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**Operator:** Good day, and welcome to the Rusagro PLC Second Quarter and Six 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, CEO of Rusagro. Please go ahead, sir.

**Maxim Basov:** Thank you. Good day, ladies and gentlemen. Today we released the results for the second quarter of this year and for the first half of this year, and we also released recommendation for the shareholders meeting – recommendation of the Board of Directors for the payment of dividends.

Let me start with a general overview of the results for the second quarter. And I suggest that we go through the presentation, which we released today and we put on our website. In general, in the second quarter of this year, the revenue of the company fell as a result of lower prices in meat and sugar. But EBITDA and net income was higher than for the same period last year.

In fact, all of our business units increased EBITDA in the second quarter this year compared to the second quarter last year. And as I said, two businesses decreased the revenue. Net income of the company for the second quarter this year was RR 2.1 billion, compared to RR 600 million for the second quarter last year, and net income for the six months this year was RR 2.3 billion compared to RR 200 million last year.

Net debt of the company grew. At the end of the second quarter last year, net debt of the company was RR 11.3 billion, an increase of RR 4.7 billion compared to the beginning of the year. Net debt of the company increased primarily because of the capital expenditure programme that now has reached its peak, especially for the meat divisions.

Now I would like to say a couple of words about the performance of our business units. I will start with the Meat segment on the page #11. Meat segment in the second quarter of this year experienced lower price than in the second quarter last year. Average price for the live animal in the second quarter last year was RR 102, and in the second quarter of this year the average price was RR 86. However, EBITDA and EBITDA margin was higher. EBITDA for the second quarter was RR 1.7 billion compared to RR 1.5 billion last year and EBITDA margin increased to 33%, primarily because of lower price of the feed components, especially grain.

The volume of the company was similar to last year. The company produced 58,000 tonnes in the second quarter of live animals as compared to 52,000 tonnes last year. And as I said, the

EBITDA was better. For the full first half-year results, we also had lower price but higher EBITDA and higher EBITDA margins.

In Sugar division, we had smaller volume of sales in the second quarter this year compared to the second quarter last year, as a result of lower production for the season. And the price was also lower compared to the second quarter last year. Average price for the second quarter this year was RR 31, where it was lower than RR 34 last year. But similar to meat division, despite lower price, the EBITDA was higher. In fact, the EBITDA margin reached 30% and the EBITDA reached to RR 1.7 billion in the second quarter this year and RR 2.3 billion for the first half.

The reason for the higher EBITDA was the lower price over material since the price of sugar in the autumn of last year was lower. The sugar division bought sugar beet from agricultural division and from the farmers at lower price. And now as the price increased throughout the season, EBITDA also became larger.

In agriculture, there was no big volumes and no operations in the second quarter of the year. The results of the second quarter is a reflection of sales of crops which were harvested in the autumn last year but actually the results was better than the second quarter last year. And EBITDA for the second quarter was RR 152 million and EBITDA margin 9%. These are lower numbers in general for this business but still it's better than it was last year.

And our Oil and Fat business performed very well; all three plants had the profit. EBITDA of the business reached RR 687 million. This is much better than the loss of last year. EBITDA margin was 12%. There are several reasons for these results. One reason was a good campaign to buy raw materials in all the regions for the Samara plant, and the second reason was the focus on profitability in production and sales of consumer goods in Ekaterinburg food plant. So the fact all plant did quite well but especially at oil extraction plant in Samara region.

So in the second quarter of this year, we had relatively good results compared to last year. These are not record results in our history, but it shows that the company improved on the performance of last year, which was among the weakest, and is underway to have a good EBITDA and the net income throughout the whole year. The Board of Directors recommended to pay to their shareholders USD 0.12 per GDR. The shareholders meeting will be in September and we expect that shareholders will agree on this recommendation and we will distribute dividends in September.

The Board of Directors decided to pay less dividends than last year since the company has recently acquired a relatively big company, KapitalAgro, and expects to increase the capital expenditure this year compared to last year, especially in meat division, and also is looking forward to make some other acquisitions, which we believe might happen by the end of this year.

So this finishes my short overview and opens the floor for the questions.

Operator: Thank you, sir. Ladies and gentlemen, if you wish to ask a question at this time, please press star one on your telephone keypad. If you find that the question has already been answered,

you may remove yourself from the queue by pressing star two. Please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. We will now take our first question from Iryna Tarko of Montpellier Asset Management. Please go ahead. Iryna, please go ahead. Your line is open.

Iryna Tarko: Hello. Hi, thanks very much for organising the conference call and for taking my questions. I had a couple of questions. Could you please comment on the current price dynamics for various of your productions and especially for the pork prices. They've been quite strong recently, and I'm just wondering what do you expect for the second half of this year. Do you expect some kind of correction? And also regarding the sugar prices. Taking into account the current forecast for Russian sugar beet harvest, how long do you think the sugar prices can go down in the second half? Thank you.

Maxim Basov: Thank you for your questions. We believe that in general the pricing dynamics is positive for the company. Let me start with the meat segment – and of course before starting talking about the products, I cannot not mention the rouble weakening. Of course rouble weakening in general is good for the company and at the moment we have, I think, rouble to US dollar of 68-67 now. So of course, it's quite good for the price of our crops.

In meat, in pork especially but also in other types of meat, we have an increase in price for the past 30 days. In fact at the moment the price is quite high. It's more than RR 100 net of VAT. There are several reasons for that. The main reason probably is the decline of the import from Brazil because of the regional ban that happened in Russia in the beginning of this year. Russia used to import 260,000 tons of pork last year, in fact it's difficult for last year. And if you look at the results for the first half of the year, you'll see that actually an interesting event happened in Russia is that Russia become a net export country.

But since the import of frozen cuts from Brazil just stopped, the demand for the fresh meat, fresh cuts increased and then of course demand also increased for the live animal. There were some problems at the chicken producing companies. Some of the companies now undergoing through difficult procedures. Some of the companies are almost bankrupt. So the chicken industry could not supply the consumer with a lot of new chicken. If I'm not mistaken, in the first half of the year, the increase in chicken production was only 1%.

So all these together with the seasonal increase in demand for pork increased the price to very high level, RR 100 or even more. Well, fortunately or unfortunately now Rusagro is not in the sale of live animals. We are in the sale of carcasses, industrial cuts and B2C products. The price for the B2C products didn't increase because it takes time to renegotiate the prices with retail chains. Prices for carcasses and industrial cuts have increased. So overall, I will say this is the positive development and the prices for pork in the third quarter will be high.

In fact now what would happen later, what will happen to the fourth quarter price, what will happen to the prices next year will depend upon the exchange rate and also availability of Brazilian frozen import. If Brazilian import doesn't start to come, then we should expect high price throughout the whole year. So as I said, overall the prices are quite high.

The grain prices are also high. You've probably heard that Russia will have low harvest than last year. In fact the prices now are around 30% higher than last year and we are waiting for the end of the harvest, which will be over in probably a month to see what price we will see at the market. The sugar price is probably the most uncertain. The price at the moment is similar to last year, which is RR 26 net of VAT. And we are waiting for the harvesting season to start.

The season only started about only one week ago. Now it's too early to say what would be the yield of the sugar beet. And the yields will determine the price that will prevail at starting probably November or December. So it is prudent to assume that the price will fall down as it normally happens during September and October as the seasonal supply of sugar is three times probably higher than the seasonal demand for sugar.

But what will happen in starting November-December is very uncertain. If we hear that the production in Russia is 6 million or below 6 million, then maybe we will say a bit increase in price, which will move to the import parity price. If we'll see 6 million-plus then probably the price will continue to be at export parity and then we will come to import parity price only in the last part of the season. We will see it in the autumn.

Iryna Tarko: Thanks very much. I have a couple of more questions. Maybe you can help me to understand the EBITDA margin development for sugar segment. I was quite surprised to see such a big increase in margin for sugar division in the second quarter comparing to the first quarter, and I understand that the cost went down. But this was the case for the first quarter as well. So is it just a function of higher price?

Maxim Basov: That's right. So the cost for the first, second and mostly third quarter is more or less the same. The cost is formed during the season of harvesting of sugar beet. It happened in autumn last year. If you remember, we discussed at the last two telephone calls that we had a better results in our agricultural division, which primarily was due to the fact that the sugar beet price was very low as a function of sugar price. In fact, the Russia – well, Rusagro's agriculture in the first time in the history last year showed loss on the sugar beet because the cost of production of sugar beet was higher than the price which we received.

So the cost of the sugar division was formed during this autumn campaign with a very low price of sugar beet at the level of, I think, RR 1.7, RR 1.8. But what happened in the second quarter compared to the first quarter or first was primarily the price dynamics and you will also see partly in the third quarter. As you know, Russia had several producers of sugar and a lot of consumers of sugar. So what's happening throughout the season is that a number of suppliers of sugar is declining because the smaller companies mostly sell the sugar in the first half of the year.

They lack money. They lack storage facilities. And so what happened that in the second quarter of this year, sugar concentrated in the hands of fewer players and some of these fewer players believe that the new season might be not as sugar abundant as the previous season. And as a result of this, the price of sugar increased. And the season started, as all seasons in agriculture, has all the volatility. We had – first, we had no rain. Then we had a lot of rain. So probably there was some speculation on the sugar price.

So sugar price was actually higher in the second quarter than in the first quarter. As a result of this, of course the EBITDA margin of the sugar division increased. Is it clear?

Iryna Tarko: Yeah, thanks very much, Maxim. And maybe just the last question from me. You just concluded a big acquisition. You acquired this pig producer. Could you maybe just provide a little bit more details on the deal? Was it a distressed asset purchase and what is the quality of the asset and really be straight away operational, will it contribute to the volumes already in the fourth quarter?

Maxim Basov: Sure. Well, just finishing with the previous question on the page 13 of the presentation, you can see actual sugar price per month and here you can see that in fact in April, May and June, the average price was much higher than in January, February, March.

Iryna Tarko: I see. Thanks very much.

Maxim Basov: So yeah, the company that we bought is a company called a KapitalAgro. This is a company located in Belgorod region. The company has three pig farms all monoblocks and with a slaughterhouse. These are modern pig farms and modern slaughterhouse. The reason why the owners finally decided to sell – we've been discussing this transaction for more than 12 months - was because their capacity utilisation of the slaughterhouses was only 50%. Originally the company planned to build more pig farms but as a result of economic change in the industry change with the subsidy levels, they decided not to go ahead with this investment. And it was a clear benefit for the asset to become part of Rusagro since now it will be utilised more. In fact, we plan to utilise this by 100% because we have shift some of our Belgorod live animals to this facility shifting them away from our Tambov facility. The difference in logistics is double. So instead of transporting to 600km to 800km, now we have to shift maybe 200 and 300km.

And then we plan next year to have more live animals in Tambov as in January, we plan to start commercial production from our new commercial big farms in Tambov. As a result, you will have one slaughterhouse in Belgorod, which will be fully utilised and we'll have one slaughterhouse in Tambov, which also will be fully utilised next year.

So the reason why we bought this facility was to, of course, make money but this money will be made through making money on live animal as well as decrease in the cost of transportation of live animal to the slaughtering. And this is a smaller slaughterhouse of course that we have in Tambov but it also has the meat packing and processing. So as a result of this transaction, our production of wild animals, production of carcasses and production of industrial cuts will grow.

We will see the results of this transaction already in August this transaction was completed, and our August results will already have these numbers. We paid for the debt of this company which is RR 1.9 billion and we paid for this company RR 1.8 billion.

Iryna Tarko: Alright, thanks very much. You mentioned during your presentation that you are planning to do some more acquisitions probably by the end of the year. In what segments will it be?

Maxim Basov: It's hard to say. We are looking for some acquisitions in agriculture. We are looking for acquisitions in meat. We are looking for acquisitions in sugar. We are looking for acquisitions, and as I said, we are looking acquisitions in each of division of our industry. But we can only be certain when the deal is signed. So that's why I can assure you that if we do anything, we will issue a press release immediately. But at the moment, we are working on some transactions.

Iryna Tarko: All right, thanks very much.

Operator: We will now move to our next question from Olga Marjasova of Evli Bank. Please go ahead.

Olga Marjasova: Hi. May I please ask one follow-up question on meat prices as of slide 12 of your presentation? Can you please discuss a little bit more this difference in prices for processed pork and for livestock because basically the processed pork prices is flat year-on-year? So what is driven this price?

Maxim Basov: The prices are driven by the balances. In the simplified model, the prices are driven by the balances in four different segments of the pork market. I think this situation will complicate if Russia will start export to big and expensive markets like Japan, Korea and China, which haven't happened yet. So let's now forget about this, with one exception that in fact we expect that China will open the chicken market very soon. And the chicken market may influence of course the price of pork because pork and chicken on the Russian market are substitutes. But now for the time of this discussion, let's forget about this export complications.

Let's look at the model which we have today. Today, there are four parts of value chain in the pork industry. We start with the live animal. Then we go to the slaughtering where we produce carcasses and sub-products. And then we go to the industrial cuts and then we go to the B2C products. Let me start with the B2C product. Let's go from the top. B2C products are sold primarily through the large modern trade outlets. The share of sale through the retail chains is growing.

Of course X5 and Magnit are the biggest companies. And the price in the products are being served through the agreement between the retail chains and the suppliers through the process, which normally takes three months. So the price for the B2C product is relatively stable stricter. At the moment, there is – the market for the fresh pork is growing very quickly. In fact, I think last year chilled pork was the biggest group of products sold which was grown in the retail chains, and we have a competition here, which now is happening between I would among around six, seven companies. And of course, Rusagro has a plan to become one of the leaders.

In fact we only started producing B2C products last year but already well presented in Moscow in the retail, we are already are among three leading companies. So in fact there is a war here and there are two reasons why probably the prices for the B2C pork are probably will be more or less stable. First of all, it's the nature of the contracts in process with retail chains. And

second, it's a competition among six very big companies for the market share. So this is the first one.

The second one is industrial cuts. Industrial cuts are produced by more than six companies, while number of the companies which produce high-quality fresh industrial cut is not very big but it's a competitive market. It's a competitive market as the cuts are used in two channels. One of the biggest channel is also national chain, which buy industrial cuts and cut this meat inside the shops and the second channel is the processing. The processing companies which for example last year were burying the Brazilian frozen cuts.

So here we have supply and demand. And in this segment, it's purely supply demand. For example, at the moment, the supply of frozen Brazilian cuts is limited, so here we have the high price. If tomorrow, we'll have resumption of imports from Brazil, then we have a decrease in price. So it's purely supply and demand.

Same is in carcasses, though in carcasses, the carcass market is a little bit more stable on one hand. On the other hand, it's more competitive because there are a lot of companies which can produce carcasses but it's more stable because there is no import of carcass from abroad. And then live animal. Live animals similar situation is hugely balanced. Why the live animal is the most volatile shows the most volatile price dynamics because we have – first of all, we the disease factor. We have average of two disease which happens once in a while and it disrupts the markets for the live animals.

The yield of meat per ounce is decreasing because not all the complexes have the system for cold air. And also the demand and supply for live animals is also depends very much upon the situation at the big slaughterhouse upon the competition between them and upon the strategy that they have for the price of live animals because some big companies are interested in having price high, some companies are not interested. It depends upon whether these companies are long or short.

So again there are many, many sectors but all these four segments are independent and the price on each of these commodities is certainly independent. So we can have a situation when the price of the carcass or industrial cut is not growing but the price for the wild animal is growing very quickly. And we can have a situation where the price of the live animal is going down and the price of carcasses is going up. So there area again, many factors which are included in the dynamics.

Olga Marjasova: Okay. Thank you very much. And may I please also ask regarding Rusagro's strategy. Can you please remind regarding like mix of your volume in pork? So what side you will be growing more, this livestock pigs or processed pork?

Maxim Basov: Yeah, we are finishing our strategy at the moment. Probably some of it will be released in autumn to our investors. But in meat segment, the strategy in fact hasn't change for the past two years. We think that the biggest market, the biggest product in our meat segment would be industrial cut because this is where the whole market is migrating to. In fact, the industrial cut already is the biggest market at the moment. But we also see that the small differences that we now allocate a higher share for our future product mix to the B2C products. In fact, we

want to be the second largest, at least second largest player in the B2C segment for the pork, and this will be probably the second largest product that we have.

We do not plan to sell any live animals anytime. So probably – and also carcasses probably will be as the limited offering for some of our industrial clients.

Olga Marjasova: All right, thank you very much. And may I please ask one more question regarding your CAPEX. As of today, what is your estimate for 2018 and '19 total CAPEX?

Maxim Basov: Okay. Let me answer you one minute. I think it will be around RR 24 billion for this year.

Olga Marjasova: Maybe I can ask one more question about Far East. Can you update what is the situation there?

Maxim Basov: Okay, we plan to start the production at the end of this year. We had the first shipment of animals to our genetic farm, small piglets which are going. We plan to have next shipments by the end of this year. Our genetic farm will be full. And then we plan to start our slaughterhouse in 2020. We plan to start construction of slaughterhouse in September. And then we'll be so in between this year in 2020, the animals will be growing at our genetic farm. And after they grow, they will go to the commercial farms, six commercial farms, which now are in the process of being constructed. And by the moment slaughterhouse is ready, these animals will grow enough and will go to slaughterhouse from the commercial farm. This will happen in 2020.

Olga Marjasova: Okay. And for 2019, do you have any estimation?

Maxim Basov: For 2019, still this is – we haven't yet agreed on the budget. But okay, it depends upon acquisitions, which we are going to make. It will also depend upon the exchange rate. But at the moment, we believe that if we don't stop any new projects, then our CAPEX will be lower than 2018.

Olga Marjasova: All right, thank you very much for the answers.

Operator: Thank you. We will now move to our next question from Marat Ibragimov from BCS. Please go ahead.

Marat Ibragimov: Thank you very much for the call and the opportunity to ask question. On KapitalAgro, the Belgorod pigproducer. They had offered 23 stores in Belgorod region. What are your plans for this retail chain? Thank you.

Maxim Basov: We were not buying that. This is not part of the transaction. This belongs now to the old shareholders. We are not interested in developing our own retail presence.

Marat Ibragimov: Okay. Next question, in your slaughtering facility in Tambov, there was issues with profitability. It was loss-making as far as I remember for quite a long time. What's the situation there now?

Maxim Basov: It was loss-making for two years. Once we started it, now we are making money in the slaughterhouse.

Marat Ibragimov: So it is not a loss-making asset anymore?

Maxim Basov: No. Overall, I would say – okay, you see that the profitability of the slaughterhouse depends in fact upon three factors. This is the operational performance and we believe that now operational performance at our slaughterhouse is one of the best in the industry in Russia. Second one, the prices of various pork segments, which we discussed. The most important thing when live animal is very expensive and the carcass is not expensive, of course you're going to make the loss.

Now the third one is the product mix. At the moment, we are losing the money in B2C. And I can say that everybody I believe is losing in the market the money in B2C because an increase in price for pork became very sudden and very strong in the coming months. So at the moment, I think everybody is making loss in sales of B2C products because the retail chains have not yet agreed to the increase in price while the raw material already is higher.

And of course, when we analyse the economic performance of our plants, we are looking at the performance of each shop. We are looking at the mark-to-market for various products. So we are doing very fine with export. I think we are the second largest or third largest exporter of pork now from Russia. So the slaughterhouse is in not having huge profitability but it's making money at the moment.

Marat Ibragimov: Well, the recent rouble depreciation, the rouble weakness by 10%, does it have any – has it already had any impact on the prices or your negotiation with your partners, do you discuss price increases for pork or for B2C products or not?

Maxim Basov: Well, change in exchange rate immediately had an effect on all the commodity-linked products like grains. But for B2C, of course one month ago, we already sent a notification for the increase in price for all the chains. But some chains agreed, some chains didn't. So now we have a choice either to leave some of the retail chains or not to leave. And every company will make its own decision. At the moment, this is an ongoing process. But on the other hand, if the price for pork in B2B segment or for industrial cuts or live animals will go down, then of course B2C will also keep the same price and B2C will immediately become very profitable.

So the decision, the strategy of the companies on what to do with the B2C refusal or acceptance of the price will depend upon the long-term view, I would say not on the medium-term view on the – in Russia pork in B2C segment.

Marat Ibragimov: Thank you.

Maxim Basov: And of course the views can be different. I don't want that to be my view because this is a big in our discussion among the industry what will happen next.

Marat Ibragimov: Okay. And the final question on your last comment on CAPEX in 2020, not – sorry, in 2019, you said you mentioned that this might be lower than this year. But this, in price, it suggests that you are not looking to expand the Far East project, i.e. you are not planning to build the second stage of this project while originally you planned these stages?

Maxim Basov: Well, you see we have many – we have all of ideas on what to do. But I'm telling you the numbers which are based and approved by the Board of Directors projects. And at the moment, approved projects by the Board of Directors show that we have a maximum CAPEX this year. And then next year, it will be lower and then we have very low CAPEX I would say in general. Of course as a management, we are suggesting the Board of Directors various project, but it means that some of the projects either are not approved or they were not ready to be discussed to be approved by the board. That's why the Far Eastern projects I can tell you now that if you don't hear an opening up of the export, then it is unlikely that we are going to increase the Far East project in the coming two years.

So our strategy is very similar. I can assure you in fact that we are not going to do it because the way how it works would be the following. We are going to build the slaughterhouse and start operations and this will not happen before 2020. If by that time, Japan, South Korea and North Korea or China open border, they will need to certify our slaughterhouse. If you manage to certify the slaughterhouse for those sorts of market, we will immediately start selling to the export market and simultaneously we will be just constructing more big farms.

So at the moment, the export markets for Russian pork and for Russian pork from Far East not open. Therefore we do not have, at the moment, a plan to increase our project.

Marat Ibragimov: Okay, got it. And this decision to lift the ban on import of pork from Russia as I understand it's due to high quality; you're not potentially able to do anything about that, right?

Maxim Basov: Well, it's a question by the president of course, so there is nothing we can do. Of course we have our own ideas. We work really hard with the government to make it happen. But it's not an easy question. In fact what is interesting you may know – you probably may know. In fact last week was the first time ever China had African flu disease itself. Of course this event may have a huge repercussions for overall situation with the pork industry in the world. So for Russian ability to supply export to China. So there are many things happening. And also I said that at the moment looks like China will open their markets for the milk and cheese in the coming two months. And this of course is a good indication that slowly but surely Russian products – if this of course happens, will come to Chinese markets. And again, if Russia will start exporting chicken to China, this will probably strength the prices for chicken in Russia and this will probably mean that pork prices are [inaudible] will also be high. So things are moving but not as weak as we want.

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

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

Maxim Basov: Well, ladies and gentlemen, thank you for your time for your questions. We are looking for the good year at the moment, given the price dynamics, the situation, which is in general I think beneficial for our company and we are looking forward to have a conference call with you based on our third quarter results and also to meet some of you in November. Thank you very much.

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