

**Company:** ROS AGRO PLC  
**Conference Title:** ROS AGRO, 2Q and 6M 2020 Financial Results  
**Speaker:** Maxim Basov, CEO  
**Date:** Friday, 14 August 2020  
**Conference Time:** 16:00 Moscow time

**Operator:** Dear ladies and gentlemen! Welcome to the conference call of ROS AGRO PLC regarding the presentation of the financial results of the second quarter of 2020. At our customers' request, this conference will be recorded. As a reminder, all participants will be in a listen only mode. After the presentation, there will be opportunity to ask questions.

If any participant has difficulty hearing the conference, please press the “\*” key followed by “0” on your telephone for operator assistance. May I now hand you over to Maxim Basov, CEO of ROS AGRO, who will lead you through this conference. Please, go ahead.

**Maxim Basov:** Thank you very much. Good day, ladies and gentlemen! Today we released the press release on ROS AGRO financial results for the second quarter and the first half of 2020, investors presentation and also issued a recommendation by the Board of Directors to pay dividends at the same amount (in dollars) as we did for the first half of last year, which is 19 cents per one GDR.

We are pleased with our financial results, as Company's revenue, EBITDA and net profit both for the second quarter and for the first half of the year exceeded last year results. For the second quarter sales exceeded 38 billion roubles, adjusted EBITDA exceeded 6.9 billion roubles, and net income exceeded RUB 4.8 billion roubles.

Now let's refer to the presentation. You can see on the page 4 that there are two businesses – Oil & Fat and Meat – which did better in terms of revenue, and three businesses – Oil & Fat, Sugar and Meat – which did better in terms of EBITDA. The only business that showed smaller EBITDA was Agricultural business, but there was no production in the second quarter of both years, and this is just a reflection of business's commercial decisions in agricultural segment.

Company's net debt fell down to RUB 52 billion roubles. At the current moment, it is even lower, so the Company is having very good liquid position and we are on the way to further decrease our net debt to below 50 billion roubles. However, this is of course seasonal and now it is the time of the year when Company has the smallest net debt. The net debt will organically grow closer to the end of the year as we are building up an inventory of grain, of sunflower seeds, soya and sugar. But no doubt our financial position is improving and our cash flow is very strong.

Now I would like to give some comments on the performance of the business units.

I will start with a description of the situation in the **Meat Division** of the Company. In our presentation this part starts on the page 11. In Meat Segment we, similar to the first quarter, have a declining price in the second quarter this year compared to the second quarter last year, and we have increase in production based on the improvement on our productivity numbers. EBITDA in the Meat Division in the second quarter of this year reached 1.5 billion roubles. What was happening generally in our Meat Segment in the second and first quarter: we experienced a continuation in improvement of our production numbers; we are seeing an increase in cost starting August because of the increase in the prices of grain; we see an increase in the sales of our consumer products. Sales of consumer products reached record and we are very steadily improving our position on the market. The pork price in the first quarter, especially starting in June month, is good.

At the moment, the pork price is higher than we anticipated at the beginning of the year. An increase in price, which is coupled with an increase in sales generally, and you probably know increase in production of pork in Russia in the first half was around 10%, so increase in price coupled with the increase in sales is attributable to a very good demand for the pork products in all the channels. We experience a very big increase in demand for pork, more than grain, we see this in the traditional retail. There are several reasons for this. One reason is that pork meat is getting a competitive position against beef and chicken for the price reason. The second effect is that the producers of pork are investing in improvement of the product quality and communication. The third reason is that pork price fell more than the beef price and chicken, so that said consumers are choosing pork and pork is gaining market share against chicken and against beef.

Export sales of the Company in pork are also increasing. We export products to Hong Kong, Vietnam, Ukraine, and Belorussia, but the domestic market, of course, continues to be very important.

Sugar Industry also gave us a very good financial result. In the second quarter of the year our **Sugar Division** had RUB 2.5 billion roubles of EBITDA. As you can see, we produced more sugar in the second quarter because we are now operating two desugarisation facilities. These facilities are operating at full capacity. We sold less sugar than last year. We had lower price than last year, but we managed to have a better EBITDA as a result of lower cost of our sugar this year compared to previous year, because we bought sugar beet at very low price last autumn because of very low sugar price.

Sugar price in the Russian market started to grow, especially in July. We'll see it in the third quarter, which we also expect to be quite good. The price of sugar started to go up in anticipation of lower harvest of sugar beet in Russia. We know that Russian farmers have planted less sugar beet then last year by approximately 18%. In addition to this, the weather conditions for the sugar beet are less beneficial this year compared to last year. In addition to the decrease in the area planted with sugar beet, we anticipate the smaller sugar content than last year. This means that Russia will produce less sugar this year than last year. We expect that production of sugar this year will be from 5.5 million tonnes to 6 million tonnes. This is below consumption in

Russia. We do not expect a very high sugar price because there are still large inventories of sugar which Russian industry built up in the past three years, even despite record export numbers. We have a record inventory of sugar at the beginning of the season, which is the 1st of August. However, because of decrease in production I think the market will be balanced. Some sugar will continue to go to export and the sugar price should not go to a very low level. Additional support for the sugar prices comes from an increase in international sugar price as a result of increase in the oil price and also problems at some sugar producing countries. In general, we expect a reasonably good profitability for our sugar division. This will not be as good as we had three or four years ago when Russia was a big importer of sugar, but this should be better than we experienced in the past two years.

In **Agriculture Division** we expect a good season. This season may become the best from a financial point of view in rouble terms in Company's history. We are now finishing harvesting the grain crops and we expect the yields to be good. As soon as we finish the harvesting campaign, we'll issue a press release. The prices for Russian grain now are at a comfortable level and the profitability of grain business is high. We also expect a good profitability for soybeans and sunflower seeds. Sugar beet will have less yield per hectare than in the year before as I explained before, but because sugar prices are higher than last season, we expect sugar beet also to be profitable crop, though not as profitable as other crops. So we expect good harvest for all crops except for sugar beet and good profitability of agricultural division.

**Oil and Fats Division** performed also well in the second quarter. Our EBITDA was RUB 2.3 billion roubles. This is a complex business which consists of several units. Extraction business showed very good performance. Industrial fats business continued to work either at zero or negative margin as a result of the demand shock during coronavirus as well as big volatility with exchange rates and prices of palm oil. Meanwhile, we have a good financial performance in our B2C division, though not as good as we wanted to see it given the current circumstances. In total, the financial performance of this business unit was good.

As you can see, we have a good performance in all our business lines. The performance of our business units in the second quarter makes us believe in a good performance of these business units in the third quarter as well.

Company's financial position is strong. The Board was pleased by the financial performance of the Company. However, given the uncertainty which is now prevailing in Russian and global markets, the Board decided to pay the same amount of dividends for the first half understanding that if our financial performance for the whole year is as good as it was in the first half, the dividends will be higher than in the previous year.

This finishes my presentation and opens up the floor for the questions. Please go ahead.

Operator: Ladies and gentlemen, we will now begin our question and answer session. If you have a question for our speakers, 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 questions answered before it is your turn to speak, you can dial "02" to

cancel your question. If you're using speaker equipment today, please lift the handset before making your selection. One moment please for the first question.

The first question received is from Sergey Bayden of Renaissance Capital. Your line is now open, sir. Please go ahead.

Sergey Bayden: Good afternoon. Thank you very much for the presentation and opportunity to ask a question. I have actually two. The first one relates to the performance of the sugar business in third quarter. You mentioned that we do see some recovery in sugar prices, but due to expected low harvest of the sugar beet, we also could expect growth, and you also mentioned that, in sugar beet price. So do you expect that profitability margin in your sugar business remains basically the same or it worsens, given that the price for sugar beet could rise higher than the price for sugar due to the demand restriction in the end consumer for sugar.

The second one relates to your oil and fat business. In the second quarter, I think the exports of the sunflower seeds were kind of restricted and that resulted in very profitable, very high margins for bottled oil and bulk oil production, because the prices on the domestic market were suppressed by that restriction. I think that restriction carries until August, and then possibly it could be relaxed. Do you expect, from your point of view, because you have both agricultural and production facility, what do you expect the restriction is relaxed, how it will influence your profitability in both oil and fat and agro segments? Thank you.

Maxim Basov: Thank you for your questions. There is a changing balance on the sugar market in Russia, as I mentioned, which means that Russian market is moving away from the surplus to the balanced market. It will, of course, mean higher sugar price and higher prices for the sugar beet. For sure, the business unit that will gain from the situation is the agricultural business unit. For the past couple years, our production of sugar beet, in fact, was a loss making at least for some areas, while in total, we are making money vertically (sugar + sugar beet).

This year this will not happen. We expect that the sugar beet price will be good enough to have the profit, so agricultural business for sure will gain. With the sugar business, it's a little bit more tricky because there is uncertainty in predicting the situation for the balanced market. Because when there is a situation with the surplus, the prices will be depressed, when situation is with the deficit, the prices will be elevated. But in the situation with the balanced market a lot will depend upon the interaction of players and demand, which is influenced by consumers psychology. If consumers in Autumn will have some problems with COVID and consumers will run to the shops to buy more sugar, then we have one situation. In my view, given that all the players on the market will be working rationally, the price on the market will have a normal medium effect. Then profitability of the sugar division will be similar to the profitability of the sugar division last year.

Yes, we will gain because of prior sugar price, but we will probably lose because there will be less sugar beet because of smaller harvest. I would say probably the profitability of the sugar division will be the same, but profitability of agriculture division in the sugar beet segment will be higher. In general, our company will gain but you will not see it as much in sugar division. In general there will be profits, there will be

billions of rubles of EBITDA, but I wouldn't expect that something will happen. Of course there might be surprises. There might be shock in the global market, knowing that yesterday the international sugar price went up. It exceeded 12 cents. It's coming even, I think, to 13 cents. There might be a spike in oil. We also know yesterday the sugar price on the domestic market started to go up, which I think never happened before, because this year at the beginning of season normally the price only can go down because of anticipation of high sugar supply. But again, I said, in a normal situation and the most probable scenario we expect that the sugar profitability will be similar to what we have in the second quarter and agricultural business we'll be gaining.

Talking about oil and fats, oil and fat together with agriculture today probably are the most successful Russian subsegments of food in agricultural industry because these businesses are much less restricted for export. The big win is, of course, in oil and fat business because for the extracting oil and in general oil and fat there are no restrictions, and there is a huge demand for sunflower oil on the international market. The three biggest producers are Ukraine, Russia, and Argentina. We can sell as much as we can produce. So in no way we are restricted by the Russian government or by the international demand. The harvest of sunflower oil last season was the largest in the history, and the capacity utilization of oil extraction plants was the highest also in the history of Russia. This season, the harvest of sunflower seeds will be lower compared to last year, but this will be still quite big. We expect that compared to the season, which was very successful season, we managed to operate 100% capacity at very good margin. We, at the moment, are going to work at similar capacity. The biggest uncertainty as you correctly said, is the price of sunflower, which is influenced by the government restriction on the sunflower.

At the moment, we understand that there will be an export duty on sunflower, starting from the 1st of February. The Russian government announced this and probably this will happen, and if this happens, of course, our Company, generally, will gain, because we buy much more sunflower than we produce. Our extraction plants are located in Volga region and most of our agricultural land is located in central Russia. In Volga region, sunflower is the best performing crop and there is a huge supply. In central Russia, sunflower is also a good performing crop but not so obviously better, not so competitive. We produce much less sunflower seeds than we consume. Therefore, if the current decision by the government to have an export duty on sunflower seeds of 20% holds, then we as a company will gain and will have another good season in extracting oil from sunflower.

Sergey Bayden: Okay. Thank you.

Operator: Ladies and gentlemen, as a reminder, if you would like to ask a question, please press zero one on your telephone keypad. The next question received is from Marat Ibragimov of Gazprombank. Please, go ahead.

Marat Ibragimov: Thank you very much. The question is very short, on the industrial fat production. You said that the financial performance is not very good, but the prices of industrial fat has grown by 10% year over year in the first half. How could that be? Can you, please, comment on industrial fat business? Thank you.

Maxim Basov: The result of the industrial fat segment, and we are the second largest producer in the country, depends upon the margin between the price of the product, which we sell, and the price of palm oil, and the capacity utilization, which depends upon the demand for the product. We had a very good first quarter in industrial fats, but we had a bad second quarter for these two reasons: first of all, the prices of palm oil in rubles increased very quickly, first, because of the devaluation of ruble and second, because of big increase in palm oil on international market. The domestic prices in the second quarter were not increased at the speed of an increase of prices of palm on the national market. That is reason number one. Reason number two is the volumes. In industrial fats, we are the company number two in Russia. We are number two in solid fats after Efko and number two in liquids after Cargill. In the second quarter, we experienced a big decrease in demand from medium sized and smaller producers and also from HoReCa. Most of our liquid industrial fats are going to the HoReCa: McDonald's, KFC and so on. In the second quarter, our margin was very low because of an increased price of palm oil in roubles and our capacity utilization, which is hundred percent most of the time, went down to 65%. This situation, of course, is already improved and in the third and fourth quarter, our results will be better. Thank you.

Marat Ibragimov: Thank you. Another question on oil & fats business. There was a report in the media that other creditors claim for SolPro assets. Can you, please, provide comment? Can you be sure that you will be able to receive assets you wanted? Thank you.

Maxim Basov: In the current world, you never can be sure in anything, but at the moment the situation is good. We are working on these facilities; we see no scenario, in which we will not be able to operate these assets. The argument between different creditors, which includes our Company, is how to distribute proceeds, which this old legal entities get from sale of these assets. It is always a debate, but at the moment we won all the courts, we have all the court decisions that would allow us to proceed as we think is right according to the Russian law. I do not see a risk for the performance of Rusagro on these assets.

Marat Ibragimov: Okay, thank you. My final question is on the Far East project. A few days ago, there was a press release that you started supply of sow to this facility. Can you please comment on that? When shall we expect the first products sales from the Far East?

Maxim Basov: All our pig farms, except for one, will be finished by the end of this year. In fact, all of them are almost finished already, except for one that will be finished next year. Our feed mill will be working this autumn; our slaughterhouse is in the process of being constructed and will start operating next year. We started bringing the pigs to the farms. All the pig farms will be populated, except for one, by the end of the year and the next year, after the slaughterhouse starts to operate, we will see our product on the shelves on the Far East market.

Marat Ibragimov: Thank you very much.

Operator: Ladies and gentlemen, again, as a reminder, if would like to ask a question, please press zero one on your telephone keypad. Please, go ahead, Sir.

Participant: Good afternoon. Thank you so much and congratulations for the strong quarter. First of all, a clarification question with regards to your selling prices for wheat. I'm looking at market prices, they showed pretty solid growth year on year, whereas your selling prices are actually going down. Why is that?

Maxim Basov: I am absolutely sure that our prices fully reflect the market prices. The prices that you saw were the prices for the second quarter. Our prices for the second quarter, I am sure, absolutely market. At the moment the prices are different and you did not see them because we did not report the third quarter. At the moment, the prices for wheat are quite good. If you will clarify, which report and which price do you mean, maybe I can give you a better comment.

Participant: Okay. I am looking at monthly prices provided by IKAR, which could be slightly different prices, but overall, I would guess that the dynamics should be similar regardless of the grade.

Maxim Basov: First of all, there are different regions. The prices for grain in the regions, which are closer to the ports, like Krasnodar and Rostov, are higher, because they are higher by the logistics to the ports. In general, all the grain is sold through the auction. We are probably the largest producer of grain in Russia and the current prices are very good. In fact, we are not going to sell a lot of grain quickly. We believe that the prices of grain will go in rubles further on, given, of course, the current exchange rates.

Participant: Okay. Thank you very much. I guess that is the reason why we should expect production costs for pork to grow.

Maxim Basov: That's right.

Participant: It has not yet been reflected in your pork margins for the second quarter, for Q3 we will probably see lower margins as high prices.

Maxim Basov: In my view, I think that the margins in pork business should go down and the margins in agricultural business should go up. The margins in pork business generally should go down, because of higher grain prices and lower pork prices. However, at the moment, pork prices also remain to be good, quite high, better than we thought. Also we continue to expand our more profitable consumer business. In general, our margins in agriculture should go up and the margins in pork business should go down, but as a management, we are trying to make sure that agricultural margins go up and the pork margins will not go down significantly.

Participant: Right, thank you. The final one from my side is about dividends. Pretty strong financial performance status on the second quarter, seems to be carrying over into Q3, which all in all creates an upside for the second half of the year. That being said, your interim dividends for the first half of the year were pretty much in line with the year ago level,

as you mentioned. Speaking of the upside for dividends for the second half of the year or final dividends for the year, what sort of upside do you think is possible for the shareholders, in terms of the final aggregate dividends for 2020? What sort of payout you could be targeting, taking into consideration your CAPEX program for this year and for 2021 as well? Maybe some other considerations, too.

Maxim Basov: I will not give you the number, of course, first of all, because it is not me who decides this, it is the Board. But, as you correctly said, the financial performance is good. The third quarter at least should be also very good, so probably we will have a very good cash flow. The investment projects that we are doing are going more or less in line and we do not have many huge new investment projects, with exception of oil extraction. We plan to increase our oil extraction plants, but the size of CAPEX there is not very large. We are waiting to acquire the assets through this bankruptcy procedure, and after we do it, we plan to expand both of our extraction plants. Given that we have reached the maximum CAPEX in our history and we will have a very strong free cash flow going forward, of course, the Company Management is ready at the request of the shareholders to pay as much dividends as required. The current dividend policy of the company is to pay at least 25%. If you looked at our several past years, you saw that we paid more than 50 %. If we do not see an imminent opportunity to make a big acquisition in a way that creates value for the current shareholders, the dividend payout ratio for the whole year, in my view, should be similar to the dividend payout ratios for the past couple of years, which if I'm not mistaken is around 50%.

Participant: Thank you so much.

Operator: Ladies and gentlemen, again, as a reminder, if you would like to ask a question, please press zero one on the telephone keypad. We received a further question from Anna Kurbatova from Alfa Bank. Your line is now open, madam, please go ahead.

Anna Kurbatova: Thank you very much for taking my question. Could you update us on your strategy in the milk segment long-term? Because you explained that 2020 is busy with developing products and improving profitability and improving distribution channels. My question is, from the long-term perspective, when you launched the milk operations, you had announced quite ambitious targets of entering top three Russian producers of cheese. What is your view on this business and your market opportunities now? Whether you may reconsider your strategy? And if you reconsider, when will you take these decisions? Do you have any update on the strategy in the segment? Thank you.

Maxim Basov: Our initial hypothesis on the segment is no longer valid for two reasons. First of all, the cheese market, as we see it in Russia, is not going to grow significantly and the profitability of the segment will not be high enough to justify the size of the opportunity. It means that even if we become the third company in the segment, then it will still be business much smaller than today our portfolio strategy requires. For the management of the Company, it would make much more sense to continue to expand in the four business lines, in which we are successful.

The second reason why our initial hypothesis does not hold is that there is overinvestment in many sectors of our industry. Many companies investing huge amount of money given low government sponsor debt to build capacities in this segment. In my view, they already destroyed the value in this segment. Now we have a little bit different strategy. This strategy is based on the plant fat and plant protein products. We will wait for 12 to 18 months to prove our hypothesis or not. If this hypothesis will not be proved then of course, there are several options what the management will do with this business units. We can notch this business unit with another one, we can acquire a bigger company in the new segment which we like and there will be merger, or there will be the sale of this asset. We have a new hypothesis, and the new management of this business unit is trying to prove it.

At the moment, the performance of this business is not material for the Group. The EBITDA of this business is less than 200 million, so it's from 0 to 200 million, and at the moment it's one experiment for us and hypothesis that something creates a real significant opportunity and profit for our shareholders.

Anna Kurbatova: Thank you very much for your comment. It is a very good one. Thank you.

Operator: We received a follow-up question of Marat Ibragimov of Gazprombank. Your line is now open, please go ahead.

Marat Ibragimov: Can you please update us on your total CAPEX for the Group for this year and probably, if you have it, for the next year.

Maxim Basov: In the second quarter of the year, when we saw a lot of uncertainty and a lot of risks to our business, we decided to decrease the CAPEX this year to 15 billion, to take it from 20 to 15, and bring the 5 billion to the new year. At the moment, given the fact that we are in a very good liquidity position, we have RUB 10 billion on our accounts now, so we are now relaxing a little bit our investment pressure on the management. We believe probably given that, the CAPEX this year will be from 15 to 20 billion. In sugar division, the only important CAPEX is the final payments for the already working desugarization plant. This is around RUB 1 billion if I am not mistaking. So that is not important there.

In oil and fats division, there is not much CAPEX. The only CAPEX is bringing the production of mayonnaise from Moscow to the Volga region, but this is also not a very significant amount.

The big CAPEX is in meat. In meat, the amount to be invested probably will be around 10 billion this year.

Then agriculture, the amount is also very small, I think from 1 to 2 billion, because we see an improvement in our operations as a result of digitalization.

In general, answering your question is 15 to 20 billion, of which 10 billion will be for the meat division.

Marat Ibragimov: Thank you very much.

Operator: As a reminder, if you would like to ask a question, please press “01”. As we received no further questions, I hand back for closing remarks.

Maxim Basov: Ladies and gentlemen, thank you for your time. We are excited about the opportunities. We are seeing a good opportunity to continue improve our cash flow, and we will be happy to meet you again in three months. Bye.

Operator: Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.

**Disclaimer:** This transcript is prepared in accordance with the audio record of the conference call on Financial Results of 2Q and 6M 2020 held on 14 August, 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](mailto:ir@rusagrogroup.ru)) for further inquiries.