

Company: ROS AGRO PLC
Conference Title: ROS AGRO, 3Q and 9M 2020 Financial Results
Speaker: Maxim Basov, CEO
Date: Monday, 16 November 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 third quarter of 2020. 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 any difficulties hearing the conference, please press the star key followed by zero on your telephone for operator assistance. I'll now hand you over to Maxim Basov, CEO of Rusagro Group, who will lead you through this conference. Please go ahead.

Maxim Basov: Good day, ladies and gentlemen! Today we reported our financial results for the third quarter. We had good financial results. Adjusted EBITDA for the third quarter reached RUB 8.6 billion, and net profit – RUB 11 billion. Adjusted EBITDA for nine months reached almost 21 billion, and net income – RUB 19 billion. These results are better than the results for the last year.

Now, I will quickly go through the presentation which is on our website and I hope that you have it in front of you. All our businesses increased EBITDA in the third quarter compared to last year. The largest increase was recorded in Oil & Fat – almost RUB 2 billion. Other three large business units also improved EBITDA – from RUB 1.2 to 1.5 billion each. All key four business divisions of Rusagro increased the revenue except for the Sugar. As a result, our operational cash flow was very strong. And our net debt went down to the level of RUB 53 billion, which is 8 billion smaller than at the end of last year. Our Net debt/EBITDA went down below 2, which is a very good and comfortable zone as the Board sees it.

Now let me go through quickly the situation on each of the business lines. The **Meat segment** had EBITDA of RUB 2.8 billion in third quarter. This is good improvement compared to the previous quarter. EBITDA margin reached 32%, which is a high number. There are two main reasons for this. One reason is that we continue to increase our production on the Tambov and Belgorod facilities, as a result of improving yields and technological improvements at our herd. The second reason was the increase in production and sales of our industrial cuts and B2C products coupled with the improvement in pricing, as the price in the third quarter in the Russian market was better in roubles than in the third quarter of the last year. This is a change from the first half-year results where we were talking about lower meat price in Russia compared to last year. In the third quarter of this year, the price was stronger as a result of strong demand from Russian consumers, good demand from export destinations, and of course lower RUB. The cost of production of pork in Russia is increasing because of increase in grain, oil and meal prices. But in the third quarter we were partially operating on the previous season crop and partially we were operating already on the crop from the season which had higher cost. The general management of this business was quite good and we managed to earn good money. We are now in the process of populating three farms in the Far East. We are now populating the genetic farm and two commercial farms. In the fourth quarter, we plan to populate two more farms and start the production of feed at our Far East facility.

The Sugar segment, it is page 12, also had a good result. And here we also had good price moment in the third quarter. You can see on page 12 that price on the sugar in Russia started to increase from June. In July, August, September, the price on the Russian market was better than last year. And the difference is increasing. The price continued to go up on the Russian market this year. Last year the price went down. And this is the function of the balance of the market. Last year if you remember we had the record harvest. As a result, a huge stock of sugar pressured the prices to the level of being the lowest price internationally. The situation is changing this year. At the moment the price net of VAT in Russia is RUB 39, which is higher than in the first quarter. Our production and sales number were smaller. We started operation of our plans later than last year and as a result of lower inventory of sugar we had less sugar to sell to the market. In terms of volume, we sold and produced less but higher price returned profitability to the sugar division. And our profitability went up from 2% in the third quarter last year to 21% in the third quarter this year.

Agricultural division also did well. We returned to very high profitability, the profit margin was 41%. In the third quarter the agricultural division had the highest EBITDA margin among all our divisions. In fact, this was anticipated; we discussed it within the last call. The main reason for this: higher prices, as the prices for the crops now are very good internationally. And also the prices on the Russian market are also very good. We have the highest in history prices for sunflower. We have good prices, the highest in the past several years, for soya and grain. Of course, we have a rebound on the sugar beet price as a function of the sugar price.

In **Oil&Fats** we had a margin of 17%. The Oil&Fat business gave us the highest EBITDA, slightly by around 100 million. Oil&Fat continued to be like in the first half of the year, the largest contributor to the Ros Agro's EBITDA while Agriculture is the second. We had a very good performance in extraction facility. The consumer business gave us as higher EBITDA as we anticipated and it is the highest EBITDA, I think, in our history for the third quarter. However, price growth in retail chains was slower than price increase of the vegetable oil in the world. Still we had very good results. And also our industrial fats division contributed to the profit. But the third quarter was not as large as the previous quarters. But overall the business performed very well. And we continue to expect good performance from the Oil&Fats division in the fourth quarter as well.

As I said, we had a very good quarter. I think we had record results in our history in RUB for nine months. And we are looking forward also to a good fourth quarter and very good financial results for this year. This is what I wanted to say on our presentation. And now I'm opening the floor to the questions. Please.

- Operator: Thank you. Now we'll begin our Q&A session. If you have a question for the speaker, please press 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 has been answered before it's your turn to speak you can dial 02 to cancel it. If you're using speaker equipment today, please lift the handset before making your selection. Our first question comes from the line of Alexey Krivoschapko from Prosperity. Please go ahead
- A. Krivoschapko: Maxim, good day! I have a question regarding your CAPEX plans for the next year and investment targets, what are they?
- Maxim Basov: Thank you, Alexey. This year, in the first half of the year, we decreased our CAPEX because we had the large uncertainty. But given the current situation several months ago, we decided to unfreeze some of the good investments. But altogether, we expect that this year, our CAPEX expenditure will be from RUB 18 to 19 billion. In fact, this is the first year in the past six years when the company has a positive free cash flow. Now we're working on the budget, we expect to have another good year, also quite a good year next year. And

the CAPEX for the next year, we expect at a level closer to RUB 15 billion. In fact, given the current situation, the only large investments we have remaining for which we have already started several years ago is the Far East, so we plan to complete our Far East project. As I mentioned earlier we plan more or less to finish four farms, one genetic farm and the feed plant. The only thing we have left is the slaughterhouse and two farms. Then we will have some CAPEX for the agriculture to improve and to change our equipment. I would say that no more than RUB 4 billion. The only new big CAPEX projects that we have relatively large are the expansion of Oil&Fat facilities. We plan to expand the facility in Atkarsk, and we plan to expand the facility in Balakovo, or maybe only one in Balakovo. In fact, as I said, probably, CAPEX will be around 15 billion. Now, definitely, we will have a strong cash flow and we had the Board of Directors last week, we discussed this issue and we decided to postpone all the major decisions in terms of dividends until the discussion of the year end. In April, we will have the Board of Directors to discuss our CAPEX plan for next year, the possible M&A deals and our results. If, as I see it, I don't think that there will be major acquisitions in the coming three to six months. And I expect that there will be a strong cash flow. I think that the company at this time as a manager will be suggesting to the Board to increase the dividends. But again, this will depend upon the outlook for our operational performance, the possibility for acquisition deals. And that is also for this year.

A. Krivoshapko: I see. Can you remind us this year 2020, this kind of 18 to 19 billion, which I guess will be spent this year? I mean, will it be possible to break it down by segment? How much is going into there?

Maxim Basov: If you look on page 8 of our presentation, you see the division among the segments for nine months. You see that 6 billion was invested in Meat, 2 billion was invested in Agriculture, 1.42 to Sugar, and 1.2 to Oil&Fat. And these are the factual results. If you look at the next year, I would say that again the Meat division will account probably for around 40% of the remaining CAPEX, because we have to finish the Far East project. And then probably the second largest will be Agriculture, and then will be Oil&Fat. Since we have already finished our major investment project in Sugar, I don't expect any large CAPEX in Sugar at all. Probably, this should be Meat, maybe even 50% of CAPEX. And then I would say Agriculture, probably around 30–35% of CAPEX and the remaining is Oil&Fat. Those are rough figures.

A. Krivoshapko: I see. And that capacity expansion in Oil&Fats which you plan to carry on, what kind of capacity increases are you targeting and what kind of payback levels are you looking to get?

Maxim Basov: In terms of payback period, we do not consider any projects, even strategic ones, that give us a discounted payback given the 15% equity financing, more than 10 years. At the moment, we are considering the project mostly less than seven. For Balakovo, which is very close to engineering study, we expect the payback around seven years. The increasing capacity in Balakovo, I would roughly say, would be probably around 30% increase in capacity. And Atkarsk is around 15% capacity.

A. Krivoshapko: Okay, thank you. That's clear.

Operator: And the next question comes from the line of Marat Ibragimov from Gazprombank. Please go ahead.

Marat Ibragimov: Yes, thank you very much. Could you please update us on the situation with the sugar beet harvest and in general on the situation at the sugar market, and also what we should expect in your Sugar segment? Thank you.

Maxim Basov: Harvesting of sugar beet is not over yet. We plan to finish harvesting of sugar beet in the coming week or two. And I understand that Russia will also finish, even the eastern regions will finish harvesting by the end of the year. It's difficult to say what the exact production of beet sugar is. At the moment, the union of sugar companies expects that the production of beet sugar should be around 5.1. As for the consumption of sugar in Russia, it is normally

estimated at the level of 5.8–6.0 million tonnes. In general, the production of beet sugar in Russia together with the inventory of sugar from last season should be sufficient for the industry not to import sugarcane. The sugar price internationally increased to the level of almost 15 cents per pound, which is a large increase in the past three months. The current Russian price is at the level of export parity price to Central Asia. The import parity price is higher by around RUB 10 higher. The sugar price level will depend upon the information that we will receive in the coming 30 days from the regions in terms of sugar production. We have enough sugar in the country to live without the import, cane sugar. And then the big question would be already not this season but next season. The big question will be how much sugar farmers will plant and how and what will be the harvest given the climactic situation. Everybody is making their own decision. As Ros Agro, at the moment we plan to increase the area under sugar beet. But the final decision will be made in spring given all these circumstances around us like the international sugar price, the expected price of soya, wheat, corn, sunflower and sugar beet.

Marat Ibragimov: Okay. From what you're saying that at least in the first half of the year, the prices should not go up or down significantly unless RUB strengthens or international prices go down. Am I right?

Maxim Basov: We have no certainty. And I have already received the other day the recommendation from the Federal Antimonopoly Committee not to make predictions. .

Marat Ibragimov: Then the question: in the stable conditions the prices will not go down or up significantly. What's your normal EBITDA margin in this segment? I guess it should be around 20–25%. Am I right?

Maxim Basov: That's right.

Marat Ibragimov: Okay, thank you. That's it from my side.

Operator: Just as a reminder, if you do wish to ask a question, please press 01 on your telephone keypad now. The next question comes from the line of Nikolay Kovalev from VTB Capital. Please go ahead.

Nikolay Kovalev: Yes, hello to everybody. Congratulations for such results and the start of the new farming year. I also wanted to clarify some points on the sugar market. You have given a lot of details already, but can you tell us what the current price for you to acquire beet is. As a result, what kind of cash costs for the new season you see in sugar at the moment? And my second question is on the farming division, what will be your strategy with respect to inventories by the end of the year and how aggressively are you playing to distribute sales from this farming division in this quarter versus the first quarter of 2020?

Maxim Basov: Okay, well, I would say that the price on sugar beet depends upon the normalised price of sugar beet which is the function of the sugar price and also the content of sugar in sugar beet. If the content of sugar in sugar beet is higher, then the price of sugar beet is higher. At the moment we have quite low sugar beet yield in Russia, but we have very high sugar content in sugar beet. The main question, of course, is not what is our price of sugar beet, but the main question: what should be the cash cost of sugar, which I've mentioned earlier. Now let me go to the second question. We have already sold all our corn. As for other crops, we are making trading decision every day and it is impossible to be sure, but my current expectations are that we may sell all our sunflower and c. 300,000 tonnes of grain left for next year. This season much of our grain actually goes to our own pork production because the farmers are not very active in selling the products because they earned a lot of money. As for soybeans, I expect that we will probably have around c. 100,000 tonnes of soya for leftover for the next year. The rest of the harvest will be sold this year.

Nikolay Kovalev: Very clear. If you can give data on cash costs for sugar, it will also be helpful.

Maxim Basov: The cash cost of sugar given that we will produce less amount of sugar and we'll have all of the same fixed costs would be close to RUB 30 or a bit less.

Operator: And we have one more question from the line of Sergey Beiden from Renaissance Capital. Please go ahead.

Sergey Beiden: Good afternoon. Thank you very much for the presentation. I have three questions. I'll try to be brief. The first one is on sugar segment. You mentioned that management took a decision to reduce sales in 3Q 2020, do you expect to sell the sugar mostly in the fourth quarter or would you like to wait till the first quarter of next year? The second question is about your inventory. If you basically sell off your inventory in terms of grain, does it mean that potentially we would not see a very strong contribution to net profit from revaluation of the agricultural produce in the fourth quarter? And the third question is that if I remember correctly, you mentioned that when your net debt to EBITDA goes below two, which we already have Company could consider the increase of dividends. So the question is: are you talking about the change in dividend policy? Or you're just talking about the absolute value of the dividends for this particular year and later? Thank you.

Maxim Basov: Okay, let me start with the sugar sales. This year, we will have low production of sugar as a result of decreasing yield of sugar in the fields, and also because some farms abandoned sugar after bad economics of sugar in the past few years. We will produce a smaller amount of sugar. As a result, we will not have the question which we had in the past three years — what to do with extra sugar, which doesn't fit in our storages. Given that we have less sugar than we had in the past several years and given that we have a very strong position in sales of b2c sugar and sales quality sugar to Russian industrial factories, we will just have enough sugar to sell very steadily the same amount each month until August. Thus, we will too have inventory, which should be equal to eight months of our sales.

Now, the second question. The answer is very clear. We have to operate in accordance with IFRS standard, which says that if we have the harvest, we have to report it below the EBITDA line. It means that we had all the harvest harvested in the third quarter except for sugar beet, except for Far East and except for a small quantity in Tombov Area. What we reported is the devaluation of all our harvest for mostly for grain and for soya, and we will still report some of our harvest in re-evaluation which will be harvested in the fourth quarter. There's very little what we can do and as we report all our harvest in the third and fourth quarter below EBITDA, as the product which is this harvest is the foundation, which is either the crop or sugar or sunflower oil, is sold. Then this net income or the unrealised profit will be transferred to our EBITDA, and you'll see it in each of the quarters which will happen afterwards, in the fourth quarter, in the first quarter, in the second quarter and in the third quarter.

As for the dividends. The Board is very pleased that, in fact, unexpectedly for the Board, our net debt to EBITDA went below two. We should just note though that the end of third quarter is the local minimum, seasonal minimum of our working capital, and seasonal maximum of working capital is normally the fourth quarter. In fact, we expect that at the end of the fourth quarter, net debt to EBITDA will go up. Thus, it will not be as low as now, maybe, in the fourth quarter, but, maybe, it will be similar. As I mentioned during my presentation, we already discussed with the Board the dividends given that we have strong results. However, the majority of the Board decided that it will be too early to pay extraordinary dividend or to change our dividend policy given current uncertainty that we have in the world today. We decided at the moment to stick to our dividend policy which is semi-annual payments of at least 25%. The Board will be deciding on the future dividend policy and on the actual dividends in April, based on the full-year results. As a general director of the company and the members of the board, I already suggested that we pay higher dividends last year, but this will be decided by the Board in due time. There is nothing else I can say. The Board will be making decision in April.

- Sergey Beiden: Okay. Do I understand that correctly, that you're saying about new dividend policy, not just particular dividends for full-year 2020?
- Maxim Basov: No, in fact, in my view, the Board will keep the dividend policy and just pay, maybe, more dividends. On the last Board meeting last week, there was also discussion that maybe given that we already have a positive free cash flow, and we have an anticipation of a positive free cash flow now going on forward, maybe we should increase the dividend payout ratio. But again, the decision has been made. There are some discussions and we'll be discussing it in April.
- Sergey Beiden: Ok. Thank you.
- Operator: Just as a final reminder, if you wish to ask a question, please press 01 on your telephone keypad now. We have one more question from the line of Anna ... 37:54. Please go ahead.
- Sergey Beiden: Thank you very much. Could you please comment on the current news in the press regarding anti-monopoly investigations and possible export limitations on crops.
- Maxim Basov: Yes, there are such discussions all the time, given the current price volatility and uncertainty about the restrictions of export of various crops. For instance, on February 1 Russia plans to increase export duty on sunflower seeds. The reason for this measure is, first of all, the smaller harvest of sunflower seeds. This year, the harvest of sunflower seeds is quite large, but it's still smaller, and, in some areas, significantly smaller than last year. There will be not enough sunflower seeds for all of their capacities of processing. The second reason for this development, I understand, is the decrease of the import duty in Turkey, which created bigger demand and high price for the Russian and Ukrainian sunflower seeds. Decision has been made not only by Russia, but by the representatives of all members of the Customs Union to set this to increase the export duty for the sunflower. Ros Agro is not a large producer of sunflower seeds – we produced this year around 40,000 tonnes only and all of it, in fact, we plan to sell by the end of the year, while processing higher volumes of sunflower seeds. We are watching very carefully on the government decisions, and we are going, of course, to inspect it and to adjust our work in the accordance with the government policy. The current situation in the sunflower seeds market is very new, I would say, because, at the moment, the price for sunflower oil reached the absolute maximum. Today, the price for the sunflower oil is more than USD 1,000. This is a result of two tendencies. One tendency is increase of surplus of sunflower oil to other oils. This is a result of growing popularity of sunflower oil in China, and also decrease in production of sunflower oil in Ukraine and Russia. The second tendency is increase in the price for the palm oil, which is the largest oil traded globally. This is a result of also good demand from China and the problems with production in some of the Asian producing countries because of COVID. Also, we have an increase in production of fat in China, which is driving the price for the meal, soy meal and sunflower meal. Together, this creates a very good upward trend for the sunflower oil and also canola oil and soya oil and soya meal and sunflower meal, which is, of course, very good for the oil and fat processing industry, extremely good for the agricultural industry, and not very good for the meat industry. There is, of course, a lot of lobbying and discussing going on. We are very closely watching and we'll set our policy in order to gain in any situation.
- Sergey Beiden: Thank you very much. Very clear comment. May I ask a follow-up question regarding current situation in prices for sunflower seed Do you consider increasing your own production of sunflower seeds?
- Maxim Basov: We do not plan to increase the production of sunflower seeds. Sunflower seeds, at the moment and the current prices, are the second most profitable crop. However, since sugar crop now is more profitable, and sugar and sunflower don't go well together in the crop rotation, we do not plan to increase the sunflower area. But, first of all, we plan to increase the production of canola, of rape seeds. Second, we plan to produce the high oleic sunflower rather than the normal sunflower. Also, we are now discussing and looking for opportunities to invest in the Volga region for the irrigation agriculture. If we invest, it will

require some land in Volga region, then, probably, we will be working more with soya, but, possibly, also with sunflower.

Operator: And our final question comes from the line of Iryna Tarko from Montpellier. Please go ahead.

Iryna Tarko: Good afternoon. Thanks very much for the call, and congratulations on strong results. I have a couple of questions. Taking into account the grain prices are going up and pork prices seems to go down, at least, they've been going down for the last month. Where do you see prices in the fourth quarter and next year? And how do you see the margins development, again, for the fourth quarter and next year as well? Thank you.

Maxim Basov: Well, Russia continues to increase production of pork. This is partially because of improvement in yields in some of the companies, and partially as a result of new capacity additions. Ros Agro adds capacities only in Far East. In fact, we are finishing our project. But there are some other private Russian companies that continue to invest like Miratorg, and also there is a company in the north of Russia and Velikyoluyki. So, Russia continues to invest and build. This pork finds the market. First of all, some smaller, less efficient companies are leaving the market. But, then, of course, the pork finds the customer, and we have an increased consumption of pork in Russia. Today, Russia has an absolute maximum of consumption of meat in the history, and also the share of pork has been increasing for the second year, as pork is gaining market share mostly from beef, but also started to gain the market share from chicken. Chicken production is not increasing materially, beef production is not increasing materially, pork production is increasing. Also, pork goes to export markets, mostly the biggest increasing market is Vietnam. In fact, Russia plans to export from 200,000 to 300,000 tonnes of pork this year, which is, of course, a much better result than even we expected. Vietnam continues to buy pork. We expect that all pork that will be produced in Russia will find its customer. In my view, in order to do it, the price has to go down. The reason why the price hasn't gone down is because, first of all, chicken is not increasing, maybe, even decreasing in production. There is a strong local demand also because of good weather in Russia in the past several months, warm weather good, for the shashlik season. But, in my view, the price has to go down. The price has to go down, and we all know that the grain prices are high, soya prices are high and vegetables prices decrease the marginality of all meat companies, and pork has to go down. We expect that the price will go down and marginality will go down. What do we do in order to keep the margins? First of all, we continue to work on our yields in live animal. Second, we increase our b2c production and sales. And, of course, we are trying hard to find new markets for extra products and to get better price for our products. All these three management efforts are decreasing the decrease of marginality, but, for next season, we expect that marginality of the meat division will go down.

Iryna Tarko: Alright, thank you. Maxim, is the same scenario for oil and fat segments? Taking into account the cost is going up as well. 17% EBITDA margin in the previous quarter, I think, is not sustainable, no? Is it around 10%, higher or lower?

Maxim Basov: I would say that for the sunflower division also it will face declining margins. However, in oil and fat division, we have a different story where, actually, the price of the product is going up. I would expect the decline in margin. I also would expect the decline in margin in meat will be more visible than the decline in margin in oil and fat.

Iryna Tarko: Thanks very much. And the last question for me. You said that the production in Russia is going up and you're trying to open more export countries. Are there any new developments on China ground?

Maxim Basov: Well, not that I know of. I know there are some discussions about China, but it is difficult because nobody can even go to China. I wouldn't expect that the Chinese market will open soon. The good development there was that in Germany, the African flu was detected. As a result, Germany was a very big supplier to China, and Germany now is prohibited from supplying to China, and European Union is using its very strong influence in order to allow so-called the principle of regionalisation to be respected by China, which would mean that

certain regions of Germany would be able to supply China, even though there is African flu cases in Germany. If this happens, it opens the same principle for Russia, which will be very good for us, which would mean that certain regions of Russia would be open to China. This is only development not in China, per se, but around China. We do not plan that such good thing will happen for our company, but if it happens, this will be a very good surprise for us.

Iryna Tarko: Okay, great. Thanks very much. And good luck for the coming quarter.

Maxim Basov: Thank you.

Operator: As there are no further questions, I'll hand it back to you, Maxim, for closing remarks.

Maxim Basov: Dear ladies and gentlemen, thank you very much. We see that cycle for our crops is quite strong. We came to the operating cycle prepared given our investments and quality of the management team. We are looking forward to meeting you and discussing our full-year results and our dividends. Thank you very much.

Disclaimer: This transcript is prepared in accordance with the audio record of the conference call on Financial Results of 3Q and 9M 2020 held on 16 November, 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@rusagrogroupp.ru) for further inquiries.