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AccEssMeeting UAE-Russia: “Business Investment Road Show 2013”

Investments into Russian agriculture



The Agreement between governments



The agreement between Russia and UAE governments (hereinafter – “the Agreement”) has been signed in order to create favorable conditions of cooperation between the countries’ investors which would enhance prosperity of both countries

The Countries have agreed

- To create favorable conditions for other party’s investors on their territories
- Not to raise any additional requirements as conditions of expanding or maintaining investments of exporting produced goods, purchase any goods or services locally unless these requirements are agreed in form of a contract by both countries’ governments
- Ensure that investments are treated fairly and equitably, i.e. conditions should not be less favorable that those granted by Contracting Parties to their own investors or any other investors

That implies, that as long as investors obey with local laws, they will be treated equally, compared with local investors

- This is essentially important for investors in government-subsidized industries with long investment cycle such as agriculture

The Agreement also guarantees

- Indemnities sand restitutions in case of their investments suffer losses as a result of a war, civil disturbance or any other similar event
- Expropriation or nationalization protection
- Free payments transfer after investors’ fulfill their tax obligations and that includes
 - Invested capital and returns
 - Loans repayments
 - Proceeds from sale of investments
 - Indemnities
 - Wages and remunerations

Global challenges

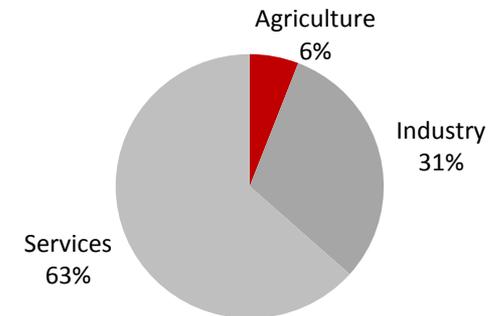


The world currently faces a few global challenges which define its performance and further development, on our view

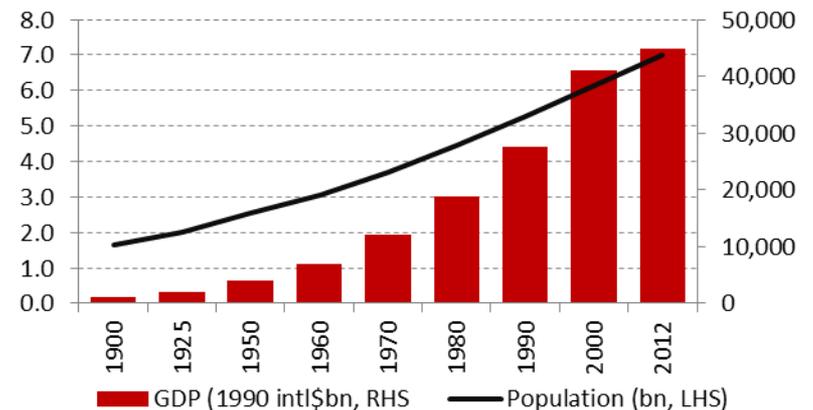
Global challenges

- Currency wars which could lead to incomes re-distribution
- Economies leverage which limit economic growth
- However, **population reaching over 7bn people** in 2012 looks especially important taking into account that the growth is set to continue
- Growing population should lead to an increasing demand for resources, namely:
 - Energy
 - Water
 - Food
- The population challenge implies growing resources prices over the next decades which means that new deposits development, where extraction costs are relatively high, are likely to be commenced in the coming years as with growing prices their economies will change

Gross World Product (GWP) composition (2012)



Global population vs GWP



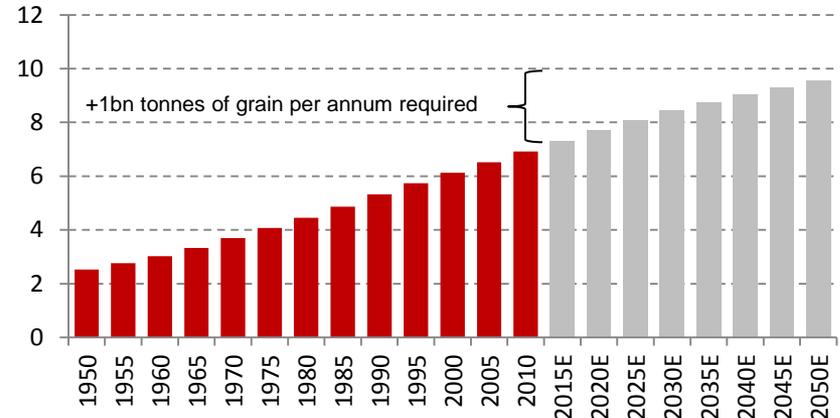
Source: World Bank

Driven by a burgeoning population, and the supply of food being limited by the finite amount of arable land, we believe that food prices are set to continue their upward trend

Global trends

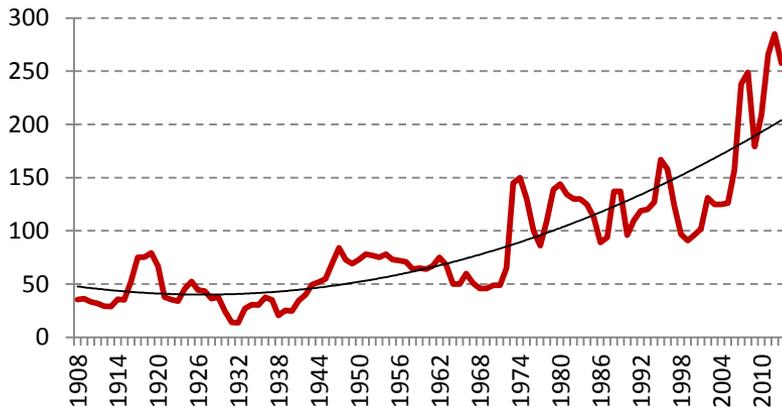
- Demand is set to grow driven by an increasing population and growing incomes in the developing countries. According to the has already reached 7,2bn and the growth will continue
- World largest producers have almost fully utilized their arable land
- Supply is always behind the demand as both increasing land under cultivation and productivity improvement takes time as a function of the production cycle
- That implies that prices will continue their upward trends

Global population



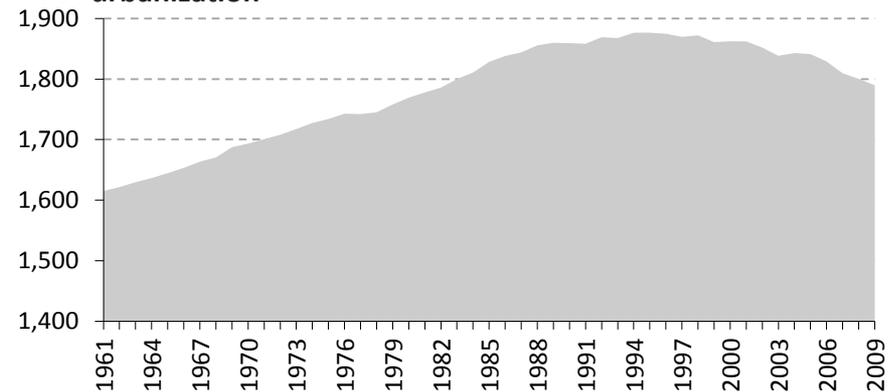
Source: USDA

Wheat prices (\$/tonne)



Source: USDA

Top five agricultural courtiers' cropped land – down due to urbanization



Source: FAPRI

Being probably the world's largest resource deposit including energy, water and agricultural resources, Russia could become the best positioned country for the expectation of global population growth

Russian economy

- Russia is #8 economy globally size wise
- Russian population is #9 in the world
- Russia's GDP has been growing at 4.7% on average over the last ten years in real terms

Russia controls all kinds of natural resources

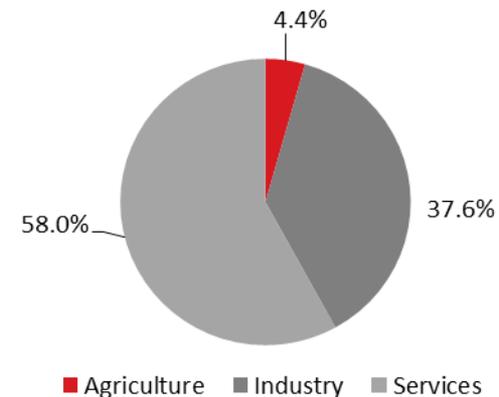
- Russia's proven oil reserves were 60 billion barrels as of January 2012
- Russia holds the largest natural gas reserves in the world, and is the largest producer and exporter of dry natural gas
- Russia is one of the top producers and consumers of electric power in the world, with more than 220 million kilowatts of installed generation capacity
- Russia develops all kinds of mining resources including precious metals, gems, coal, ferrous and non-ferrous metals
- **Russia is #2 world water richest country in the world**
- **Russia controls almost 9% of the world's arable land bank**
- **Russian agriculture produces almost all crops known in the world**

Russia's resources position among other countries

‘Macro’ stories which mostly depend on politics	Oil	#7
	Gas	#2
	Coal	#3
	Iron ore	#1
	Uranium	#7
	Gold	#4
	Silver	#1
‘Micro’ stories which also depend on politics, but their success is very often driven locally	Forest	#1
	Drinking water	#2
	Agricultural land	#5

Source: Rosstat, World Bank

Russia's GDP composition pie chart



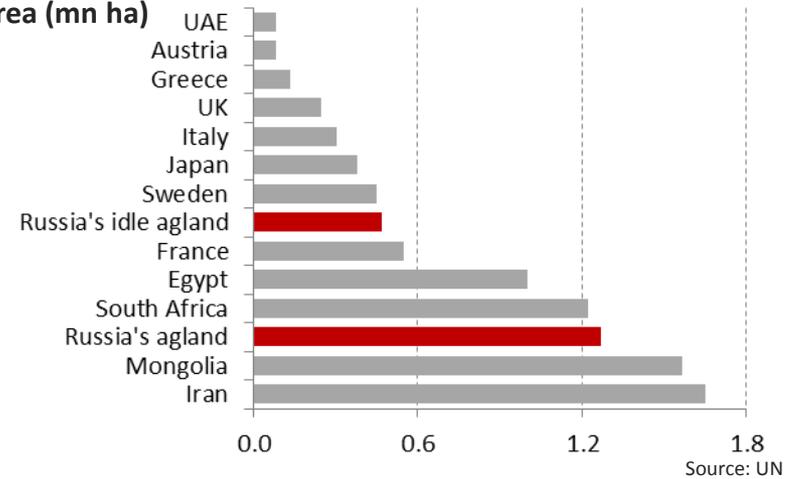
Source: Rosstat

Russian agriculture has been rebuilding over the last 15 years. The country has turned from food importer in 1990s to food exporter in 2000s and is likely to dominate the global grain trade by mid 2010s.

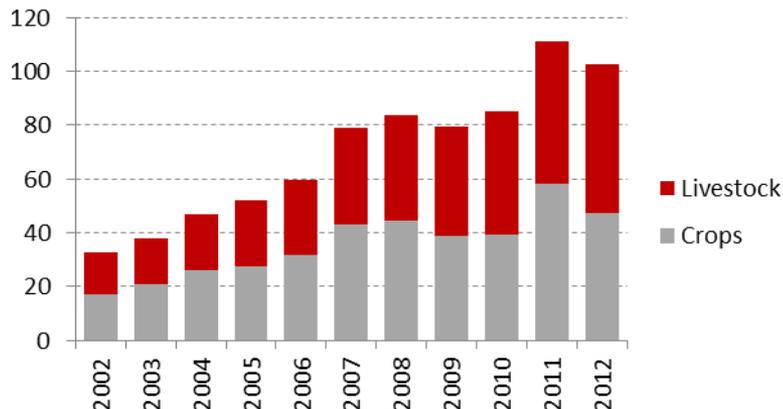
Russian economy

- Russian agriculture currently contributes 4.4% to the country's GDP
- Russia agricultural production tripled over the last twelve years thanks to the government creating favorable investment climate for the sector
- Nevertheless, Russia's agricultural resources are far from being fully utilized with almost 40% of fertile arable land being currently idle
- Infrastructural and transport bottle-necks could limit the agricultural output, yet these bottle-necks are removable

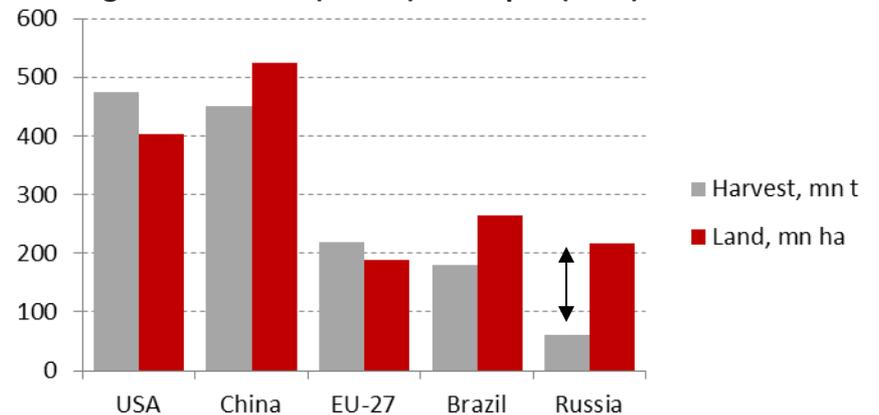
Arable land in Russia compared to selected countries' total area (mn ha)



Russia's agricultural output (\$bn)



Agricultural land (mn ha) vs output (mn t)



Russia will become world largest wheat exporter in the next 2-3 years. With proper level of investments, Russia could increase its food exports by 3-4 times

With...

- **127mn ha** of arable land of which 47-50mn ha are currently idle
- **The best fertilizer-harvest conversion** rate globally

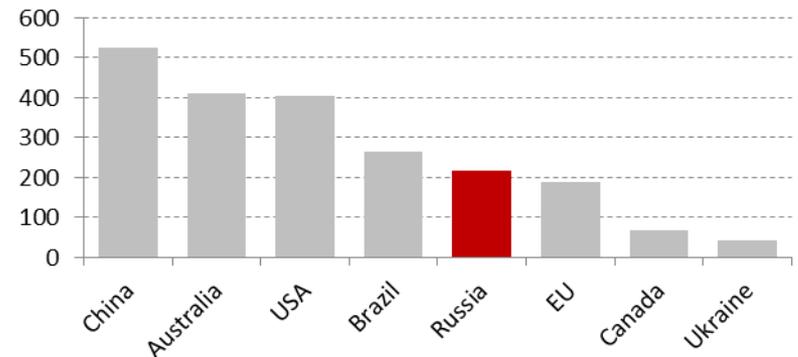
...Russia is well positioned to reap the benefits of increasing food demand by the means of...

- **Introducing more land into cultivation.** Currently Russia has approximately 127mn ha of arable land of which only 77-80mn ha were cultivated in 2012
- **Implementing modern agri technologies** coupled with extending fertilizer use should improve yields dramatically
- **Eliminating bottlenecks** in exports infrastructure

... while 'entry ticket' price is low

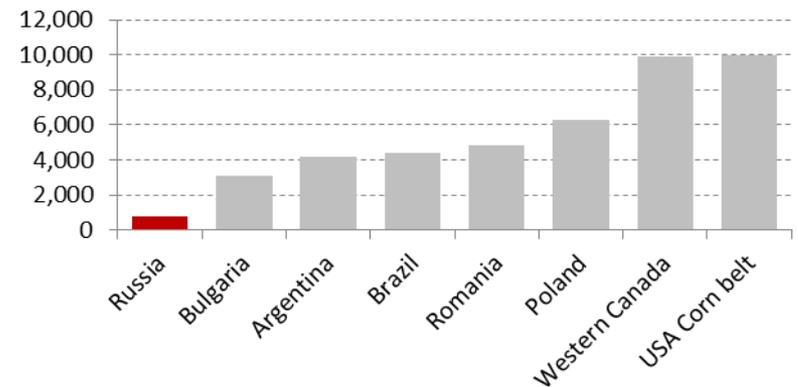
- Unlike some of the CIS agri producing countries, **owning land in Russia is legal** which implies lower risk for farmers
- **Land prices are low** compared with most of the developed and emerging countries
- **General input costs** are below that of developed world and most of the emerging countries

World agricultural land including pastures by country (mn ha)



Source: FAPRI

Agricultural land prices by country (\$/ha)



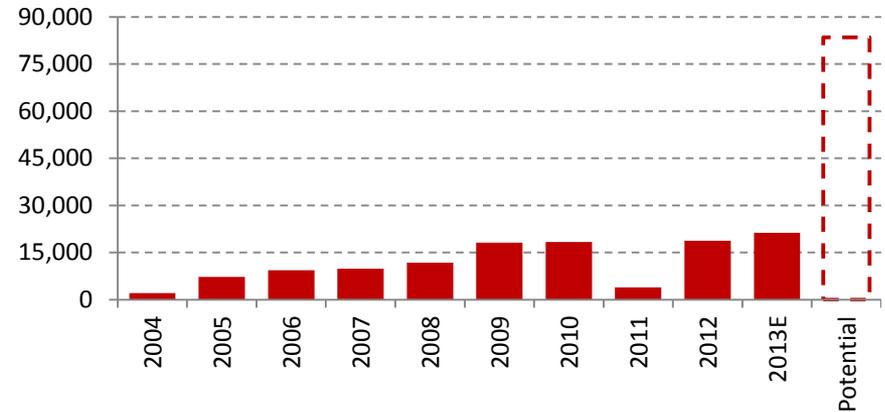
Source: BEF

Russia has come a long way to become #2 grain exporter globally which was driven by increasing cropped land and growing productivity. Nevertheless, Russian agricultural land is still cheap and there is scope for productivity improvement

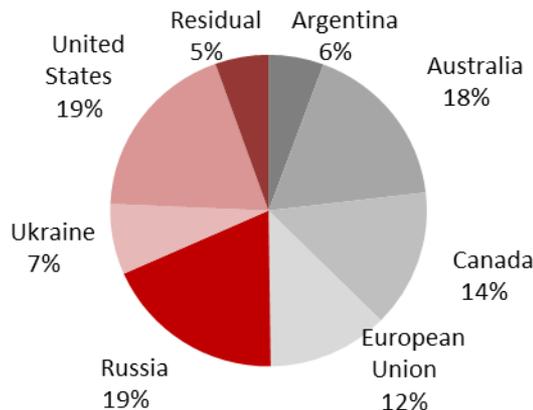
Russia can increase its agricultural products exports with the proper level of investments in

- ▶ Productivity improvements via agricultural equipment and irrigation
- ▶ Exports infrastructure development which consists of:
 - Transport infrastructure
 - Storage infrastructure
 - Seaports

Russian wheat export ('000 t)



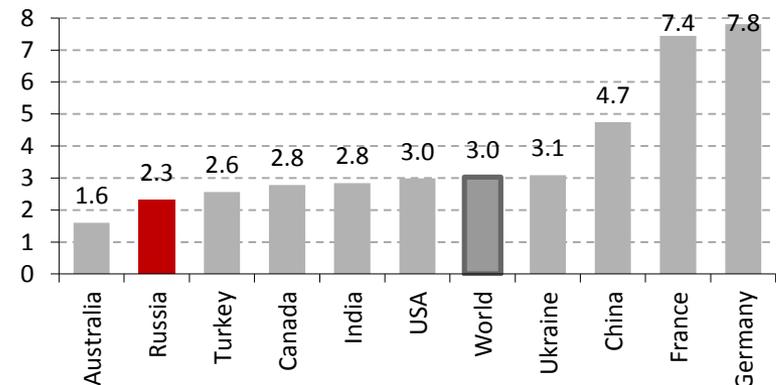
World largest wheat exporters (2012)



Source: USDA

Source: Rosstat, Aton estimates

Grain harvest yields (t/ha) compared



Source: Rosstat, FAPRI, Aton estimates

Although most of resource-related investment stories relate on global drivers as well as political will and support, agriculture success also highly depends on micro factors

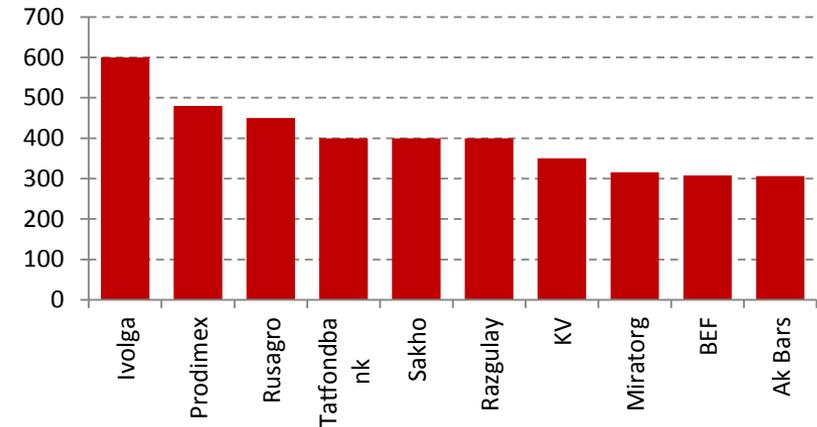
Macro factors

- Growing population
- Cheap land
- Government support of the industry (lower taxes, subsidized loans, subsidized equipment leasing, etc.)

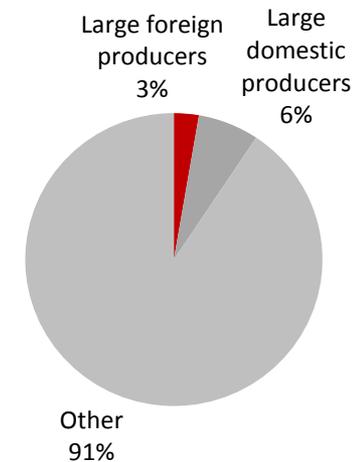
Micro factors

- Apart from establishing relationships with...
 - Local authorities
 - Credit institutions
 - Suppliers
 - Clients
- ...building a proper agricultural cluster defines the success of the investment case
- An agricultural cluster should consist of
 - High quality land with land plots located closely
 - Storage infrastructure
 - Processing facilities

Russian top land banks ('000 ha)



Russian agricultural land concentration



Source: Companies data

ATON is the oldest and the only full-scale independent investment bank in Russia which offers integrated solutions to its clients

Agriculture is one of our focus industries of Russian economy

- We have deep understanding of Russian agricultural business
- Our experience in the sector includes various types of transactions
- Aton's structure allows contacting various entrepreneurs across all sectors including agriculture

Our solutions are based on analysis of the client's specific business model, scale of operations, business development strategy, existing capital structure, and the global financial markets conditions

- We are focused on small and mid-cap companies and transactions of up to \$300mn
- Our target is the clients' success

ATON structure includes

- Brokerage services for institutional and private investors
- Asset management unit
- Private equity arm
- Corporate finance

ATON's team has far-reaching experience across various industries, such as agriculture, consumer and retail, metals and mining, real estate, financial services, oil and gas, telecommunications, mass media, and power generation

- Joint venture and strategic partnerships/alliances advisory
- M&A advisory both on buy-side and sell-side
- IPOs and SPOs with listing at Russian and international stock exchanges including listing foreign securities at the Moscow Exchange
- Private Placements
- Complex structured products
- Advisory on business restructuring for future share offerings and improvement of corporate governance (including various types of business restructuring and corporate reorganizations)
- Investor relations advisory
- Arranging LBOs and MBOs
- Arranging project financing
- Strategic financial advisory

Appendices



Appendix 1
Global view on food markets

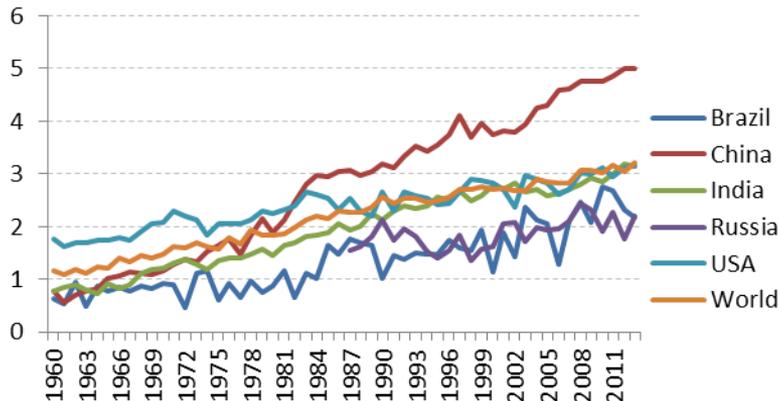


Limited availability of agricultural land implies that food supply increases will need to be brought about by productivity improvements

Global trends

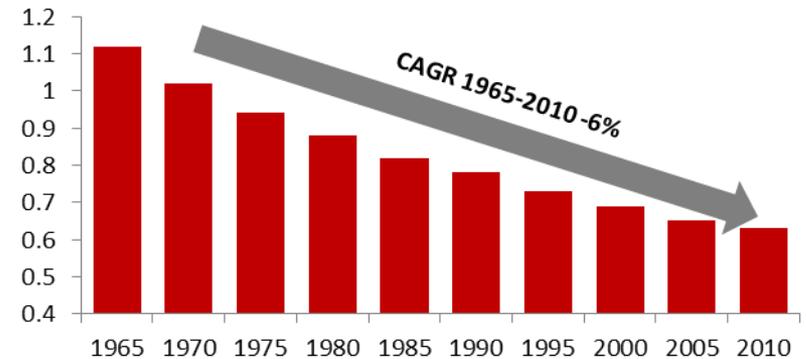
- According to UN report issued in July 2013, the global population is to reach 9,6bn by 2050 from current 7,2bn while it is going to add 1bn people over the next twelve years with developing countries being highlighted as the main source of growth
- This growth should trigger grains demand to add up to 1 bn tonnes directly as food and indirectly as fodder, on our view
- Incomes growth across emerging countries should also be driving food demand
- Productivity improvement has been driving food supply over the last 50 years

Wheat yields across various countries (t/ha) since 1960



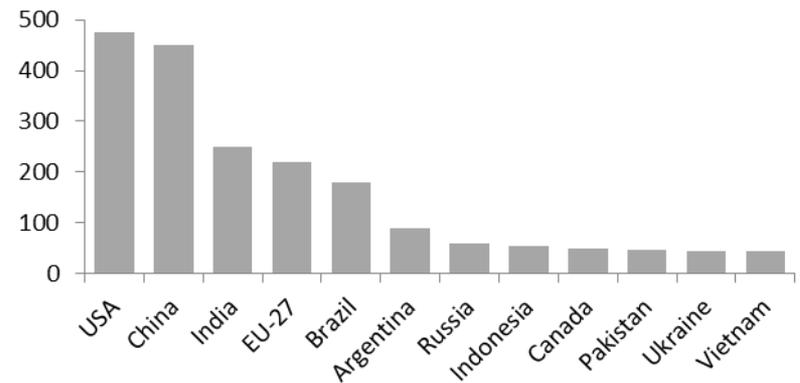
Source: USDA

World agricultural land per capita



Source: USDA, IMF

Global top agricultural producers output (major crops, mn t)



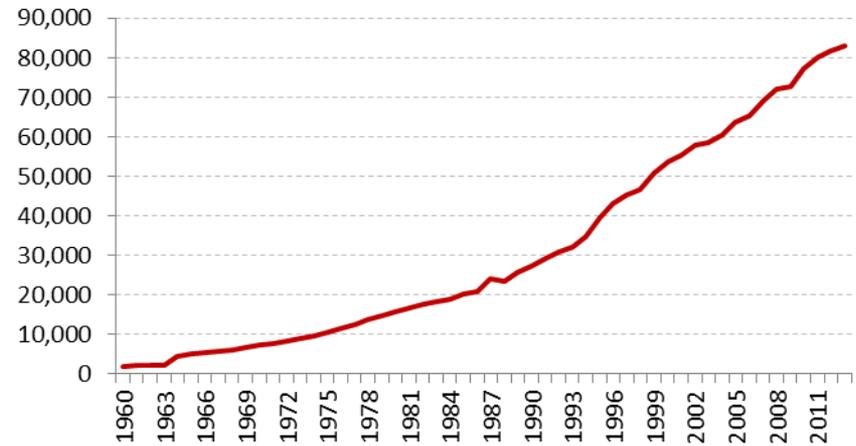
Source: UN, USDA, Aton estimates

Protein consumption growth also drives prices

Global trends

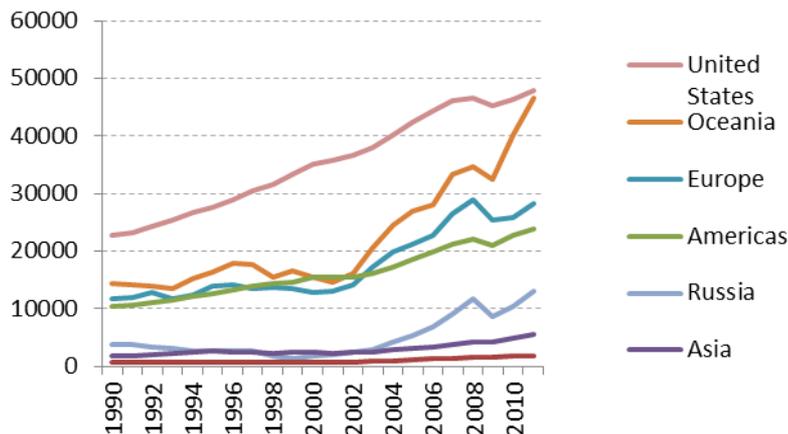
- Per capita daily protein consumption has been growing steadily over the last 60 years and is set to continue driven by both growing global population and increasing incomes in developing countries
- This is set to drive demand for coarse grains which would require more land to be introduced into cultivation as well as land productivity improvement

Global annual poultry consumption ('000 tonnes)



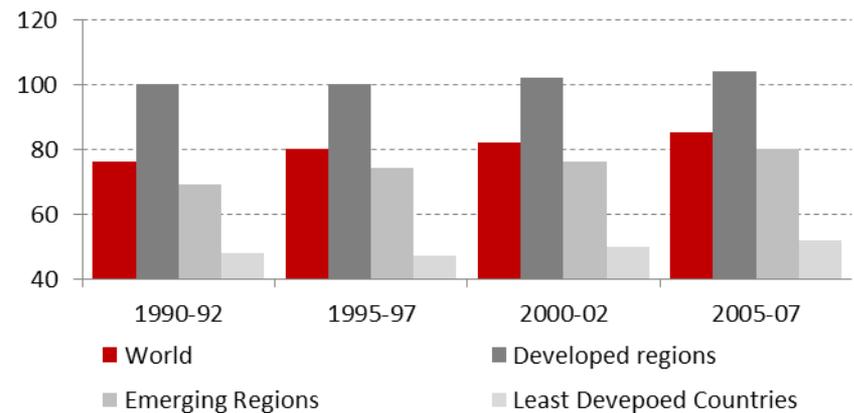
Source: USDA, IMF

GDP per capita performance (\$)



Source: USDA

Per capita daily protein consumption compared



Source: FAO

Appendix 2
Russian agriculture

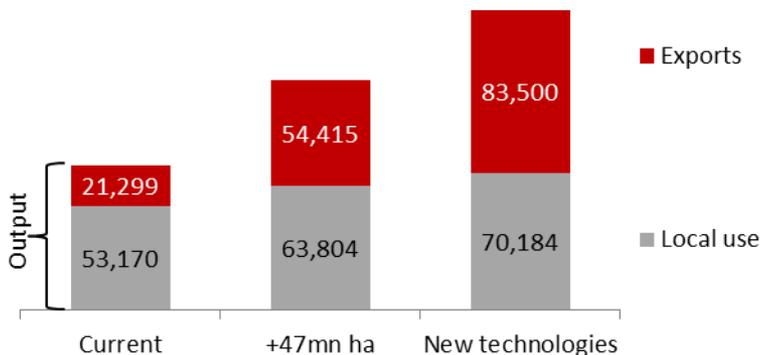


Russia has excellent potential given the scope for agricultural companies' productivity improvement, and relatively lower input costs

There are few major elements of the of agricultural production success which require capital

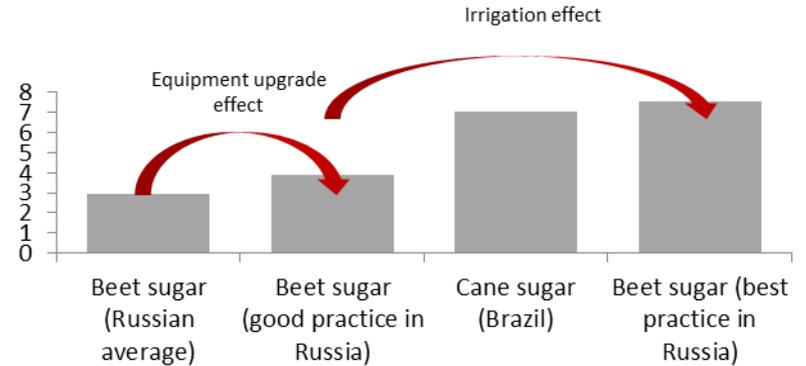
- Soil quality improvement via different measures including irrigation
- Technology efficiency which assumes having enough highly efficient equipment which allows implementing best practices and raise the amount of highly profitable crops (such as corn) in the crop mix structure
- Creating suitable supporting infrastructure (warehouses, elevators, fuel stations, etc.) is also essentially important in the process of agricultural production
- Highly qualified personnel

Russia's grain exports potential ('000 tonnes)



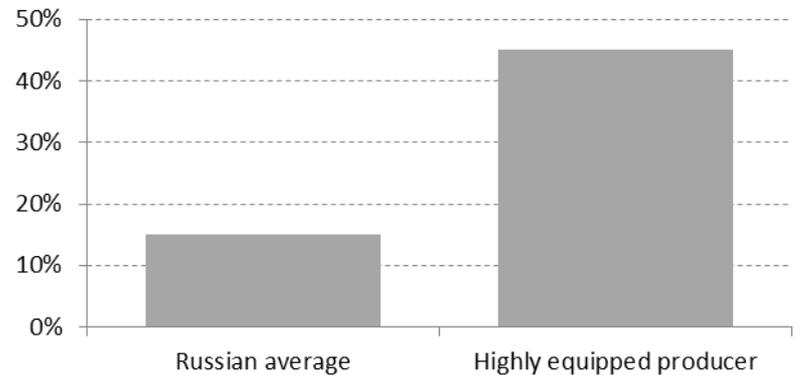
Source: Rosstat, Aton estimates

Sugar output per ha per annum of land under cultivation (tonnes)



Source: Rosstat, FAPRI, Aton estimates

Corn share in crop mix structure compared



Source: Rosstat, Aton estimates

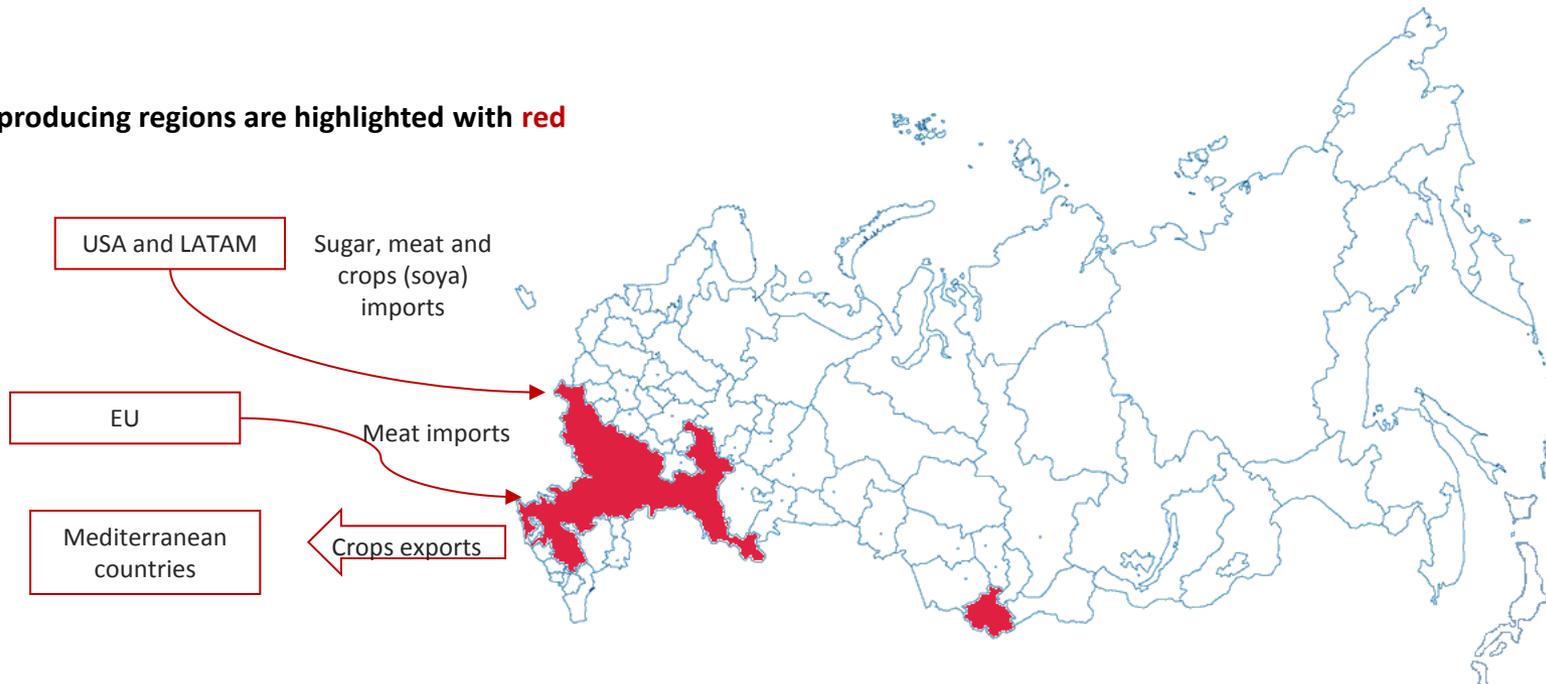
Russia has 47 mn of arable land which is currently idle. That defines the land acquisition and lease prices being among lowest globally

The amount of Russia's fertile land currently idle...

- Exceeds UAE territory by almost 6 times
- Is able to produce more grain than Russia currently consumes even if this land is cultivated with average Russian technology which is far from being modern and efficient

...by being put into cultivation could change the landscape of the global grain market dramatically

Crops producing regions are highlighted with red



Strengths

- A great deal of potential to increase land productivity and improve labour efficiency
- Abundant land available at very low prices when compared with other countries
- Low input costs (fertilizers, land prices, land rent)
- Scope to raise yields
- Growing localization of food production
- Irrigation adds efficiency, but is not required to receive harvest

Opportunities

- Investments into transport infrastructure including eliminating exports infrastructure bottlenecks
- Scope to increase government support
- VAT rate in agriculture amounts to 10% compared with 18% for the rest of goods
- 0% corporate income tax rate until 2015. The government plans gradual increase of the rate in future
- Subsidized interest rates. The government compensates interest payments for agricultural companies' loans in the amount of the refinancing rate

Weaknesses

- Land acquisition process might take up to 3 years, on average, if land is acquired from private individuals
- Russia's qualified labour force is limited. Given that Russia lags in terms of implementing modern land cultivating technologies, local employees require additional training to be able to use the new equipment and implement advanced technologies properly
- Weather risk. Rainfall is highly volatile with equal distribution of rainfall throughout the agricultural season a rare occurrence.

Threats

- Biological risks
- Country risk makes financing expensive

Appendix 3
Aton



Selected transactions undertaken with the help of ATON team members. Agriculture deals are **highlighted**

M&A transactions



RUSSIAN GRAIN

2013

Financial advisor to Russian Grain OJSC on sale of 42 th. ha of farming land 200 th. tonnes of storage capacity for grain and oil-bearing crops in Voronezh region

Equity offerings			
Year	Company	Industry	Deal value, US\$
2013	QIWI	Telecoms	288
2013	MICEX-RTS	Financials	500
2012	RBC	Media	32
2010	Rusgrain	Agriculture	10
2008	Rusgrain	Agriculture	20
2008	Razgulay	Agriculture	300
2007	Razgulay	Agriculture	70
2007	Dixy	Retail	360
2007	M.Video	Retail	365
2007	Rosinter	Public catering	100
2007	Uralkali	Chemicals	948
2007	KDD Group	Development	128
2007	Sitronics	Telecoms	402
2007	OPIN	Development	326
2007	EPH	Development	131
2006	OPIN	Development	879
2006	EPH	Development	125
2006	Comstar	Telecoms	1 063
2006	Razgulay	Agriculture	144
2006	Cherkizovo	Agriculture	300

20 years of successful operations in Russia

1991	1994-97	2000	2002	2003-05	2006	2009	2010	2011
<ul style="list-style-type: none"> ATON group is founded by Yevgeni Yuriev 	<ul style="list-style-type: none"> ATON co-founds the Moscow Stock Exchange ATON co-founds NAUFOR 	<ul style="list-style-type: none"> ATON pioneers the launch of a web-based trading system 	<ul style="list-style-type: none"> ATON is one of the first underwriters of the first IPO in Russia: RosBusiness-Consulting 	<ul style="list-style-type: none"> ATON successfully completes 80+ deals in corporate finance ATON becomes one of the leading brokerage companies in Russia 	<ul style="list-style-type: none"> ATON sells its institutional business to UniCredit Group 	<ul style="list-style-type: none"> ATON builds new businesses including its Institutional Brokerage and Research Team, Corporate Finance, Wealth Management ATON opens an office in Cyprus 	<ul style="list-style-type: none"> ATON builds new businesses – Fixed income and DMA ATON opens offices in Great Britain and Kazakhstan ATON launches a new web-based trading system ATON Line 3 ATON launches a new retail project «Personal Investment» 	<ul style="list-style-type: none"> ATON receives award «Company of the year 2011» as «Highly reliable company in investment business» nomination

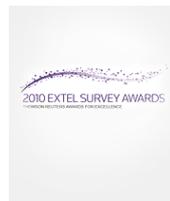
Awards



Brand of the year/
EFFIE 2010



«SPEAR'S Wealth Management Russia Awards 2010»



Extel Surveys – 4 place among Russian brokers



«Finance» - «Best client service» — 2011



«Elite of stock market» - 2008



Person of the year 2009 – nomination «Grand Prix» and «Business sphere» Yevgeni Yuriev and Andrey Shemetov



«Company of the year» – award for «High reliability in investment business» - 2011



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