Contacts for investors:

E-mail: ir@alrosa.ru
Phone: +7 495 745 5872
Sergey Takhiev, Corporate Finance
E-mail: st@alrosa.ru
Mobile: +7 985 760 5574

ALROSA Press Centre:

E-mail: smi@alrosa.ru
T: +7 495 620 9250, ext. 1426

ALROSA Q2 and 6M 2018 IFRS results

Moscow, 24 August 2018 – ALROSA, the world leader in diamond mining, announces an increase in its EBITDA by 10% y-o-y in Q2 2018 and by 22% in 6M 2018.

Key highlights for 6M 2018

- **Revenue increased by 8%, to RUB 168 bn,** on the back of higher average diamond selling prices and better sales mix, despite the 8% drop in sales in carats, including sales of gem-quality diamonds shrinking by 14%.
- **EBITDA grew by 22%, to RUB 89.1 bn,** supported by higher top line and lower production costs.
- **EBITDA margin** exoanded by 6 p.p. to 53%.
- **6M net profit** grew by 19% to RUB58.3 on stronger EBITDA.
- **Free cash flow (FCF) grew by 23%** on profitbaility expansion while investments remained broadly flat (+RUB 0.6 bn). Additional driver for FCF growth was the working capital release of RUB 6.6 bn due to sales from inventory.
- **Dividends:** Supervisory Board recommended that the shareholders approve the 6M 2018 dividends of at least RUB 5.93 per share. The General Meeting of Shareholders to discuss the matter is tentatively scheduled for 30 September.

Key highlights in Q2 2018

- **Revenue** decreased by 25% q-o-q, to RUB 72 bn, mainly due to the drop in sales (-32% q-o-q as a result of the high base effect of Q1 2018), while the 2% growth y-o-y was driven by higher average selling prices, with sales down by 11% y-o-y.
- **EBITDA** in Q2 declined by 13% q-o-q on the back of a 32% drop in sales in carats, which was partially offset, among other factors, by an improved sales mix. A 10% growth y-o-y results from lower costs and better prices.
- **EBITDA margin** in Q2 grew by 7 p.p. to 57%.
- **Net profit** in Q2 went down to RUB 25.4 bn (-23% q-o-q) reflecting the lower EBITDA. Net profit remained almost flat compared to Q2 2017 (+1% y-o-y).
- **Free cash flow** decreased to RUB 20.9 bn (-49% q-o-q) due to the lower revenue and the seasonal growth in investments to RUB 7.2 bn (+48% q-o-q). Working capital buildup was RUB 6 bn as the Company started seasonal stocking up on supplies for the winter period. The increased operating cash flow drove the FCF 33% up y-o-y.
- **Net debt** fell to RUB 6 bn (-68% q-o-q, -83% y-o-y) as company continued to generate positive FCF.
- **Net debt to EBITDA** was at 0.04x vs. 0.13x in Q1 2018.

Outlook: our guidance for 2018 sales remains unchanged at 39–40 million carats.

RUB bn	Q2 2018	Q1 2018	q-o-q	Q2 2017	y-o-y	6M 2018	6M 2017	y-o-y
Diamond sales, million carats, incl.	9.0	13.3	-32%	10.2	-11%	22.4	24.3	-8%
gem-quality	6.3	10.1	-38%	8.0	-21%	16.4	19.1	-14%
industrial	2.7	3.2	-16%	2.2	26%	6.0	5.2	15%
Revenue	72.2	96.0	-25%	70.7	2%	168.2	155.6	8%
EBITDA[1]	41.3	47.7	-13%	37.6	10%	89.1	72.8	22%
EBITDA margin	57%	50%		53%		53%	47%	
Net profit	25.4	32.9	-23%	25.2	1%	58.3	48.9	19%
Free cash flow[2]	20.9	41.1	-49%	15.8	33%	62.0	50.3	23%
Net debt[3]	6.0	18.6	-68%	35.7	-83%	6.0	35.7	-83%
Net debt / EBITDA	0.04x	0.13x		0.3x			0.3x	

ALROSA's CEO Sergey Ivanov commented on the results:

"The Company delivered strong financial results, reaffirming its industry leadership both in profitability and market share. In the firs six months of 2018, higher diamond prices and stringent cost control along with softer rouble drove our EBITDA margin up to 53%. Free cash flow expanded by 23% to RUB 62 bn.

ALROSA maintained its strategic focus on core assets. In early 2018, we disposed non-core gas assets at an auction for RUB 30.3 bn, with the proceeds used to bring down the Company's debt. As at the end of June 2018, our net debt-to-EBITDA ratio was one of the lowest in the industry at 0.04x. In July 2018, S&P, a global credit rating agency, upgraded ALROSA's credit rating to an investment-grade level.

The Company's ability to generate free cash flow enables us not only to bring our leverage down, but also to share cash with our shareholders in the form of dividends. In August, the Supervisory Board approved a new dividend policy with allows to pay dividends of up to 100% of free cash flow twice a year depending on the Company's leverage."

---

[1] EBITDA stands for earnings for the last 12 months before interest, income tax, depreciation and amortisation calculated for the past twelve months in accordance with the International Financial Reporting Standards (IFRS).

[2] FCF (free cash flow) is the operating cash flow net of investments (capital expenditure) in the core business in accordance with the IFRS.

[3] Net debt is the amount of debt less cash and cash equivalents at each reporting date in accordance with the IFRS.

CONFERENCE CALL DIAL-IN DETAILS, 28TH AUGUST

ALROSA is pleased to invite the investment community to a conference call to discuss Q2 2018 IFRS Results:

Tuesday, 28 August 2018

- 09:00 – USA (New-York)
- 14:00 – UK (London)
- 16:00 – Russia (Moscow)

Conference call dial-in details:

Free Call USA:	+1 866 665 4038
Free Call UK:	0808 238 9622
Free Call Russia:	8 10 800 250 35011
International:	+44 207 192 8501
Conference ID:	9076509

To join the webcast please follow the link https://webcasts.eqs.com/alrosa20180828
Or you can download a PDF version of the presentation at www.alrosa.ru

* We recommend participants to dial in 5 minutes prior to the start of the conference call.

2018 KEY EVENTS

- **10 September** – August sales results
- **10 October** – September sales results
- **22 October** – Q3 2018 operational results
- **08 November** – Q3 IFRS financial results
- **09 November** – October sales results
- **10 December** – November sales results

PUBLICATIONS ARCHIVE

- Q2 and 6M 2018 IFRS results (Excel)
- Q2 2018 ALROSA Trading update (PDF)
- Company data book (Excel)
- July 2018 sales results (PDF)
- Presentation – Severalmaz – July 2018 (PDF)
- Investor presentation – August 2018 (PDF)
- 2017 Annual report (PDF)

Rough and polished diamond market overview

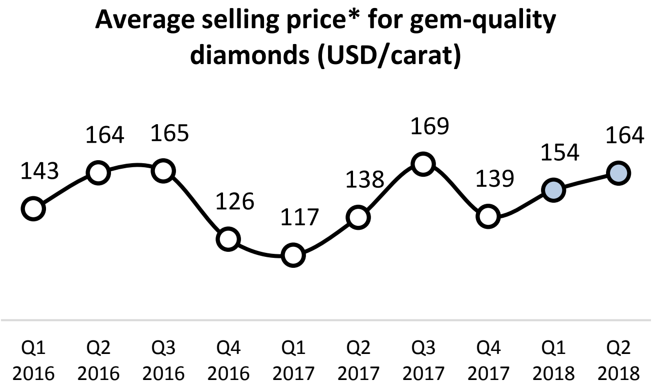
- According to the Company's estimates, diamond jewellery sales in H1 2018 were on the rise mainly due to higher sales in the USA and Asia-Pacific countries.
- In H1 2018, normalisation of diamond inventories among consumers (cutters and polishers) on the back of growing demand for end products (jewellery) and limited rough diamond supply were the key drivers behind higher diamond prices: ALROSA diamond price index grew by 4.4% during the period.

Operating highlights

- In Q2 2018, diamond sales dropped to 9 million carats (-32% q-o-q), while sales of gem-quality diamonds declined to 6.3 million carats (-38% q-o-q) due to the high base effect in Q1 2018, when some 6 million carats were sold from inventories. Sales fell by 11% y-o-y as a result of a decrease in production (-18% y-o-y).
- In 6M 2018, sales went down by 8%, to 22.4 million carats, while sales of gem-quality diamonds dropped by 14%, to 16.4 million carats due to lower output.
- Diamond inventories declined to a low of 11 million carats (-11% q-o-q), approaching the Company's technological minimum on the back of strong demand across the entire sales mix.

Growth in average selling prices for gem-quality diamonds

- The average selling prices for gem-quality diamonds grew 6% q-o-q (+18% y-o-y) driven by both general growth in demand and a higher share of large diamonds (+10.8 carats). In value terms, the latter accounted for 14% in Q2 2018 (vs. 5% in Q1 2018).

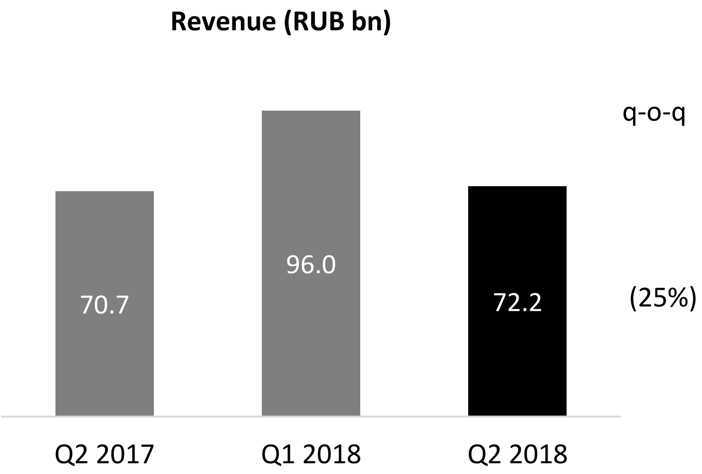


** The average selling prices (revenue divided by sales in carats) are affected, inter alia, by changes in the sales mix in the reporting period.*

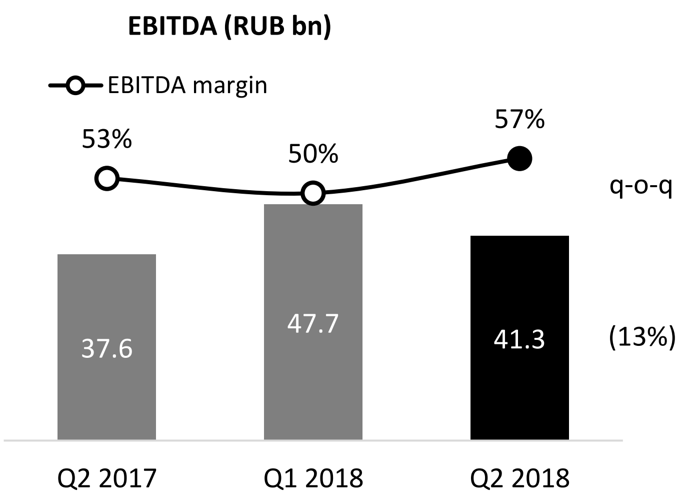
Seasonal production growth by 15% q-o-q

- Q-o-q diamond production growth is driven by an increase in production at alluvial deposits, Udachny underground mine, and Severalmaz production assets. A 17% y-o-y decrease in output for 6M 2018 was mainly caused by the discontinued production at the Mir underground mine (please see the press release on Q2 2018 Operating results)

Key financial highlights



- **In Q2 2018, revenue dropped by 25% q-o-q** primarily due to lower sales. A 2% y-o-y growth was driven by higher average selling prices. In 6M 2018, revenue grew to RUB 168 bn (+8% q-o-q) following an increase in average selling prices, including changes in the sales mix.
- **The Company's costs in 6M 2018 went down by 4% y-o-y from RUB 82.8 bn to RUB 79.1 bn** thanks to a set of measures aimed at lower payroll expenses (down RUB 1.4 bn) and electricity costs (down RUB 1.2 bn), and sale of gas assets in February 2018.
- **Q2 FX rate positive impact** on EBITDA level was RUB 5.6 bn 2018; on a y-o-y basis, the positive impact totalled RUB 2.6 bn.



- **Q2 EBITDA decreased by 13% q-o-q** mainly following a 32% decline in sales, which was partially offset by an improved sales mix, FX rate impact, and changes in diamond and ore inventories. A 10% y-o-y growth was attributable to lower costs and better prices.
- **EBITDA for 6M 2018 grew to RUB 89.1 bn (+22% y-o-y):** changes in the sales mix of gem-quality diamonds with increased sales of premium diamonds, higher diamond prices, FX rate impact, as well as the cost control programme were offset by a 11% reduction in sales, including lower sales of gem-quality diamonds (-14%).
- **EBITDA margin** grew by 7 p.p. q-o-q to 57% in Q2 2018 and by 6 p.p. to 53% in 6M 2018.
- **Net profit in Q2 2018 decreased to RUB 25.4 bn (-23% q-o-q)** reflecting the lower EBITDA. Net profit marginally increased against Q2 2017 (+1% y-o-y).
- **6M 2018 net profit grew by 19%** to RUB 58.3 bn (vs. RUB 48.9 bn in 6M 2017), driven by a considerable profitability increase.

Debt management

- **In 6M 2018, the Company's total debt decreased from RUB 93.4 bn to RUB 63.9 bn.** due to the early repayment of USD 600 m in short-term loans in March 2018 (please see the press release) using the proceeds from the sale of non-core assets (please see the press release). The remaining debt mainly consists of USD 985 m 10-year Eurobonds with a coupon rate of 7.75% due in November 2020.

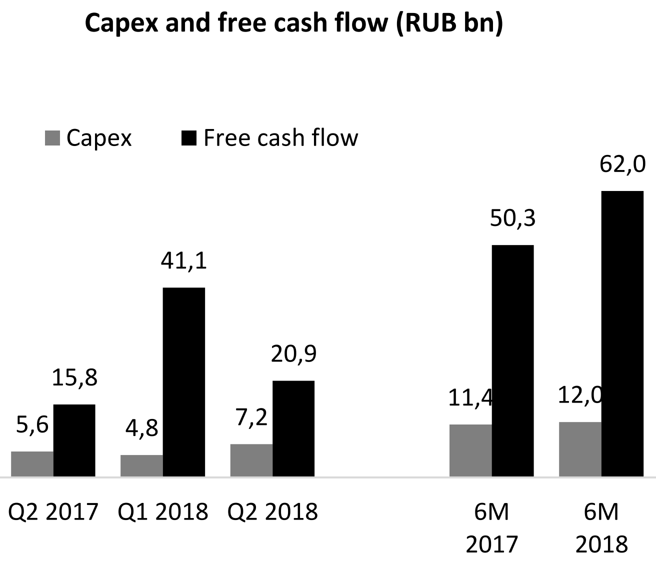
- **In Q2 2018 interest payments decreased by 8% q-o-q,** to RUB 1.3 bn, due to the repayment of short-term loans, while in 6M 2018 interest payments dropped from RUB 6.5 bn to RUB 2.8 bn (-58%) as a result of deleveraging by more than USD 1.2 bn since early 2017.
- **As at the end of Q2 2018, net debt decreased to RUB 6.0 bn (-83% y-o-y)** thanks to the free cash flow generated.
- In 6M 2018, **the net debt / EBITDA ratio** went down to 0.04x.

Working capital

- **In Q2 2018, the Company's working capital increased by RUB 6.2 bn** as the Company started seasonal stocking up on supplies to ensure stable operations during the winter period.
- **The RUB 6.6 bn working capital release over the first six months of 2018** resulted from increased sales of inventories.

Investments

- **In Q2 2018, investments in the core business grew by 48% q-o-q** as a result of the ongoing programme for technical renovation and upgrade of production capacities (+RUB 2.9 bn q-o-q) and an increase in expansion capex from RUB 2.5 bn up to RUB 6.2 bn associated with the Verkhne-Munskoye deposit (+RUB 2.1 bn q-o-q), the Udachny underground mine (+RUB 0.7 bn q-o-q) and the Zarya pipe (+RUB 0.7 bn q-o-q) since the costs had been partially carried over from Q1 2018 to Q2 2018 because of the climatic conditions (low temperatures) in Q1 2018.



- **The growth of investments by 29% y-o-y** can be attributed to the mining investment cycle specifics.
- **In 6M 2018, investments rose by 5% y-o-y** on the peak in the Verkhne-Munskoye deposit investment cycle in 2018.

In Q2 2018, free cash flow (FCF) fell by 49% q-o-q to RUB 20.9 bn (-49% q-o-q) due to the lower revenue and the seasonal growth in investments to RUB 7.2 bn (+48% q-o-q). The increased operating cash flow drove the free cash flow 33% up y-o-y.

The 6M 2018 growth of the free cash flow by 23% y-o-y was driven by higher revenue from diamond sales, with but a slight increase in capex.

Dividends

- On 6 August 2018, the Supervisory Board of ALROSA approved the new Dividend Policy providing for bi-annual dividend payments based on the Company's free cash flow (further details about the new Dividend Policy of ALROSA are available on ALROSA's official website at www.alrosa.ru).

- Based on the Company's performance in 6M 2018, the Supervisory Board made a preliminary recommendation that the General Meeting of Shareholders approve dividends of at least RUB 5.93 per share (the General Meeting of Shareholders to discuss the matter is tentatively scheduled for 30 September).

Credit rating upgrade

- In July 2018, S&P, a global credit rating agency, upgraded ALROSA's credit rating to BBB- with a stable outlook. Commenting on the decision, the agency highlighted ALROSA's consistently high margins, industry leadership, substantial improvements in financial stability, increasing operational excellence and a focus on core assets.

Stock option programme

- In December 2017, the Supervisory Board of ALROSA approved a three-year long-term incentive programme (stock option programme) offered to the Company's employees and based on changes in ALROSA's shareholder returns. The programme took effect in June 2018. To support it, the Company bought out 115,409,800 of its shares (1.6% of the authorised capital) in H1 2018.

Asset portfolio management

ALROSA continued with its strategy of efficient asset portfolio management centred around diamond mining and disposal of non-core assets.

- In February 2018, the Company auctioned its gas assets (Geotransgaz and Urengoy Gas Company) off for RUB 30.3 bn.
- In July 2018, the Company acquired a 10% stake in ALROSA-Nyurba for RUB 12 bn, which brought the Company's post-deal stake in ALROSA-Nyurba to 97.49%.

Appendices

Appendix 1. Revenue by geographical location of the customers

	Q2 2018	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**
Belgium	42%	47%	42%	42%	46%
Russia	19%	13%	21%	22%	17%
India	13%	15%	14%	14%	14%
United Arab Emirates	10%	10%	8%	6%	9%
Israel	10%	9%	9%	10%	9%
China	3%	4%	4%	4%	4%
Other	3%	2%	2%	2%	1%

Appendix 2. Working capital

RUB mln	**Q2 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**
Diamonds	30,646	33,424	50,223	48,787	38,905
Ores and sands mined	19,628	15,662	14,522	12,760	19,970
Mining and construction materials, consumable and other supplies	30,305	24,781	27,231	30,713	27,008
Trade and other receivables (excluding interest receivable)	31,917	29,598	23,631	14,725	14,385
Prepaid taxes, other than income tax	1,248	2,751	4,168	223	4,779
Accrual for employee expenses (incl. travel)	(10,541)	(11,579)	(13,213)	(11,416)	(11,863)
Trade and other payables (excluding interest accued)	(12,181)	(8,704)	(8,258)	(11,065)	(11,650)
Other taxes payable	(5,966)	(7,028)	(6,506)	(5,648)	(6,544)
Working capital	**85,056**	**78,905**	**91,798**	**79,079**	**74,990**

Appendix 3. Free cash flow

RUB mln	**Q2 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**
Operating cash flows before changes in working capital and income tax	41,159	47,217	26,946	28,099	37,534
CAPEX	(4,794)	9,669	(3,245)	(5,496)	(7,695)
Income tax paid	(8,245)	(10,934)	(3,504)	(4,113)	(8,451)
Purchase of property, plant and equipment	(7,182)	(4,844)	(8,526)	(6,986)	(5,604)
Free cash flow	**20,938**	**41,108**	**11,671**	**11,504**	**15,784**

Appendix 4. Net debt

RUB m	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Long-term debt	63,798	58,707	58,694	100,722	102,354
Short-term debt	63	99	34,734	12,850	848
Cash and cash equivalents	(52,674)	(40,221)	(7,381)	(24,933)	(61,995)
Bank deposits	(5,160)	(15)	-	(10)	(5,470)
Net debt	**6,027**	**18,570**	**86,047**	**88,629**	**35,737**