

# ALROSA

## **Key highlights and ESG topics**

**8 November 2018**

# DISCLAIMER

For notes:

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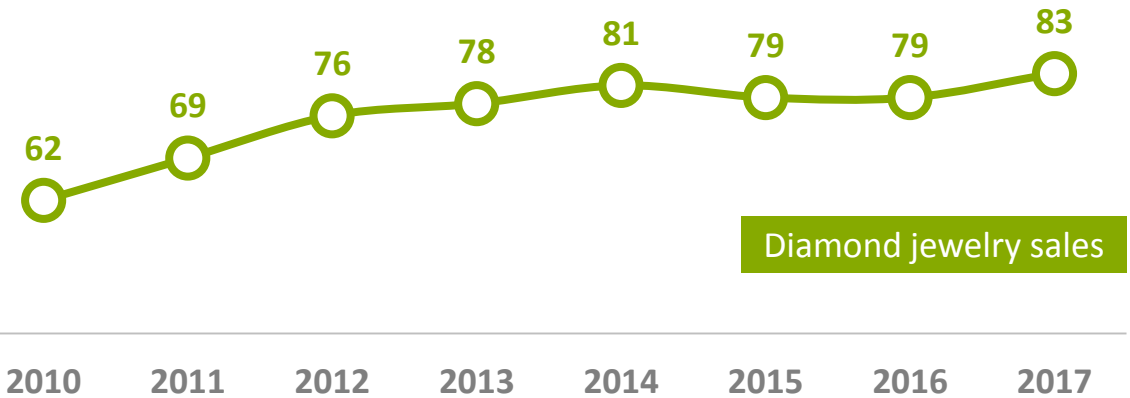
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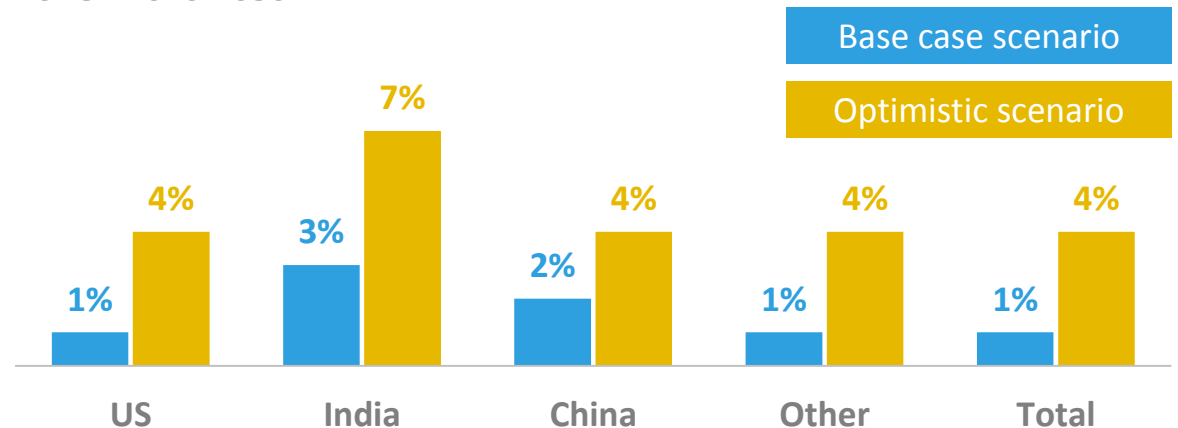
# GLOBAL DIAMOND JEWELRY MARKET GROWS BY 4%

- World diamond jewelry sales increase by 4% annually since 2010
- In 2017, global diamond jewelry sales grew 5% across all the regions
- North America and Asia-Pacific, which comprise ~70% of diamond jewelry market, enjoyed even stronger demand for diamond jewelry in H1'18 amid better consumer sentiment and a favorable macro environment
- US, India and China key drivers for diamond jewelry demand in the long-term are:
  - **USA** (50% total market): continued real disposable income growth;
  - **China**: economic growth and expansion of the Chinese middle class, early stage of adoption of bridal rings gifts tradition;
  - **India**: the ongoing expansion of bridal diamond jewelry and the middle class.

**Diamond jewelry market**  
\$ bn



**Outlook for world diamond jewelry demand**  
CAGR 2016-2030F

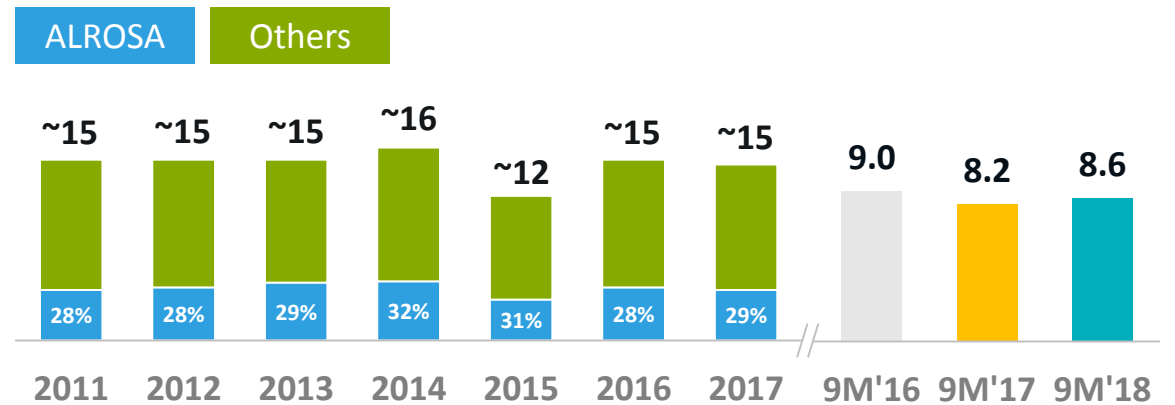


# ROUGH DIAMOND: SALES AND PRICES

- Rough diamond sales follow trend of demand for diamond jewelry
- In 9M 2018, global diamond sales in value terms were up 4% on demand recovery and stronger prices
- ALROSA's average realized prices of gem-quality rough diamonds recovered from two major "one-off" factors – namely monetization reform in India, and anti-bribery initiatives in India - and returned to its 5-year average levels
- In Q3 average realized price for gem-quality diamonds was up to 199 \$/ct driven by better diamond market demand
- \$160 per carat – 5Y average realized price of gem-quality rough diamonds

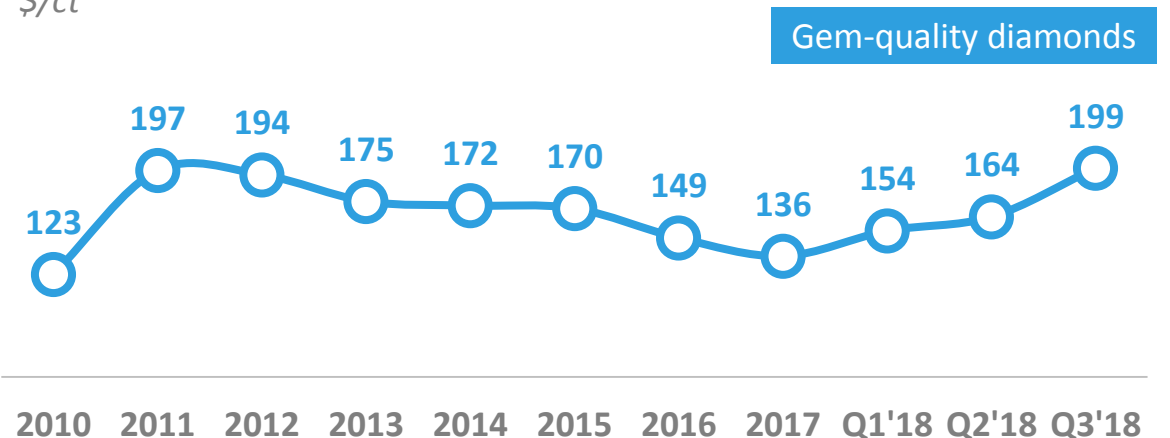
**Rough diamond sales demonstrates moderate recovery**

\$ bn



**ALROSA's average realized price**

\$/ct

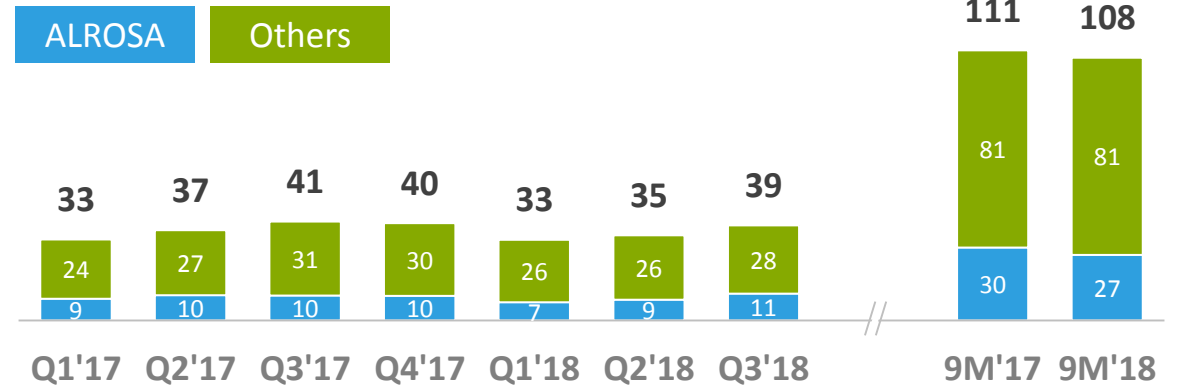


# ROUGH DIAMOND: OUTPUT & MIDSTREAM SITUATION

- In 9M 2018, major diamond producers' output decreased by 3% y-o-y, elsewhere output remained flat
- Q3 2018 midstream inventories dropped to a multi-year lows mainly on destocking of small stones
- Indian imports of rough were seasonally down; no excessive buying of rough in the midstream suggests now inventory overhang in the system

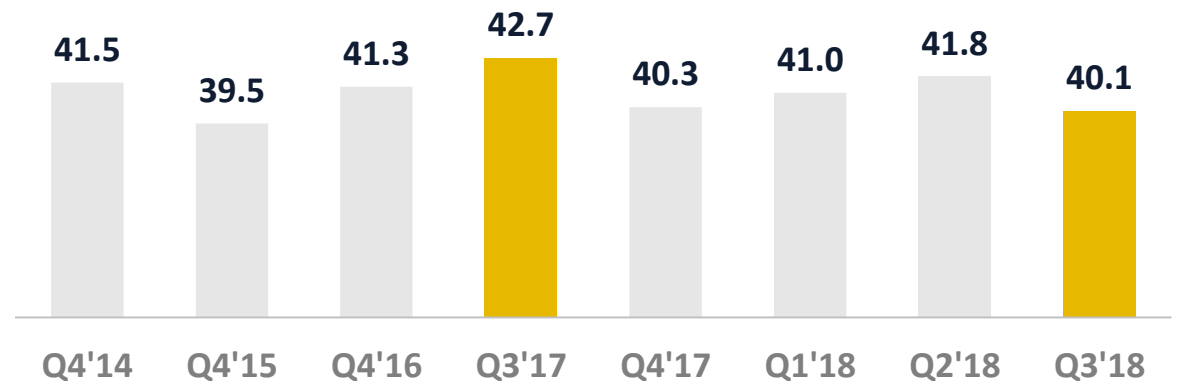
**Decrease in global diamond output, 6M 2018\***

*m ct*



**Midstream rough and polished diamond inventories**

*\$ bn*

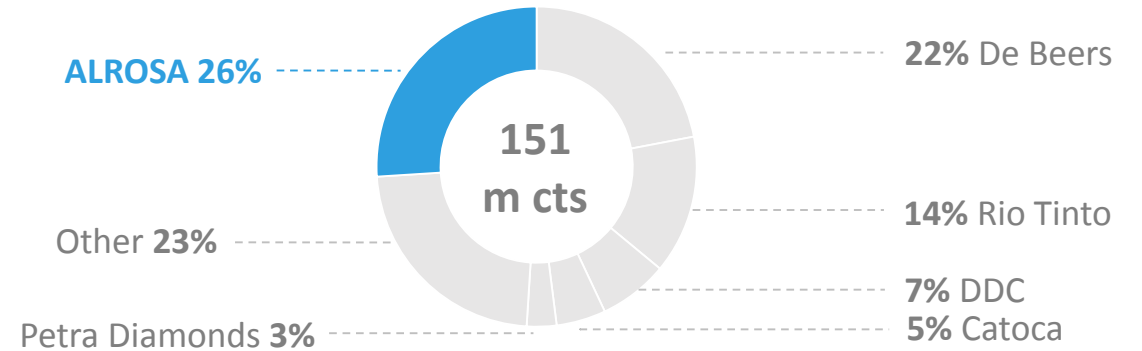


Note: \* data based on results of ALROSA and other major diamond producers (De Beers, Catoca, Petra Diamonds, Mountain Province and Stornoway Diamond)

# ROUGH DIAMOND: SUPPLY TO REMAIN TIGHT

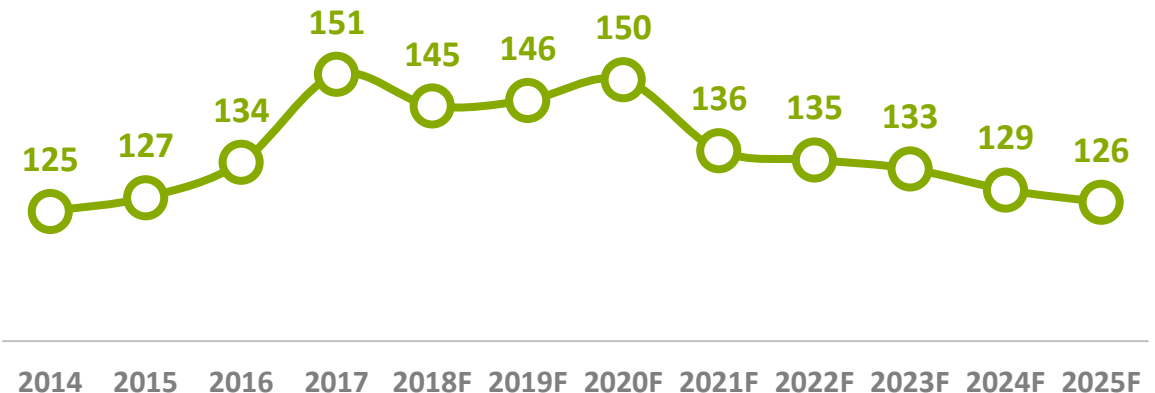
- Supply is well consolidated with BIG-3 controlling 2/3 of global supply
- Supply is quickly reacting to the demand deterioration
- Lack of new “quick-to-develop” deposits and mines depletion
- Significant decrease in supply is expected by 2020,
- ... with limited impact on the market due to sub-par quality of the products (brown diamonds with 80% price discount to standard gem-quality)

~70% of global rough diamond output controlled by BIG-3



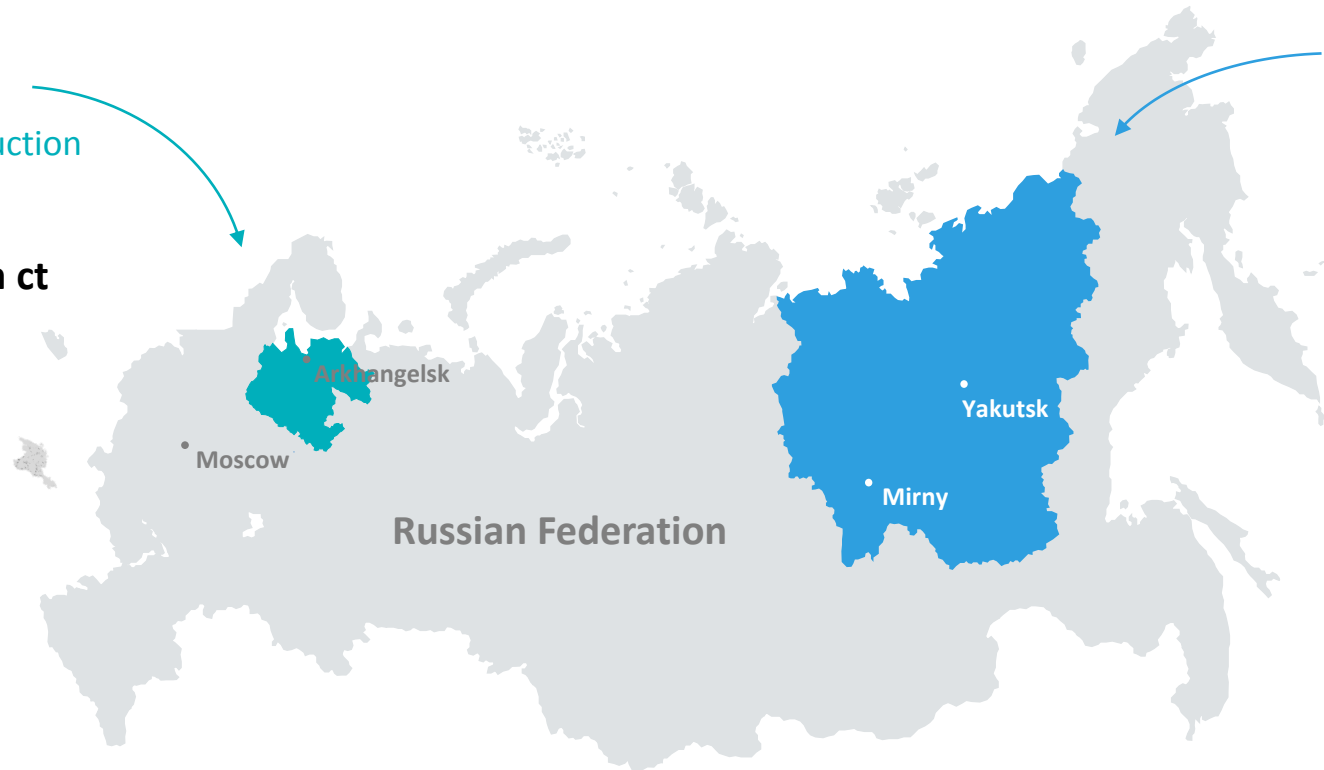
## World diamond production forecast

m ct



# ALROSA: ASSETS GEOGRAPHY

**Arkhangelsk region**  
7% of 2017 diamond production  
**2 Open-pit mines**  
**2017 production: 2.6 m ct**



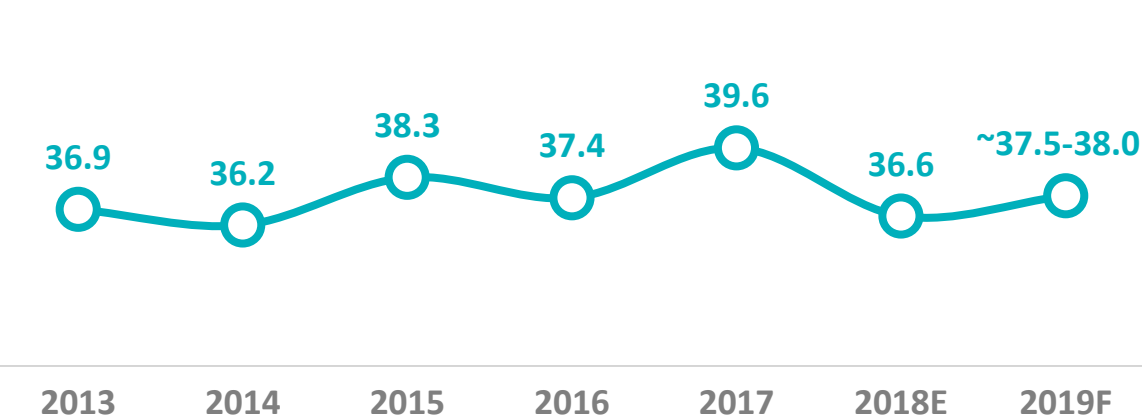
**Republic of Sakha (Yakutia)**  
93% of 2017 diamond production  
**6 Open-pit mines**  
**4 Underground mines**  
**14 Alluvial deposits**  
**2017 production: 37.0 m ct**

# HIGHEST QUALITY ASSETS & LARGEST RESERVES

- ALROSA develops world's largest reserves
- Cost production at 44 \$/ct while Company's average realized price of gem-quality rough diamond is 160 \$/ct
- Cost of underground production per carat is close to open-pit mining while grades at underground are higher by over 3x
- Output to stabilize at ~38 m ct, which is slightly above 2013-2016 volumes

## ALROSA's diamond production to stabilize at 37-38 m carats

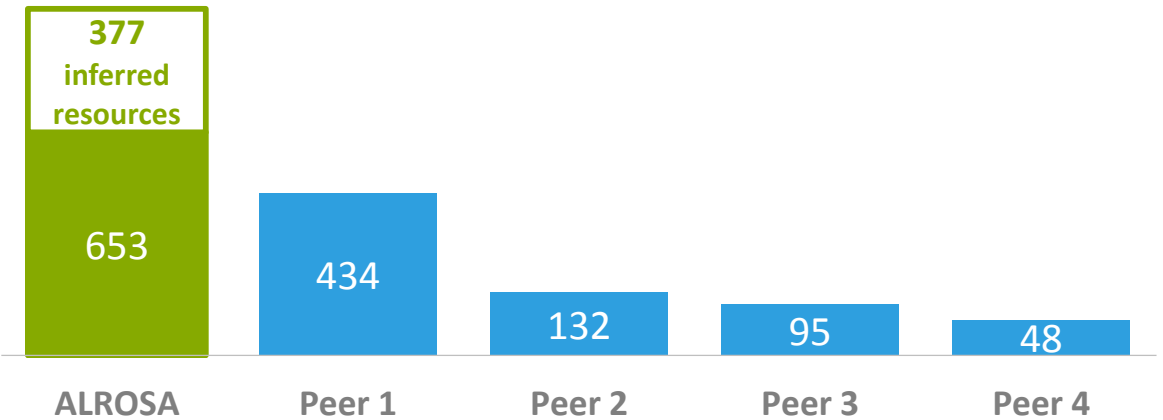
m ct



Source: Source: JORC as of 01 July 2016 (Micon), Company's estimates

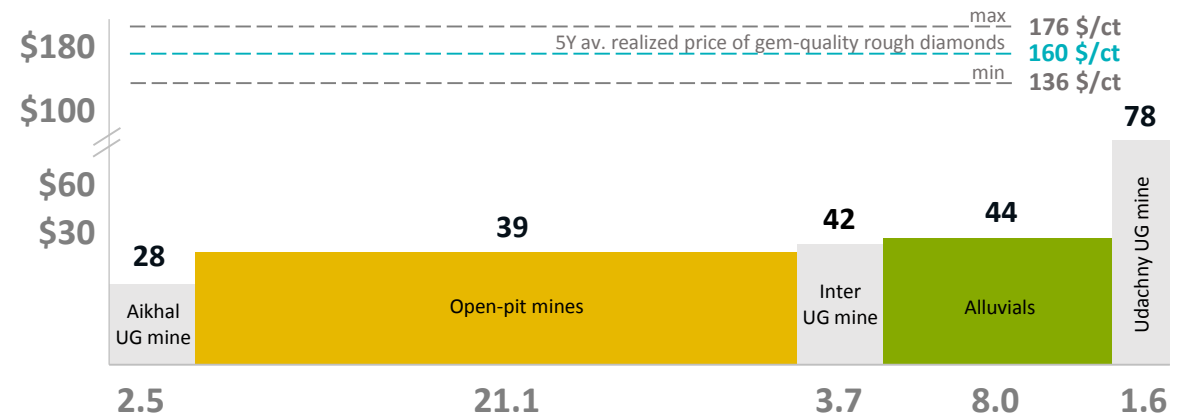
## Diamond reserves according to JORC

m ct



## High profitability margin maintained even the bottom of the cycle

\$/ct



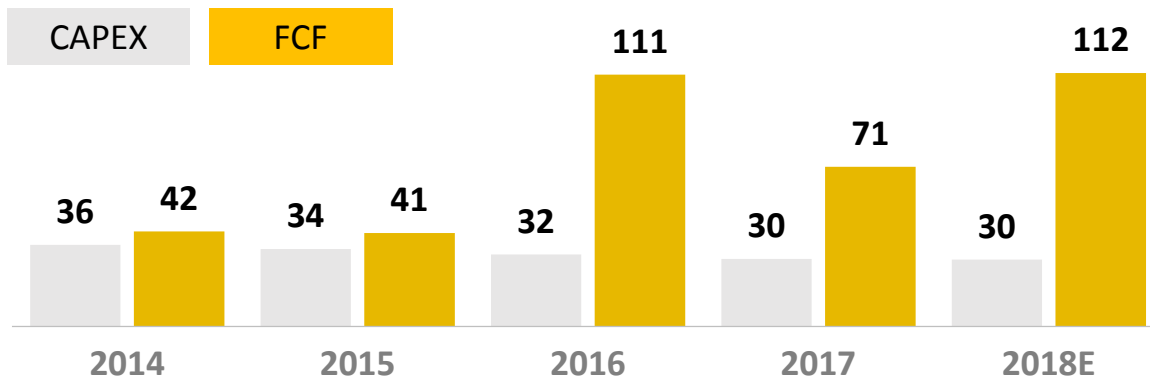


# ALROSA: KEY HIGHLIGHTS

- Revenue is set to stabilize (ex FX effect) on stable sales volumes
- Company demonstrates stable – above 40% margins – well supported by cost control / high utilization rates at the mines
- Capex to trend down as growth projects are up and running
- Targeted leverage at between 0.5x to 1.0x of Net Debt/EBITDA

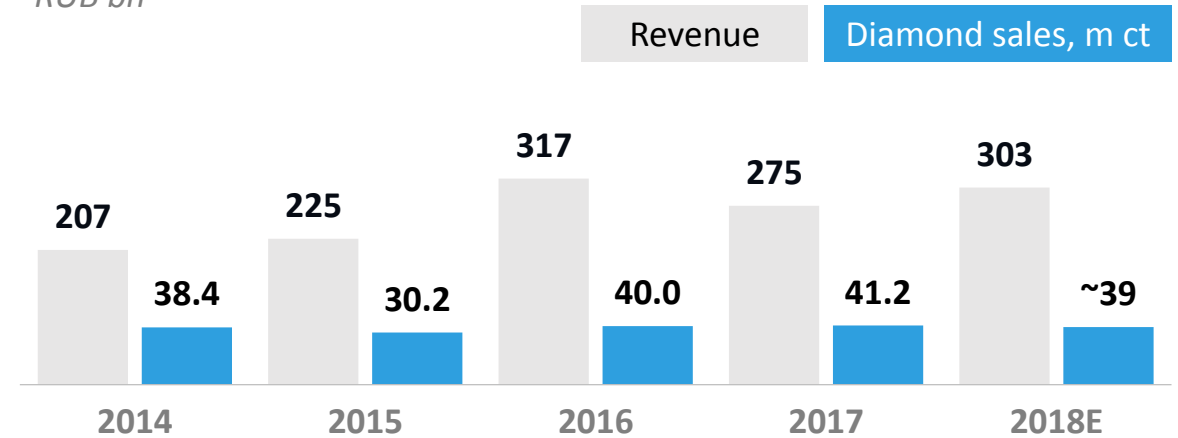
## ALROSA' capex and free cash flow indicators

RUB bn



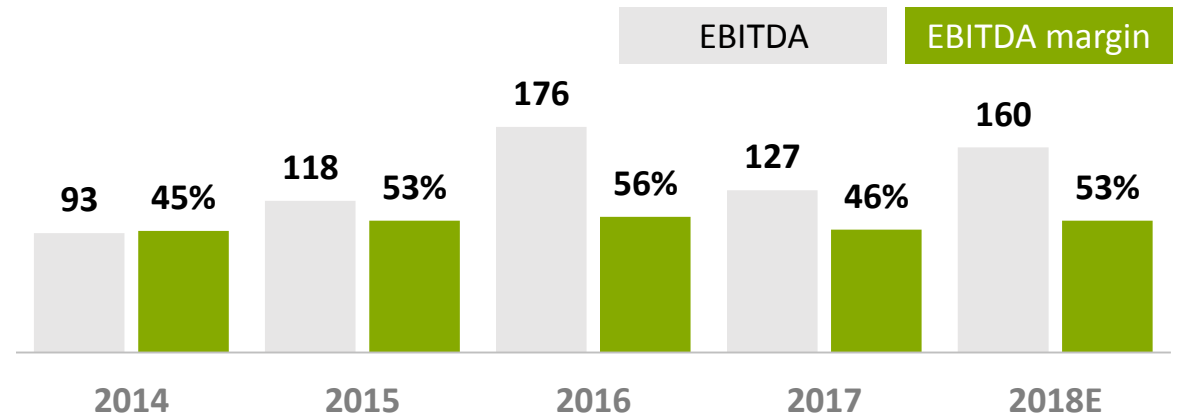
## Sales and revenue

RUB bn



## ALROSA' EBITDA and EBITDA margin

RUB bn

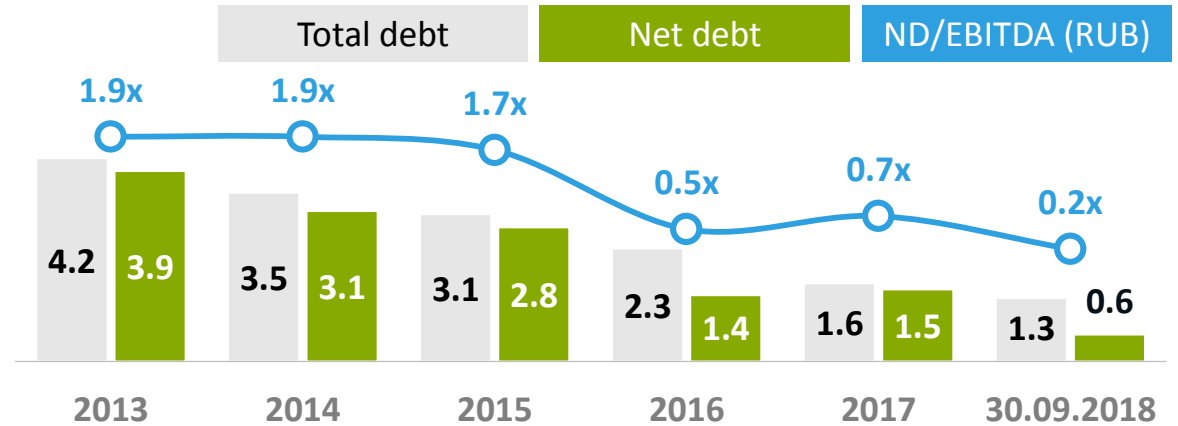


# ALROSA: DEBT POSITION

- Total debt amounted to USD 1.3 bn, down USD 310 m year-to-date
- Liquidity decreased by 18% q-o-q to USD 753 m mainly due to 2017 dividends of RUB 38.6 bn payment
- Net debt / EBITDA reduced to 0.2x vs 0.7x earlier this year on the back of robust free cash flow
- Active debt management drove interest payment 50% down (year-on-year)
- S&P upgraded ALROSA credit rating to investment grade in July 2018

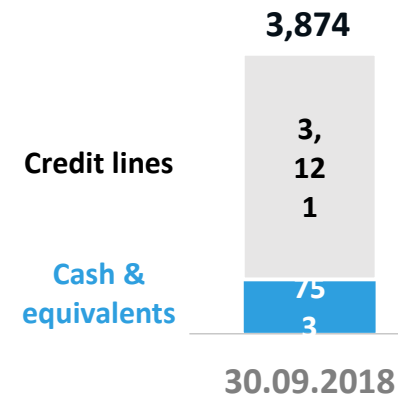
## Debt profile changes

\$ bn



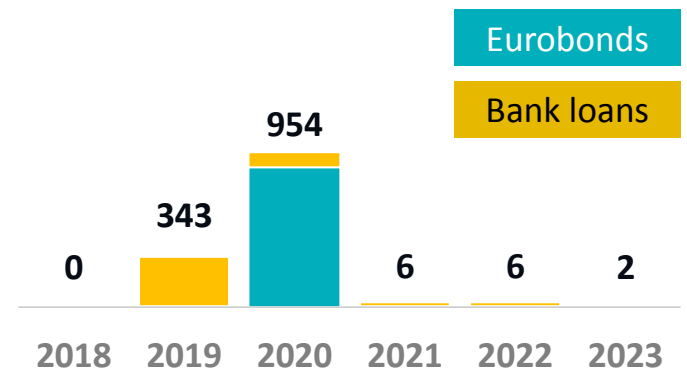
## Liquidity position

\$ m



## Debt repayment schedule

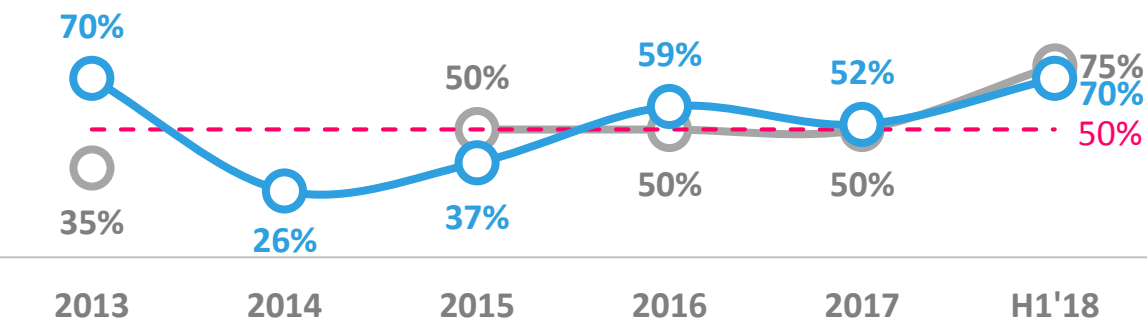
\$ m



# CASH RETURN POLICY

- In August 2018, ALROSA's Board of Directors approved an updated dividend policy:
  - free cash flow as the basis
  - payments twice a year
  - minimum payout at 50% of IFRS net income
- Dividend pay-out estimate under the new policy:
  - Net debt / EBITDA < 0.0 – over 100% FCF
  - Net debt / EBITDA: 0.0–1.0 – 70–100% FCF
  - Net debt / EBITDA: 1.0–1.5 – 50–70% FCF
- Based on the Company's performance in 6M 2018, the General Meeting of Shareholders approve dividends of RUB 5.93 per share (70% of free cash flow)
- Targeted leverage at between 0.5x to 1.0x of Net Debt/EBITDA

## Dividend payout ratios

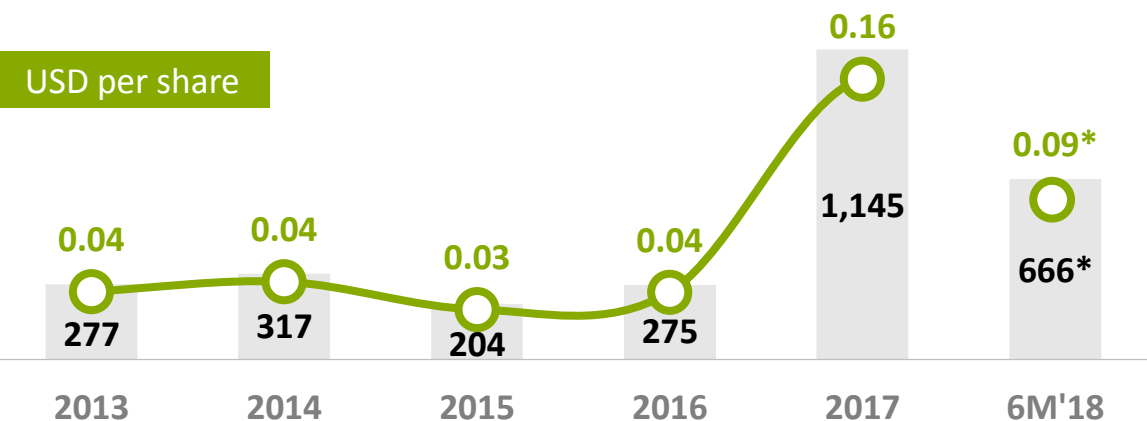


Payout ratio as % of FCF based New dividend policy

Payout based on Net Income ("Old" Dividend policy)

## Dividend payment

\$ m

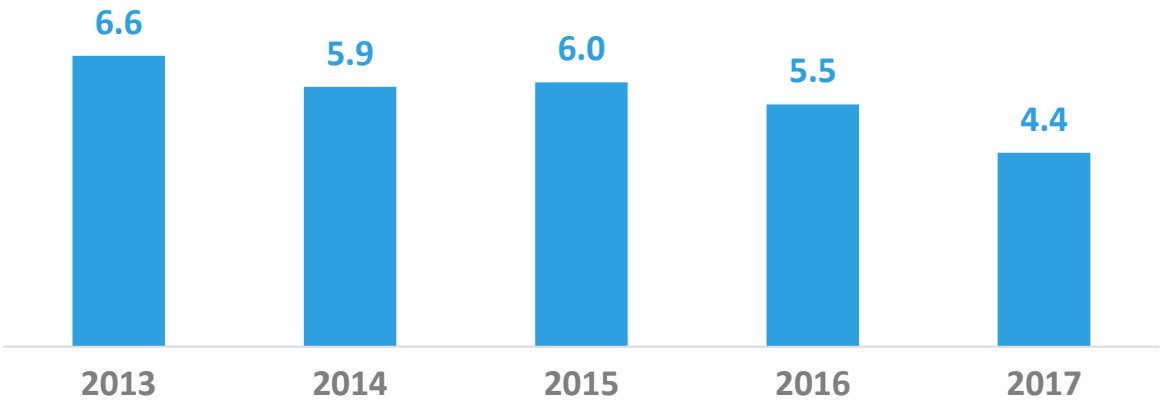


# ENVIRONMENT

- 2017 capex related to environmental activities stood at the level of RUB 4.4 bn
- Efficient disclosure are acknowledged by ESG ratings:
  - **3rd place** (out of 33) in the “First rating of environmental performance of mining companies in Russia”
  - Rated **among top-10** Russian companies with transparent corporate reporting according to Transparency International-Russia research

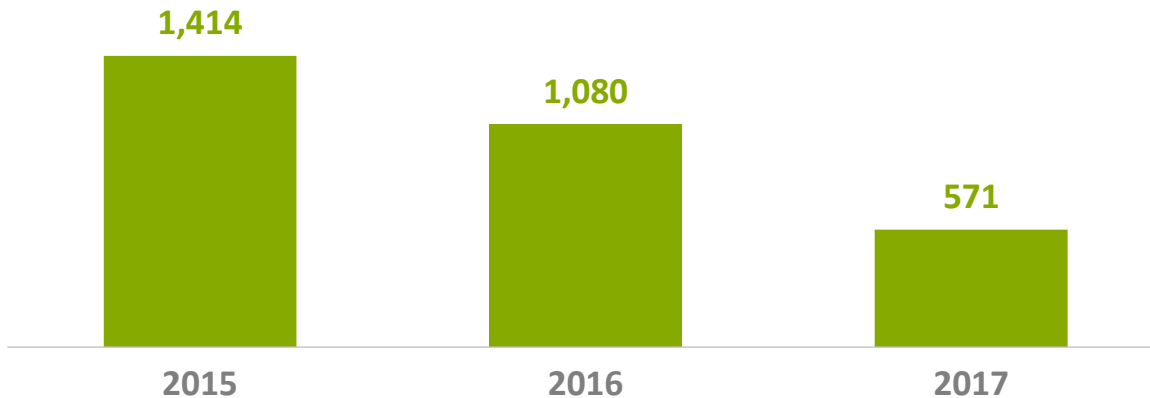
## Financing of environmental activities

RUB bn



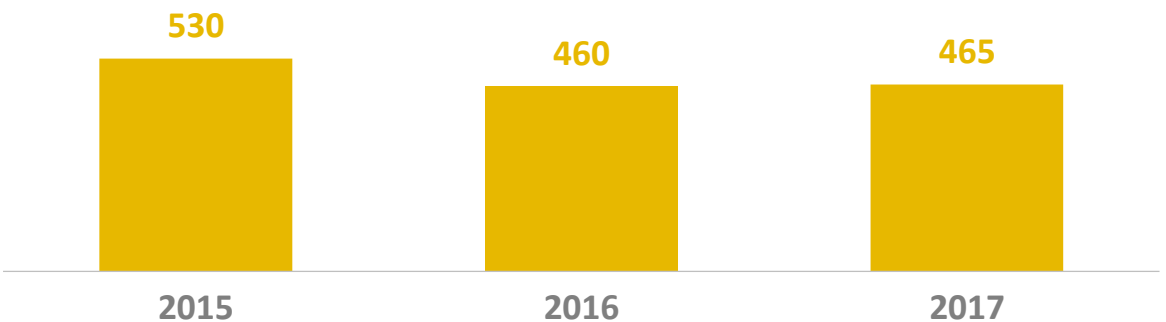
## Area of disturbed land continue to decrease

ha



## ALROSA plans to reduce CO2 emissions mostly arising from the trucks use

000' t

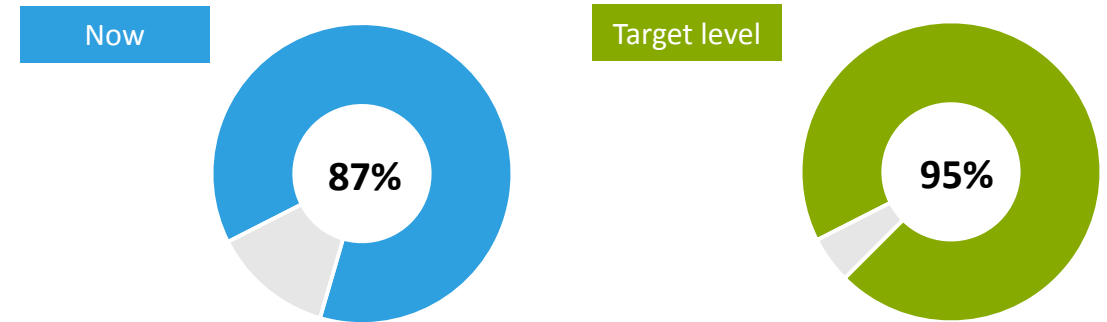


Note: 2017 numbers does not include the Heat and power supply company, which was removed from PJSC “ALROSA” structure starting from 01.01.2017 and became its subsidiary PTWS LLC

# ENERGY RESOURCES

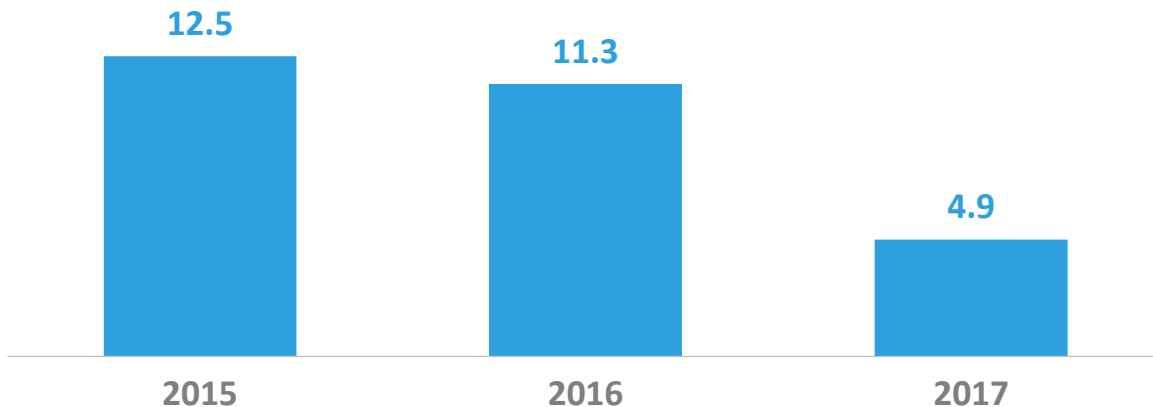
- ALROSA aims to increase share of renewable energy consumption to 95%
- 2017 unit energy consumption decreased by 7% y-o-y to 0.327 GJ/carat meanwhile diamond production increased by 6% y-o-y
- 2017 water intake for production purposes decreased by 2.3x mainly due to excluding of the Heat and power supply company, which was removed from PJSC "ALROSA" structure starting from 01.01.2017 to subsidiary PTWS LLC

Share of renewable energy consumption



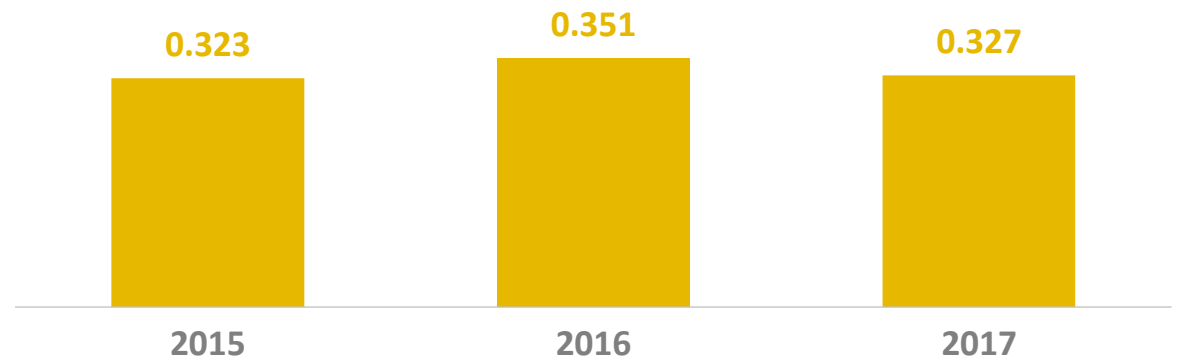
Water intake (production)

*m m<sup>3</sup>*



Per unit energy consumption

*GJ/carat*



# ENVIRONMENT: CASE STUDIES

In order to improve energy efficiency ALROSA implements technical measures, such as:

## 1 Fuel saving

Diversification of fuel types, replacement of worn-out isolation in heat supply network, replacement of heating radiators, using heat-reflecting screens and others

## 2 Thermal energy conversation

Installation of a domestic heating plant, plate and frame heat exchanger and others

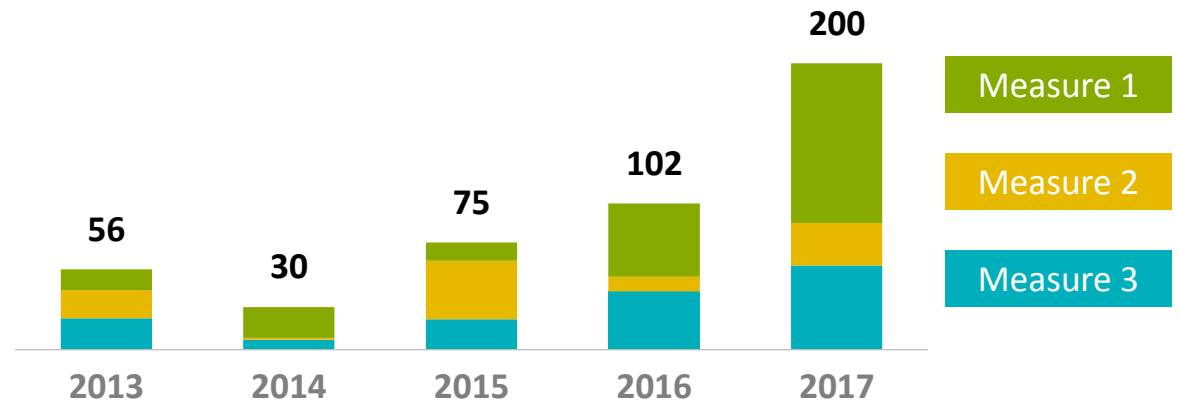
## 3 Electric energy conservation

Installation of line-conditioning filters, optimization of power equipment operations, regulation of lighting systems, thermal screens and others

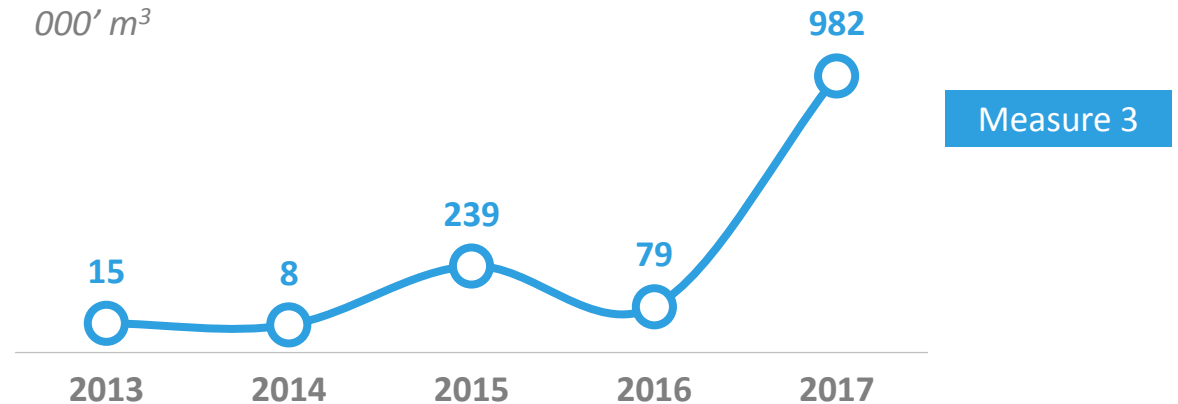
## 4 Water saving

Introducing the in-house water circulation scheme in the tailings facilities of Udachny Division and others

Effect from measures for energy conservation  
000' DJ



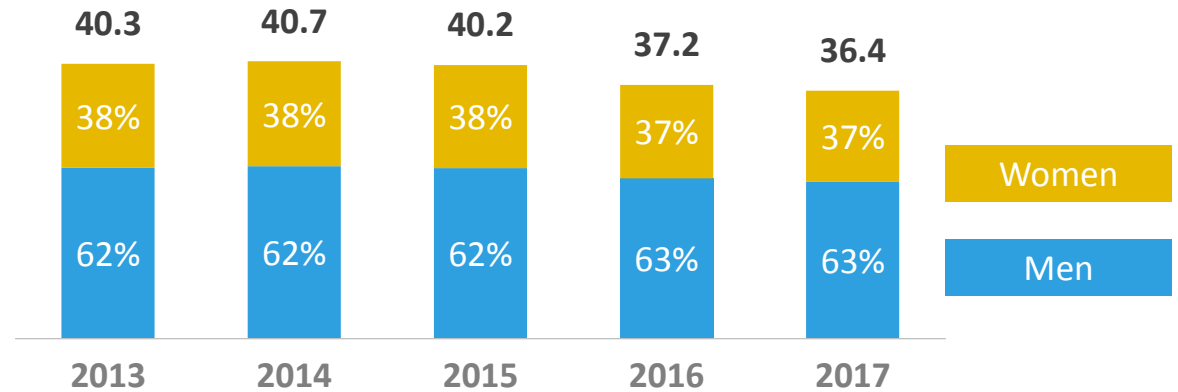
Effect from measure for water saving  
000' m<sup>3</sup>



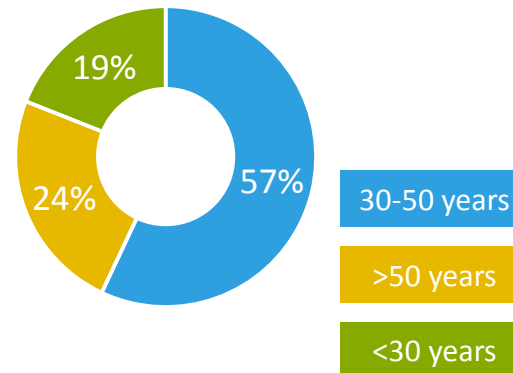
# OUR PEOPLE

- In 2017 the headcount declined by -2% to 36.4 thousand employees
- Women account for 37% of total staff members and 32% of executive staff – according to PWC, ALROSA is a leader in this indicator among industry’s companies
- The majority of staff are employees of 30-50 years – 57%
- The average age of workers – 41.4 years
- Most of employees (86.7%) work in the territory of Western Yakutia where the main production facilities are located

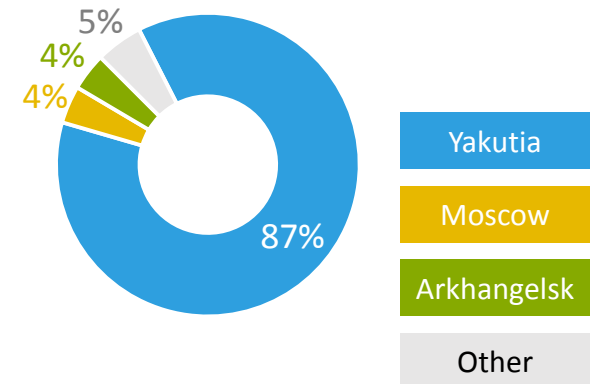
**Total headcount as of the end of the year**  
000' people



**Age groups as of 2017**  
% of the total headcount



**Territorial distribution of staff**  
% of the total headcount



# RESPONSIBLE ENTERPRISE

2017 Company's key corporate social programs results:

## 1 Wellness and recreation of employees and their family members

- 14.0K persons used corporate voucher for wellness and recreation
- 5.2K people visited ALROSA's health centers at the Black Sea

## 2 Health

- The diagnostic and treatment services were provided to 2.2K people
- 5.0K employees were screened under the programs aimed at prompt exposure and reduction of illnesses

## 3 Culture and sports

- ALROSA's sport clubs held 550 athletic, wellness and healthcare events, culture clubs held more than 4K events

## 4 Housing

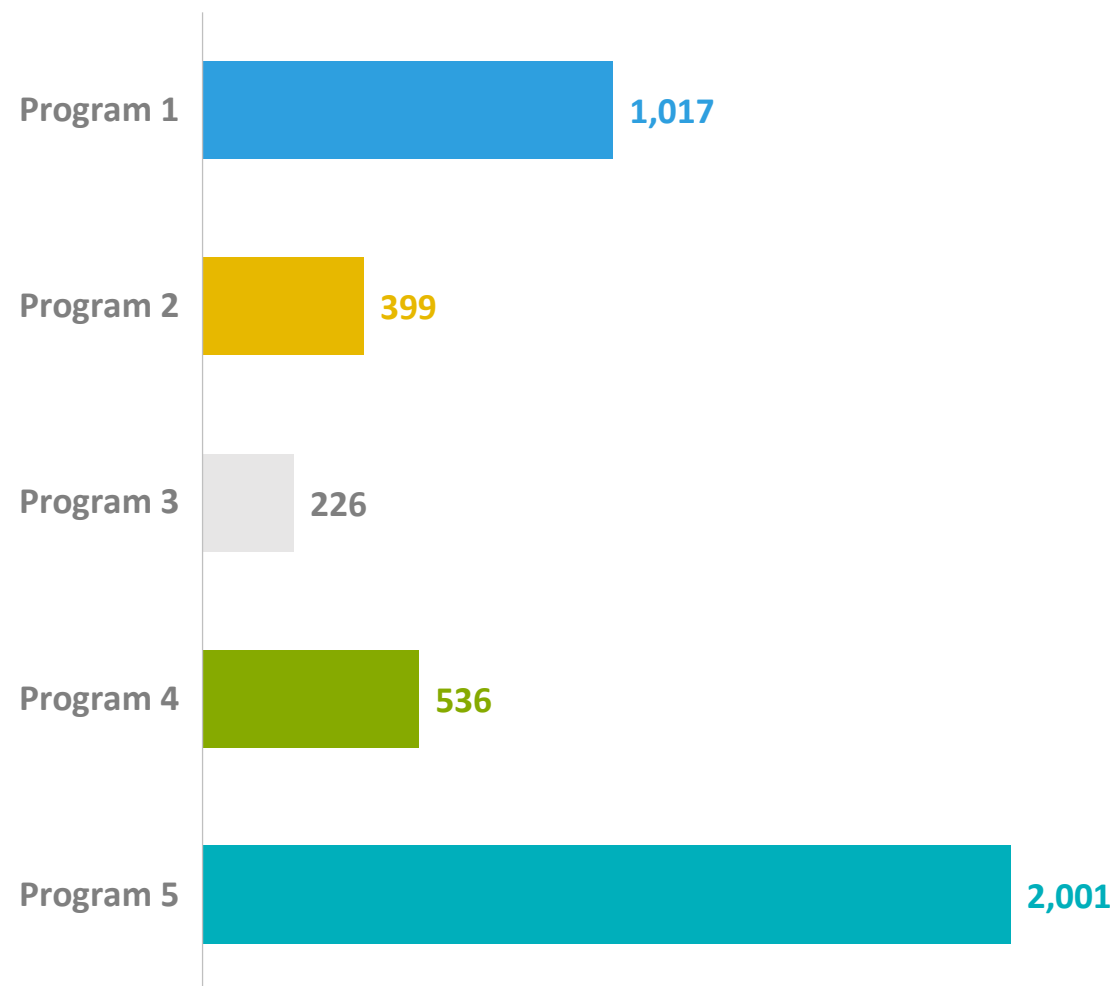
- Constructed 130-apartment house in Udachny

## 5 Private pension plans

- Company transferred RUB 2 bn to the JSC Almaznaya Osen Non-State Pension Fund
- 19.3K persons receive non-state pensions under the pension contracts

## 2017 funding of corporate social programs

RUB m

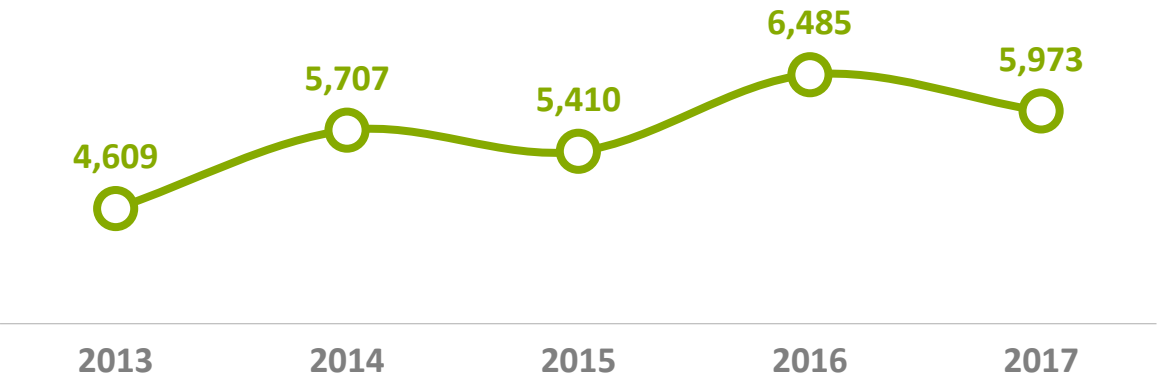




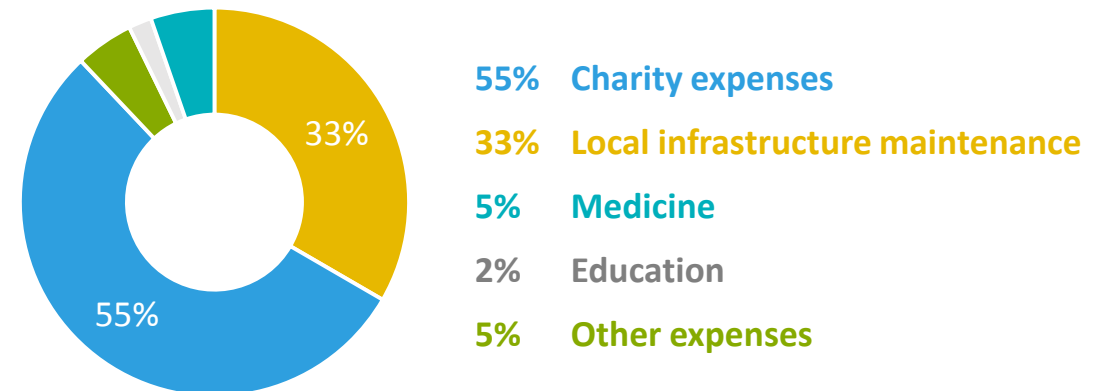
# SUPPORT TO LOCAL COMMUNITIES

- As one of the largest industrial companies ALROSA responsible to the society and operation regions
- In 2017, social expenditures amounted to c. RUB 6 bn
- ALROSA makes social investments in several areas:
  - Regional development programs, including charity projects in education, healthcare, culture and sports, and urban development
  - Sponsorship and charity projects of the federal level – ALROSA supports federal initiatives in education, culture and sports
- ALROSA’s charity efforts are based on:
  - High social value of sponsored projects
  - Targeted financial and sponsorship aid
  - Transparency, accountability and intended use of funds
  - Joint decisions on the allocation of aid

**Social expenditures**  
RUB m



**2017 social expenditures breakdown**  
% of total expenses

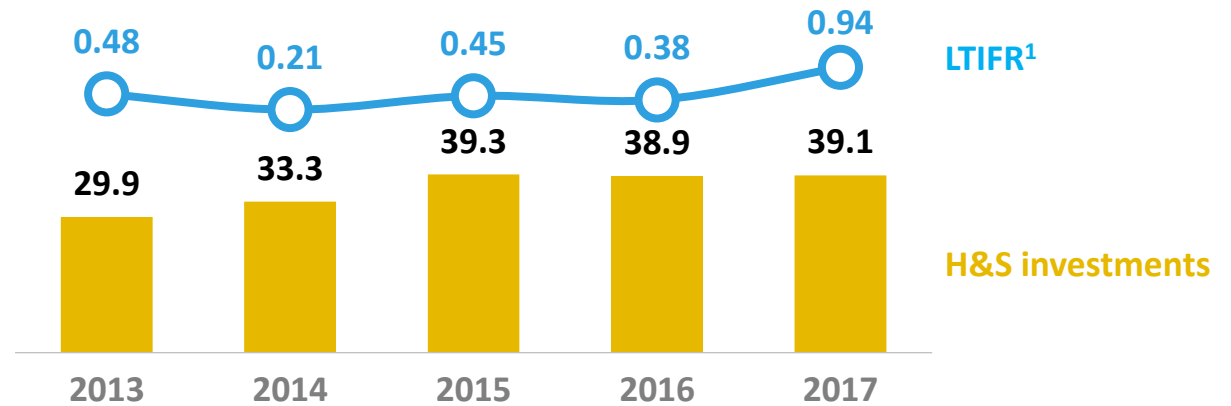


# HEALTH AND SAFETY

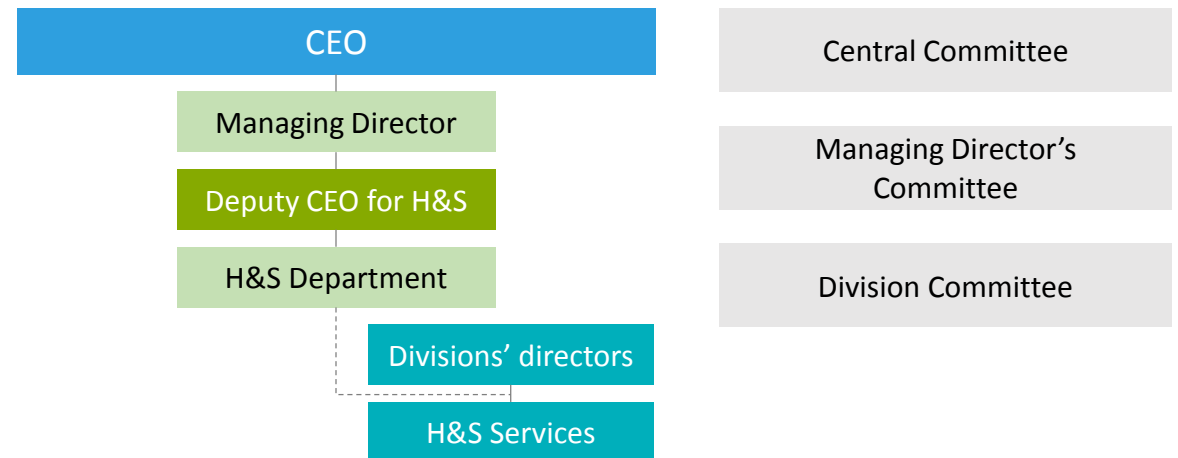
- Expenses on labor protection and industrial safety per 1 employee are stable at level RUB 39,000 since 2015 and totals RUB 1.1-1.4 bn per year
- LTIFR<sup>1</sup> in 2017 was increased up to 0.94 due to Mir mine accident in August which injured 13 miners
- In 2017, ALROSA began building an independent management vertical structure in H&S functions – the safety services were withdrawn from the supervision of divisions' chief engineers and organized to report to Managing Director.
- Established permanent industrial safety committees:
  - Central Industrial Committee under the supervision of CEO (quarterly meetings to define the strategy)
  - Committee under the supervision of Managing Director (quarterly meetings to strategy implementation)
  - Committee under the supervision of the division head (weekly meetings to review any violations and develop remedial measures)

## Health and safety costs

000' RUB per 1 person



## Independent management structure to ensure industrial safety



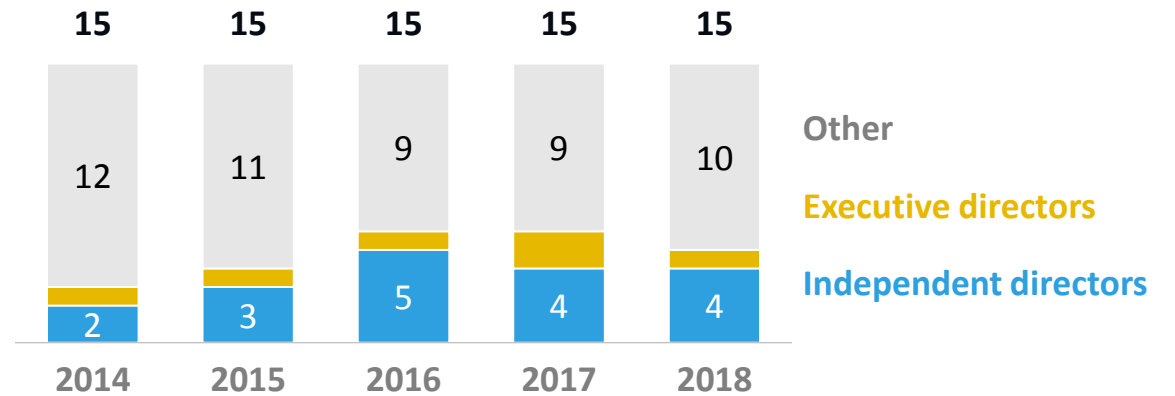
Note: (1) number of lost time injuries per 1 m hours worked

# GOVERNANCE

- The Corporate Governance Code was approved by Supervisory board in 2013
- Board has three active committees with independent directors:
  - The Strategic Planning Committee
  - The Auditing Committee
  - The HR and Remunerations Committee
- Continuous progress in corporate governance reflected in positive rating dynamics
- Regular and transparent disclosure
- New initiatives are under way:
  - Corporate Strategy till 2024
  - HR Strategy with the overhaul of the organization structure and motivation schemes (stock option program is one of the initiatives)

## Supervisory Board composition

Number of members



## Corporate governance rating



# Thank you!

Head of Corporate Finance  
Sergey Takhiev

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