieve this financial goal was RUB 15 billion in CAPEX, and I have no exact figure at the moment to tell you. We are doing the revision of our budget in in July- August, as in August we have the Board of Directors that will review the numbers, and if the situation develops in a good way for our company, our EBITDA would exceed our preliminary figures, and then our CAPEX probably will not exceed to that extent. We will make decisions on what to do with this additional free cash flow. We have several options. We can pay dividends. We can increase CAPEX. At the moment, we got our CAPEX only to essential projects and to the projects, which have a discounted payback of 5 years. So in general, we see that we have some surplus free cash flow, we can increase CAPEX or we can use this figure to buy one or another company. So we'll be deciding this in the summer.

S. Kopylov: Okay. Very clear. Thank you very much.

Operator: So, as a reminder, if you would like to ask a question, please press zero and one. The next question is from Marat Ibragimov, Gazprom Bank. Your line is now open.

M.Ibragimov: Thank you very much. On the meat business, you said that you're expecting the margins will go down until the end of the year. Can you explain why you're expecting the prices and the margins will be going down from April and March? Thank you very much.

M. Basov: I think, we have three important factors, well, four, I would say, four important factors. Two factors generally should be positive for our company and for the meat segment, and two factors will influence the marginality in a negative way. I believe that the influence of the latter two factor exceeds the influence of the first two factors. So positive factors for the segment is an increase in production of live animals and also increase in production and sales of B2C products. We are quite certain, unless some bad unexpected event happens, but we'll managed to continue to increase production year-on-year, and, we'll be increasing sales of our B2C products which gives us additional marginality. On the other hand, we have two negative factors. One negative factor is an increase in price of grain and an increase in price of veterinary medicine. This, of course, was partially reflected in Q1, so this factor is more important year-on-year and not quarter-on-quarter.

The second factor is the meat price. We believe that production of pork will continue to grow because of the investments that have been done and management improvements that have been done for the whole industry, not only for our company. So as a result, the production will continue to go up in the first quarter, the price managed to go up compared to January–February, partly because Russia stopped altogether import of meat. But since we already have no import of meat, we have to find the market for additional increase of production. And this year an additional increase in production is estimated at the level of 150-200 thousand tonnes. So, if this increase in production happens, then Russia has to find the market, and it can be either export, but, unfortunately, we don't have enough market open for Russian meat to be able to export all this additional pork. Of course, some pork will go to Belorussia, some will go to Hong Kong, some will go to Vietnam, but it will be hard to sell such a big amount of meat in the first year. And the second option is to sell more to the Russian consumer. But in order to sell more to the Russian consumer, we have to make the pork meat more interesting for the Russian consumer, which will be done both through marketing, through advertisement and distribution, improvement of the products, and of course through the decrease of prices. This is why we believe that the lower than today price of pork will be needed to balance the increased supply and demand for pork in Russia.

M. Ibragimov: Ok. Thank you very much. To clarify, you say that grain prices are going up, but, why do you think they are going up given the export ban? I was expecting them to go down, not to go up.

M. Basov: Well, export ban happened when most of grain was already exported from Russia, not much grain is left in the country, and that grain, which is left, the farmers are just waiting to sell. It is expected that grain market will open, and Russia will be able to export grain from 1 August, probably, to 1 February. So there will be a window for export, and we expect that price of grain in this period will be equal to export parity price which is more or less at today's level. So I'm speaking now about again not quarter-on-quarter — in the Q1 we already have high grain prices — I'm referring to the year-on-year dynamics.

M. Ibragimov: Okay. Now, to elaborate on meat prices, you said that there is surplus of 150–200 thousand tonnes of pork. How do you assess the potential of Russia to get exposure to the Chinese market? And, more broadly, how do you assess that the chances for Russia to get the export there are higher due to COVID or lower? How did the situation, overall pandemic situation, affect your ability to start operations there?

M. Basov: Well, export is very important for us. We don't export big chunk of our pork but anyway our company, probably, is No.2 pork exporter from Russia. The most important markets for us today are Belorussia, Russia, Honk Kong, Vietnam. In Vietnam we only started to sell our products last week, since Vietnam is open only since this year. We are making a good return, good profits on these volumes, but it's not that easy. We need to develop the relations with the customers, we need to manage the logistics better. We have some deficit on refrigerator containers for the moment because of the general disruption in the global trade because of COVID. In general, COVID situation is good for us globally, because US decreased production of processed pork by 20–30%. In China, Vietnam, COVID situation led to disruption of pork production. So in general, that's a good disruption because, relatively to all these countries, Russia has so far suffered much less from COVID in terms of production. But, again, since we are not open for the major markets we cannot benefit from this fully. Japan and Korea are likely to open for political reasons. These markets are very strongly controlled by the US.

The China situation is not clear. Only Xi Jinping and Vladimir Putin know whether it will be done or not. That's a very big political question. I'm sure that our President can resolve this problem if he focuses on it, but I don't think that this is number one or two or number three priority for our President at the moment. As you know, China opened, at the moment, already milk, chicken and beef. It was an agreement for the past several years that after beef is opened, China will start opening pork. Opening pork is very profitable and needed both for China and for Russia. But there are some bureaucratic hurdles and politicals, so I have no knowledge on whether it will be done and when it will be done. We only can hope that one day it will be done rather sooner or later, because it will be a major boost for the Russian pork industry.

M. Ibragimov: But you cannot forecast when exactly it may happen, for example, by the end of this year or next year?

M. Basov: Unfortunately, no. I think this is such a high political question that can be only resolved by Putin and Xi Jinping. Nobody else — ministers, veterinary specialists, public companies, private companies — can resolve this issue. It is the question between two presidents.

M. Ibragimov: Thank you. And final question: In your annual report, there is a nice chart showing export destinations, geography of export sales. There is a bit little, 50 countries, but honestly I did not find Iran there, who is one of the biggest consumers of vegetable oil. I'm sure that they are buying vegetable oil from Turkey, not from us. Can you explain why are you not exporting vegetable oil to Iran, for example?

M. Basov: As far as I know, local vegetable oil from Russia goes to Iran. But if you look at the official numbers, you'll see that from the legal point of view there are a lot of Turkish, Kazakhstan and Arab companies which are buying to Iran. I assume that the oil that goes to Iran goes through these companies.

M. Ibragimov: Thank you very much. That's it from my side.

Operator: The next question is from Alexander Knutov of VTB Capital. Your line is now open.

A. Knutov: Greetings and congratulations on your results. I just have a couple of questions. The first one is in regards of your beet plant area: I remember that you said the overall beet plant area in the country will go down by 15 to 20% year-on-year, and what's going to happen with your beet planting areas? The second question is about the 150–200 thousand capacities, which will be added in mid-2020. If you could elaborate how they are distributed by the key players there? Thank you.

M. Basov: Well, I don't know the exact number, but our plan was to have similar to last year area under sugar beet. I don't know, maybe it is different by one or two thousand hectares, but in general we have this year area which is similar to last year. The problem now with the sugar beet in Russia, that a lot of area, more than 5% of area, which was originally planted in sugar beet was damaged by strong winds. In our situation, this area also is quite big, around 15 thousand hectares of land. We already planted a half of it, and we plan to replant the rest in the coming days. The problem is that the winds continue to blow, and if they continue to blow like they do today, maybe some area will be replanted by soya. In general though, at the moment, I think it would be prudent to expect that the area under sugar beet will be similar to the area under sugar beet that was planted last year. We will issue our numbers for the planting, after we finish planting, which will happen probably at the middle of June in the Far East of Russia with soya. What we see in sugar beet is that the big companies probably will have similar area under sugar beet with exception, maybe, of one company. But in general, big companies kept similar area under sugar beet, and the areas drop will happen mostly at the expense of small farmers. And the last figure we have, it is expected that Russia will probably plant 950 thousand hectares of land under sugar beet.

In terms of pork, the increase should be caused by several companies. It is very hard to know for sure, because also some companies are not given the real numbers to the public. The biggest source of information for this is the National Meat Association, and the National Meat Association already published the results for the first quarter, where we saw an increase in production of pork by around 13% for industrial producers. If you're interested you can ask Svetlana Kuznetsova and she'll provide you with the statistics.

Now, which companies plan to increase the most this year. We understand that this year, the biggest increase in production of pork should come from a company called Rusagro, a company called AgroEco, and a company called Agropromkomplektatsiya in Kursk Area, and there is a probability that also from two other companies which are not part of the National Meat Association and information about which is very uncertain — it's Miratorg and the company called Velikolugsky Myasnoy Kombinat. But it's not clear what will happen with these companies. So the figure of 150–200 is the consensus we should have today in the National Meat Association.

A. Knutov: Thank you. That’s clear.

Operator: There are no further questions. I head back to the speaker for the conclusion.

M. Basov: Ladies and gentleman, thank you very much. We are working on a very volatile environment where it's difficult to make predictions, but we are pleased to announce results for the first quarter. We hope that our second quarter results also will be quite good. If you have additional questions, don't hesitate to email Svetlana Kuznetsova, who will give you all needed information on this quarter. Thank you very much.

Disclaimer:

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