

Company: ROS AGRO PLC
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Moderator: Maxim Basov
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Operator: Ladies and gentlemen, welcome to ROS AGRO PLC 1st Quarter 2019 Financial Results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Maxim Basov. Please go ahead Sir.

Maxim Basov: Thank you. Ladies and gentlemen, today the Company issued the 1st Quarter Financial Results, we have press release and presentation on our website. In brief, the Company increased its revenue, EBITDA and net income results for the 1st quarter YoY. Total adjusted EBITDA reached 4 billion roubles, net profit - 1.4 billion roubles. We had an improvement in EBITDA in all segments, except Meat and Oil and Fat. Net debt of the company stays more or less at the same level: 54 billion roubles. Let's see what happened in each of our business segments. Let's start with Meat segment. In our presentation it's page number 10.

In Meat segment we had an increase in sales of processed pork and decrease in sales of live animals. The sale price of live animals declined due to the fact that its sales volumes only included sales of subprime pork, as the Company sold all market quality pork internally. The production numbers in the 1st quarter of 2019 were higher than last year. The margin declined because of higher prices of feed. The prices for grain were much higher this season than the season before, and as a result the cost of live stock increased by 436 million, and this was more than increase in price. Thus, EBITDA of this division fell from 1.1 billion to 800 million roubles in the 1st quarter YoY. We had a loss of 136 million roubles from the Far East swine foot and mouth disease. Part of this money was reimbursed to us in the second quarter by the insurance company. Then we'll see the positive effect of it in the second quarter of this year. Overall, at the moment the prices for pork products are similar to last year due to the shortage of poultry on the market as a result of bankruptcy of several companies, in the middle and the end of the second quarter the prices for meat started to grow. We do not expect this to happen this year. We expect that the prices of meat will stay relatively stable.

In Sugar division, it's on page number 11, we saw less sugar sales than last year. But the average price was significantly higher - 9 roubles higher. As a result, we had better financial result on low volume. So, sales exceeded 100 thousand tonnes. The revenue declined to 4.5 billion roubles, but the margin reached 25%, and the EBITDA for the 1st quarter was 1.1 billion roubles. You'll see here on page number 11 that in the 1st quarter of this year the prices for sugar were higher than in the 1st quarter of last year, but this difference was declining every month and in May the prices fell below 2018 numbers.

In Agriculture we had very good results based on higher sales volumes in the 1st quarter compared to the sales volumes of the last year, and higher prices. The EBITDA reached 1.5 billion, the EBITDA margin - 26%. This is a very good result for our Agricultural division.

In Oil and Fat division we had big revenue increase as a result of sale of Solnechnye Produkty products. In fact, more than 50% of the products of Solnechnye Produkty were sold through ROS AGRO in the 1st quarter. And, at this moment we already have 100% of products being sold through ROS AGRO, but due to the complex regulation and bankruptcy in this company, EBITDA of Solnechnye Produkty assets is not shown in consolidated results of the segment. The profits are shown on balance sheets of the company preparing for the bankruptcy, and the profit from this company partly comes to the balance of ROS AGRO as a payment for the financial debt that this company owes to us. So, in our books revenue is shown of both ROS AGRO and Solnechnye Produkty, and EBITDA is shown only on the old assets that were part of ROS AGRO and is still part of ROS AGRO, without Solnechnye Produkty assets. EBITDA of Oil and Fat division was 300 million USD. All our plants had profit, with exception of the Far East plant. The Far East plant didn't show profit because it was not working fully in the 1st quarter of 2019 due to the diseases found in chicken and pork in the Far East. And, as a result, feed production in the Far East was also quarantined and the factory was not working. At the moment, the factory started to work again.

Milk division is very small. We just started the operations. We had small operation loss in the 1st quarter of this year. This is not material at this point. And now we are working to know this business better and to turn it into a profitable one.

So, this finishes my short presentation. We like the results of the company in the 1st quarter. And I am opening the floor to the questions. Thank you.

Operator: Thank you. We will now start Questions and Answers Session. Ladies and gentlemen, if you wish to ask a question, please press '01' on your telephone keypad. And we have our first question, which is from Anna Kurbatova, Alfa Bank. Madame, please, go ahead.

Anna Kurbatova: Good afternoon everyone. My question is with regard to the disease in the Primorye swine plant. I wonder how many of the heads were affected by the disease? Whether you lost some heads? And whether the cost associated with this disease is entire cost that the company will bear in relation to this event or whether you have additional cost maybe in the following quarters? If you lost some heads of pork, maybe you will have to purchase new ones? Could you elaborate a bit on those developments? Thank you.

Maxim Basov: We had foot and mouth disease in the Far East. In fact, all the major producers of the Far East were affected - almost all production of pork in the Far East of Russia stopped in the 1st quarter of this year. There is a vaccine against this disease, but this vaccine was not used before, as it was generally expected that this disease will not be happening in the Far East of Russia. From this time probably there is now recommendation from the veterinary authorities of Russia to use this vaccine, similar to

what is done in China. This disease came from China, and we now believe that this risk is there. So, since we plan to vaccinate our animals in the future, we do not expect any losses for our animals in the future. At the moment, we do not have animals in the Far East. We already showed all the results on our balance. The insurance company already reimbursed part of the money, more than half, to us. We cleaned our pork farm, and the pork farm is now ready to receive new animals. We plan to ship all the animals to the commercial farms in the beginning of the next year. In the moment, we plan to ship genetic animals, as the animals that died actually were genetic animals, to the Far Eastern farm this year. The beginning of our sales of animals to the market should not be influenced by this disease because it is tied to the commencement of the slaughterhouse. And the slaughterhouse plans to start producing at the end of next year. So, since we lost some time of growing genetic animals, probably we will start some commercial plans with the new animals, which we are going to ship or bring by car from Central Russia. For the genetic farm this will be happening at the end of this year, and for commercial plan this will be happening at the beginning of the next year.

Anna Kurbatova: Thank you very much for the comment. And may I ask the follow-up? Would it be correct to suppose that the prices for pork were affected because of this disease, and whether it will influence also maybe prices on a broader market like Siberia or other regions, or it only relates to Far East? Thank you.

Maxim Basov: Well, the prices of animals grew in the Far East region. This region is not a big producer, so Siberian prices are not influenced and, actually, they can only be influenced by European prices. The prices in the Far East of Russia grew, but they will fall once the production starts again. In general, the prices in the Far East are much more dependent on the prices in China and the prices in European Russia. Thus, there will be no big changes in prices because of this event.

Anna Kurbatova: Thank you very much.

Operator: Thank you. Ladies and gentlemen, as a reminder. If you wish to ask a question, please press '01' on your telephone keypad. Our next question is from Sergey Beiden, Renaissance Capital. So, please, go ahead.

Sergey Beiden: Good afternoon. Thank you very much for the opportunity to ask the questions. I actually have two. Now the first one is: if we look at Oil and Fat segment's net income, you said that part of the EBITDA is coming through the interest payment lying in your net income. So, if I look at your P&L, at the interest income, would it be right to assume that the 3 billion interest income is derived, some part of the EBITDA, from Sol Pro, and if it is true, could you maybe say or guide on what approximate part of that 3 billion are coming from that EBITDA part of Sol Pro in Oil and Fat segment? And the second question is: could you kind of update on the situation related to the possible sanction breach with Rosselkhoz Bank deal, and I mean, could you guide on possible tips, if there is a sanction breach, how that deal could be rearranged? Or if there is not, could you say so? Is there any definite decision being made already? Thank you.

Maxim Basov: OK. Thank you for the questions. Yes, you are absolutely right. In the interest income that the Group received in the 1st quarter, which was around 3 billion roubles, approximately 600 million roubles were coming from the assets of Solnechnye Produkty. In general, our plan is, you know, the bankruptcy procedures on all these assets that are in the process or being started, and we plan to acquire most of Solnechnye Produkty assets which we are interested in by the year end. And then at this time all the results of Solnechnye Produkty would be consolidated in the results of ROS AGRO. As far as the investigation in the possible breach of sanctions, I can only say that at the moment we are still in the process of discussing this with Cyprus authorities. We had several meetings, and several bodies of Cyprus are now working on this. And we expect this issue to clear relatively soon, with no material consequences for the company. That's all I can say now. And the rest will be publicly announced when the time comes, and you will know it for sure.

Sergey Beiden: OK. Thank you.

Operator: Ladies and gentlemen, as a reminder. If you wish to ask a question, please press '01' on your telephone keypad. Thank you for holding. We have a question from Aleksandr Gnusarev, VTB Capital. So, please, go ahead.

Aleksandr G.: Greetings, Maksim. Just a couple of questions. The first question is in regard of your debt. I know that debt level was slight in Q/Q terms. If I am not mistaken, you were talking that you would be aiming at reducing the level of your debt by some roughly 10 billions by the year end. Are these plans still in line or you will be correcting them, taking into account that the debt level was certain in quarter on quarter terms? Thank you.

Maxim Basov: We still have a plan to decrease the level of debt. I think that at the moment we expect the level of debt to be at least 10 billion less at the end of the year. The level of debt did not decline significantly or did not decline in dollars in the 1st quarter because very little sugar was sold, and then we started to increase our working capital preparing for our agricultural season. So, nothing has changed. Of course, the level of debt would depend upon the working capital decisions, which we'll be making at the year end, upon the investments and upon our financial results. At the moment, we believe that level of debt will fall maybe even more than 10 billion roubles at the end of the year.

Aleksandr G.: I see, Maksim, thank you. And this is another question. It's rather hard to estimate this, but all in all, when do you plan to consolidate the most part of Sol Pro into your accounts? By the end of this year or at the beginning of the next year?

Maxim Basov: We plan to buy most of assets, we'll have 3 in fact main production assets of Solnechnye Produkty by the end of this year. And when we buy all these assets, then we'll consolidate the results fully. On the other hand, we plan to show profits from our operations, from Solnechnye Produkty, for some part starting in the 3rd quarter. So, more and more you will see its partial results, but by the end of the year we plan full consolidation.

Aleksandr G.: Thank you very much, Maksim.

Operator: Thank you. We have follow-up question from Anna Kurbatova, Alfa Bank. Please, go ahead.

Anna Kurbatova: Thank you very much for the opportunity. I just wanted to ask, maybe you will give us some guidance. If we speak about the entire sugar stock that you did not sell in the end of last year and that was for sale in the 1st quarter and in the 2nd quarter. Of that stock approximately how much in terms of percentage, I mean roughly, you have sold in the 1st quarter and you are planning to sell in the next quarter? Because you just mentioned that very little sugar was sold in the 1st quarter. Thank you very much.

Maxim Basov: Yes, we plan to sell from 300 to 400 thousand tons of sugar in the 2nd and the 3rd quarters. So, I would say that all the quota that we now have or now come will be sold before the beginning of the new season. In this part we will go in fact to the decrease in our working capital. In fact, we plan to see decrease in our working capital maybe already in August-September.

Anna Kurbatova: OK. Perfectly.

Operator: Ladies and gentlemen. If you wish to ask a question, please press '01' on your telephone keypad. Thank you for holding. We have follow-up question from Sergey Beiden, Renaissance Capital. Please, go ahead.

Sergey Beiden: I would like to ask the third question, please. I saw it from your presentation that the sugar prices, the wholesale sugar prices continued their downfall trend in the 2nd quarter and you already said that you expect flat prices in the Meat segment for the year. But can you provide the guide of what you see so far in the 2nd quarter in terms of the agricultural prices and Oil and Fat segment prices? Thank you.

Maxim Basov: OK, let me start with the grain, with the Agricultural segment. In agriculture we see decline in grain prices. That decline in prices is not very big and is mostly affected by decline of the global prices. Here the main reason is the African swine flu disease in China. So, at the moment we do not have much grain for sale, we have from 30 to 50 thousand tonnes, and so this grain will be sold relatively soon. We believe that the new season will start with the prices 20% less than last year, which is a good level. Thus, the prices are also going down, we still have around 70 thousand tonnes of soya to be sold, and the soya prices are going down because also of African flu disease in China. And here we'll have probably at least two year pressure. The prices of soya also are lower than the prices last year by 20%, I would say. This is still a level that allows agricultural business to make money.

Sugar prices are going down. There are two reasons for this. One reason is that internationally the sugar prices are going down. There is no clear view, why this is happening, because it is expected that for the coming 2 years international sugar market will be in deficit. However, the prices are now falling and this is probably due to the existing quite high inventories, which pressures the price. In Russia, Russian State Reserves sold several hundred thousand tonnes of sugar to the market, and this is not

expected generally by the industry. As a result, this also is pressuring the prices to go down. Now, the situation with the weather in Central Russia is beneficial for the harvest, which also means that harvest of grain and sugar should be good, and as a result the prices, for this reason as well, are under pressure and continue to go down. In Oil and Fat globally the prices for vegetable oils and meal are also under pressure now, but in Russian export market the prices are quite stable. For some meal the prices are falling, and for vegetable oil the prices are quite high, partly because there is a big demand for Russian vegetable oil from Caspian area. In Meat, at the moment, the prices are similar to the price level of last year, and there is a big uncertainty over the direction of the prices. On one hand Russia continues to increase production of pork, in fact in the 1st quarter, if we look at the statistics we'll see that actually chicken production was declining, but pork production was increasing. So, on one hand the increased supply of pork should decrease the prices, on the other hand the expected increase in price globally, as a result of loss of pigs in China, may push the prices significantly up. Russia is open now for Hong Kong, and from Hong Kong with certain costs it is possible to reach continental part of China. Thus, there is a big uncertainty now on the pork prices. The prices may go either way, but there is a big upside opportunity, I would say, and there is very limited downside opportunity. That's in short.

Sergey Beiden: OK. Thank you.

Operator: Please press '01', if you wish to ask a question. We have no other question at this moment. Dear speaker, back to you for the conclusion.

Maxim Basov: Thank you for your participation and questions. Goodbye.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participating. You may now disconnect.

Disclaimer: This transcript is prepared in accordance with the audio record of the conference call on Financial Results of 1Q 2019 held on 20 May, 2019 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 presentation. In case of discrepancy, the transcript should prevail. In question of doubt or if you need clarifications please contact Svetlana Kuznetsova (ir@rusagrogroupp.ru) for further inquiries.