

**Company:** ROS AGRO PLC

**Conference Title:** ROS AGRO PLC 4Q and 12M 2018 Financial Results

**Moderator:** Maxim Basov

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**Operator:** Good day, and welcome to the ROS AGRO PLC Fourth Quarter and 12 Months 2018 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 very much. Good day, ladies and gentlemen. We have issued the financial results for the fourth quarter and 12 months of 2018. We also have issued a new annual report and a presentation, which will be available on our site shortly. I will give you a short overview of the results and then I will open the floor to the questions.

The fourth quarter was quite good for the Company. We improved our results in the fourth quarter last year compared to the previous year. All businesses improved the revenue and EBITDA, with exception of Sugar division. The reason why Sugar division didn't improve the results was the inventory of sugar that we decided to roll over to the rest of the season in order to sell it at better price.

Net revenue of the Company reached RUB83 billion last year, adjusted EBITDA - more than RUB16 billion and our net profit for the period was almost RUB13 billion, which is a significant improvement compared to the year before.

The most important event of 2018 were mostly the acquisitions. We did four major acquisitions. The biggest one was the acquisition of the debt of the company called Solnechnye Produkty in October, where we invested RUB20 billion in buying the debt and another RUB9 billion in working capital for operations of this company.

We also bought CapitalAgro's slaughterhouse and meat production in Belgorod region. We paid off RUB1.8 billion for the equity. We acquired some land in Tambov area and we acquired debt of the cheese producer in Samara region, which helped us to start our first cheese operations last year. We plan to build, out of this acquisition, the fifth business unit in cheese and milk.

Net debt of the Company increased and reached RUB54 billion last year. This significant increase in net debt is attributed only to two factors. One is acquisition of Solnechniy Produkty's debt and working capital for Solnechniy Produkty, which in total is almost RUB30 billion. And another RUB90 billion is an increase in our working capital, primarily in sugar and grain, which we did for the purpose of making more money in the rest of the season. This is a temporary effect and we plan to decrease our

working capital by September by approximately RUB15 billion. In this respect, this RUB52 billion of debt will go down to level of around RUB40 billion.

Now I would like to say a couple of words about situation in each of the business units. And I will start with the Meat segment, which has become, several years ago, our main segment in terms of EBITDA. This was also true last year and we believe this will continue to be so in the coming years unless we do a major acquisition in other segments.

In the fourth quarter of 2018, the results of the Meat division were similar to the results of the previous year. On one hand, we had an increase in prices, but on the other hand, we had a very big increase in the grain prices. So we believe that given the fact that our cost increased by almost RUB10 per kg because of increase in grain prices and partly because of soy prices, we managed to have similar EBITDA and we believe this is a good result.

Overall, for the year in the Meat segment, EBITDA increased and reached RUB7 billion, which is now one of the best result of history. On average, the price of live animal last year was lower than the price in 2017. However, because we operated our slaughterhouses at full capacity and managed to change our sales mix in order to sell products at higher prices, the EBITDA of the company improved.

In Sugar, in the fourth quarter last year, we earned RUB1.3 billion, which is less than RUB2.6 billion in the fourth quarter 2017. This was the result of more than 50% decrease in the volume of sold sugar. Partly, this is because we produced less sugar by around 16%, but mostly because of our decision, as I mentioned earlier, to sell more sugar at the second part of the season - in the second, primarily, and third quarter of 2019.

For the year, EBITDA of the Sugar business was also below 2017. EBITDA of the business stood at RUB4.9 billion. Average sugar price for the whole year was similar to the price in 2017. So the only big reason was because for this – for the decrease was the rollover of sugar in the fourth quarter last year.

Agriculture business performed well, which was the result of improved prices. Prices in 2017 were at a very low level, and in 2018, the prices reached the level which we saw before. And this improved the performance in the fourth quarter in the division from almost zero EBITDA to RUB3.9 billion EBITDA. And for the whole year, EBITDA improved and reached RUB5 billion. Prices of all products, with exception of sunflower, increased. Sugar beet price increased 37% and grain prices increased by around 50%.

Oil & Fats had the best season in its history. Oil & Fats business for the whole year had EBITDA of RUB2.9 billion, and for the fourth quarter had EBITDA of RUB1.1 billion. All business units showed profit for the whole year. And the main reason for this was the increased harvest of sunflower seeds, and we expect that the sunflower harvest will be increasing now almost every year. As a result of a better price environment for the raw material, the EBITDA margin of our extraction facility reached, for the whole year, 10%,

which is probably the best performance in Russian industry, and also most of the money we earned by our extraction plant in Samara. EZhK also improved the results as it focused on marginality of our consumer products.

So overall, we are pleased with the results of our business unit and we expect that the results of Rusagro in 2019 will be even better as we came into this year with a record inventory of sugar, grain and sunflower. Pricing environment continue to be positive and we also expect, this year, increase in production from Meat division. In June we'll start producing pork at our three new facilities in Tambov area. And also we expect improved financial results from acquisition of Solnechniy Produkty.

Now this ends my short presentation, and opens the floor to the questions. Please.

Operator: Ladies and gentlemen, if you wish to ask a question over the phone, please press star one on your telephone keypad. Please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. If you find that your question has been already answered, you may remove yourself from the queue by pressing star two. Again, please press star one to ask a question.

And our first question comes from Nikolay Kovalev of VTB Capital. Please go ahead.

Nikolay Kovalev: Hello. Can you hear me?

Maxim Basov: Yes.

Nikolay Kovalev: It's Nikolay Kovalev from VTB Capital. Maxim, I have three questions. My first one is on your Solnechniy Produkty deal. Can you speak more on the terms, how you financed it and how you will pay debt to better understand how this cash flow is structured between you and Russian Agricultural Bank? And also as a part of the question, can you estimate or maybe share with us your view on how many years you will pay this back on the current prices for oil & fats products?

Maxim Basov: We bought the debt of Solnechniy Produkty from Rosselkhozbank at the face value of RUB35 billion. We have to pay RUB35 billion to Rosselkhozbank in instalments in 20 years. The credit rate on this RUB35 billion is around 5%. At the same time we bought bonds of Rosselkhozbank worth of RUB20 billion with an interest rate of 10.5%, so that the proceeds from this bonds would be equal to our payments to repay the debt to Rosselkhozbank of RUB35 billion.

In other words, we believe that the net present value of that deal, and this is also agreed by our auditor, is equal to RUB20 billion. We financed this RUB20 billion with credit, which we took from the bank at the rate of around 9%. We already repaid part of this debt and we plan to repay most, if not, all of our non-subsidised debt by September this year.

Now we don't do acquisition projects if we don't have a ten-year payback with the cost of equity capital of 15%. So in this case, we also believe that we will recover our money

in less than ten years. We also believe that this deal provides us with a strategic improvement, which may accelerate the consolidation of the industry where we will continue to participate.

Nikolay Kovalev: Okay, it's very clear. Thanks. My second question is on your Sugar business. We saw last year decline in sales volumes. So can you help us to understand for 2019 how much sales do you estimate for Sugar business? In line with previous year or return to previously seen almost 1 million tonnes of sugar?

Maxim Basov: We increased the capacity of our sugar plants. We do not have plans to increase the capacities of the sugar plants materially further on, with exception of the sugar which will come from the second sugar molasses desugarisation plant which we will launch at the end of this year. Overall, we believe that our capacity would be close to 1 million tonnes following the introduction of this facility.

Now the actual volume depends on the availability of raw material, which is sugar beet. Unfortunately or fortunately, last season, there was a big decline in production of sugar beet in Russia generally but in also in our areas. And because of this our production, as I mentioned, fell by around 16%.

Now we are waiting to see what will be planting area and we will know that in May and then we'll wait and see what will be the yield of sugar per hectare in our area. And then we will process all the sugar and we'll get the sugar. We are going to sell all the sugar that we have on our books by the start of the new season. At the moment, we have around 0.5 million tonne of sugar, a little bit even more, although the sugar will be sold primarily in the second and third quarter of this year. So we just need to wait a little bit and see what will be the sugar beet harvest this year.

Maxim Basov: Another thing is the price – yes, we're going to sell the sugar – at the moment, the price is close to RUB31 net of VAT. The big question is what will be the price because the import parity price is RUB43. The export parity price is RUB27. And the market is close to the balance. So depending upon the assessment of the pricing situation in May, the market probably will make a decision of whether we are moving to the deficit or to the surplus of sugar. And then in order to understand our revenue, you just need to multiply the sugar we have now in our inventory by the price, and then add to it number of sugar that we will have for next year.

Probably next season, we are not going to roll over so much sugar for the next season. But we do not know for sure, this may end and this is the question to be discussed probably in autumn. It will depend very much upon the balance of the sugar as a result of the harvesting the sugar beet in August, September, October and November.

Nikolay Kovalev: Okay. It's very clear. And my final question is on your cash flows. Can you help us estimate how much CAPEX you schedule for 2019? And given your view on consolidation of Solnechniy Produkty assets, what kind of net debt do you estimate by year-end 2019?

Maxim Basov: We expect that the CAPEX this year will be around RUB20 billion. Most of it will go to the Meat industry and second recipient probably will be sugar division with the project of second desugarisation plant. We expect that, of course, the level of debt will depend upon the working capital which we will have by the end of the year, CAPEX we will have by the end of the year and EBITDA that we will have this year. But overall, we believe that our net debt level will go down by around RUB10 billion. So we will probably come to the end of the year with RUB40 billion net debt. But again, this will depend upon many things including our EBITDA, our CAPEX and the decision about working capital at the end of this year.

Nikolay Kovalev: Okay, it's clear. Thank you very much.

Operator: And there are currently no further questions in the queue. And as a reminder, to ask a question at this time, please press star one. And we have another question from Elena Jouronova of JP Morgan. Please go ahead.

Elena Jouronova: Hello everyone. Congratulations for the good results. First of all, can I ask about the SolPro acquisition once again, and I'm interested to understand what can be the EBITDA uplift for Rusagro this year and next year? I remember you mentioned that overall you think that you can add about RUB4 billion EBITDA after the transaction but not in the first year of operation. Maybe you can give us a better idea of timeline.

Maxim Basov: At the moment, we target – for the combined entities, Solnechniy Produkty and Rusagro, which means the combined Oil & Fats business that we would have, we target RUB5-6 billion of EBITDA. We will see these figures only starting 2020 because this year, only part of this EBITDA will come as EBITDA to our books because all the efforts of Solnechniy Produkty will go through the bankruptcy. We need to be very careful with doing everything according to the Russian legality. We will see definitely a lot of money coming to us in terms of net income through the interest rate and repayment of the debt. But how much EBITDA will come to our books is unclear at this moment because it depends very much upon the timing of the legal processes on all of this entities.

Elena Jouronova: But to be clear, you do expect some uplift to your Oil & Fats division's EBITDA?

Maxim Basov: Yes, we do. I can tell you RUB1 billion but this will be like finger in the air because of the legal procedures which are a multiparty process. And they will determine how much of EBITDA of SolPro will be shown on our books and how much of this EBITDA will be shown on the books of existing legal entities which are not consolidated in our accounts.

Elena Jouronova: Okay. Thank you. Then I had one small question on your numbers. In the Sugar division, I saw a surprisingly RUB2.9 billion number relating to other operating income and I wasn't sure what this actually means. Can you explain to us what this was and if that is a new recurring item – around RUB3 billion other additional income, not in the revenue but below the gross profit line.

Maxim Basov: Just a second, let me just check. Okay, this is consolidated at the group level. This is just the payment of the dividend, technical payment of dividend from one agricultural

asset to the sugar asset. So technically, in your analysis, you shouldn't pay attention to it. On a consolidated level, it is eliminated. But since it's a movement from one segment to another, we have to show it.

Elena Jouronova: I see. Then my other question was relating to the Meat division in Q4 and the margin. So apparently EBITDA margin went down slightly and I found it quite surprising because your competitor in this business, Cherkizovo, reported an increase of their margins in Q4 in the pork division and actually quite a substantial increase. So I was struggling to understand why Rusagro didn't have that increase. Maybe you can help me understand this?

Maxim Basov: Well, it's difficult for me to compare because I do not know the results of Cherkizovo. I think there are three factors that came influence this. One factor is the grain price. So each company buys grain at different time but what seems to happen that the grain price significantly increased. Since we buy the grain on the market prices, I can only say that the prices of grain, as you can see in our books, increased by around 50%. That was one of the things.

The second thing is the product mix. So probably we may have different price between processing division and non-processing division, in our statements they are shown consolidated. In our products we did not see such a huge increase but that might be also because now we sell some of our products in terms of B2C product and there was no increase on price on the retail chain for the B2C products. And we sell around 2,000 tonnes of B2C product now per month. So that maybe second explanation.

The third explanation, and as I understand, Cherkizovo increased the production in the second half of the year after its new investment, new complexes came online. We didn't have any increase in our production. That's probably the third reason. But I think that you can compare better than us where we can provide the information about the cost, the prices and the volumes. And then I think you can find an easy answer.

Also, fourth factor is what we do with our annual write-offs. For example, in December, we do the inventories and it might be we have some write-offs for the whole year. So again, it's very difficult for me to compare ours with Cherkizovo because I do not know the exact figures for Cherkizovo.

Elena Jouronova: That's fine. Fair enough. Maybe you have the number right now handy regarding your cost per live weight pork because in your – if I just try to calculate the cost – production cost per tonne of meat, I'm not – I would not get to a correct number because you sell live weight and processed pork. So maybe you can give us what was your last year's cost of production of live weight pork.

Maxim Basov: Yeah, the cost of production in the first part of the year, with the grain prices for the previous year, was around RUB54. And now, given the new prices of soy and grain, our cash cost is around RUB64.

Elena Jouronova: Okay, yeah. Makes sense. Thank you. And can you please remind us by how much you plan to increase production volume of pork this year, 2019?

Maxim Basov: Okay, this year we're going to produce more than 250,000 tonnes compared to 200,000 tonnes last year. And the production from our three new plants will start in June.

Elena Jouronova: Okay. Yeah, and just to give you numbers for Cherkizovo – by the way, I opened the press release. So for – I notice for full year 2017 they've earned 36% EBITDA margin in the pork division and in 2018 it was 46%. So a pretty substantial increase in EBITDA margin for the full year, even though they basically had the same trends that you did with the grain cost and pricing?

Maxim Basov: Well, I'm happy they did it. I don't know how, but in our situation you can see we earned similar margin. It was 31% in 2017 and 31% in 2018. And looking also at the pricing level and the cost level, I just don't understand how is it possible. But again this is not a question to us, this is question to them.

Elena Jouronova: Okay, fair enough. Sorry. Thank you for the answer.

Operator: Ladies and gentlemen, as a reminder, if you wish to ask a question at this time, please press star or asterisks key followed by the digit one on your telephone keypad. Again, please press star one to ask a question. And we have a question from Anna Kurbatova of Alfa Bank. Please go ahead.

Anna Kurbatova: Good afternoon. Thank you very much for the presentation. My question is related to Solnechniy Produkty. I wonder do you expect to make some effort to restructure and to change the current way of working with SolPro as far as you consolidate this asset, as far as the legal process proceeds in respect to this asset? And how – so would you elaborate a bit on what you expect to do with regards to this Solnechniy Produkty plants operationally and how it would effect your revenue? Thank you.

Maxim Basov: Okay. All of Solnechniy Produkty assets are now working, with exception of Armavirskiy extraction plant in Krasnodar region. They are working now on the balance of the old legal entities which are not consolidated. In almost all legal entities, the procedure of liquidation have started. Some of the assets will be sold to the market and some of them are already almost sold and we are not going to buy Armavirskiy extraction plant. We are not going to buy real estate and we are not going to buy agricultural assets.

All other assets we are going to buy. There will be the procedure of liquidation and bankruptcy. All these assets are pledged to the debt of RUB35 billion which we bought. So we are going to participate in the auction and we're going to pay for these assets the price that will be needed to acquire them on our balance sheet. We expect that some of the assets will be acquired at the end of the year and some of the assets will be acquired at the beginning of next year.

Anna Kurbatova: Thank you very much. So would it be correct to understand that the positive effect on your EBITDA from the Solnechniy Produkty assets will mostly come from the

consolidation effect? Or you also expect some positive effect from kind of restructuring and optimisation that you would do as soon as you consolidate? Thank you.

Maxim Basov: Okay. From legal and accounting point of view, we'll have the revenue on our books starting for some accounts that is already happening. For some assets, it will be happening from the second quarter. So we'll have the revenue coming in our books, part of EBITDA will also come on our books, but part of EBITDA will continue to be on the other assets. And EBITDA which will be on other assets after the end of the bankruptcy will come to us as a result of payment of the debt.

In terms of operating the joint – or on certain assets, and optimising the performance, we will do that. We are going to decrease number of entities working there but this will only be done next year when we'll become the legal owners of those assets.

Anna Kurbatova: Okay, thank you very much. It's very clear.

Operator: As another reminder, to ask a question at this time, please press star one. We will pause for just a moment to allow you a time to signal for a question. As there are no further questions in the queue, I would like to turn the call back to our host for any additional or closing remarks. Mr. Basov, over to you.

Maxim Basov: Thank you. Well, ladies and gentlemen, thank you for the participation. We had a good year. We believe that this is the new trend, the trend which will create the positive results on our company for the coming two or three years, based on the increased volumes of production, especially Meat division following acquisition of some assets that we bought. And this year I believe it was not only good year last year, but also activities of last year created a good potential for the record financial results in 2019. Thank you and talk to you later. Bye.

Operator: Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.