



ALROSA

Q1 2019 FINANCIAL RESULTS

MOSCOW, 17 MAY 2019

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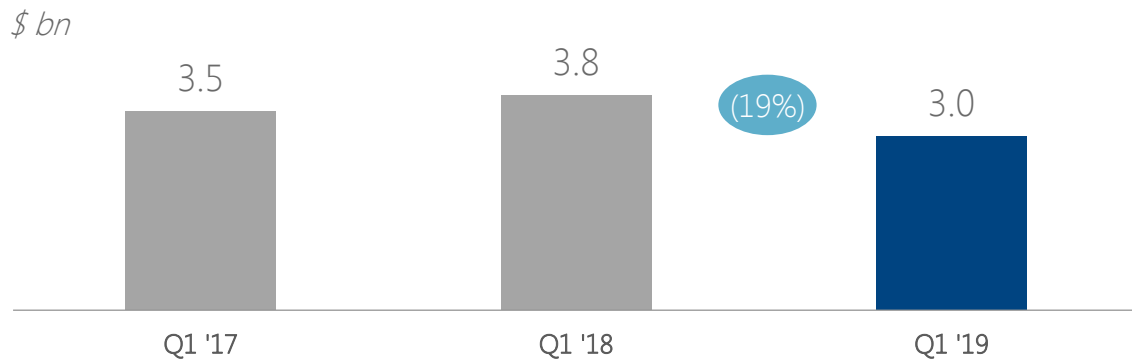
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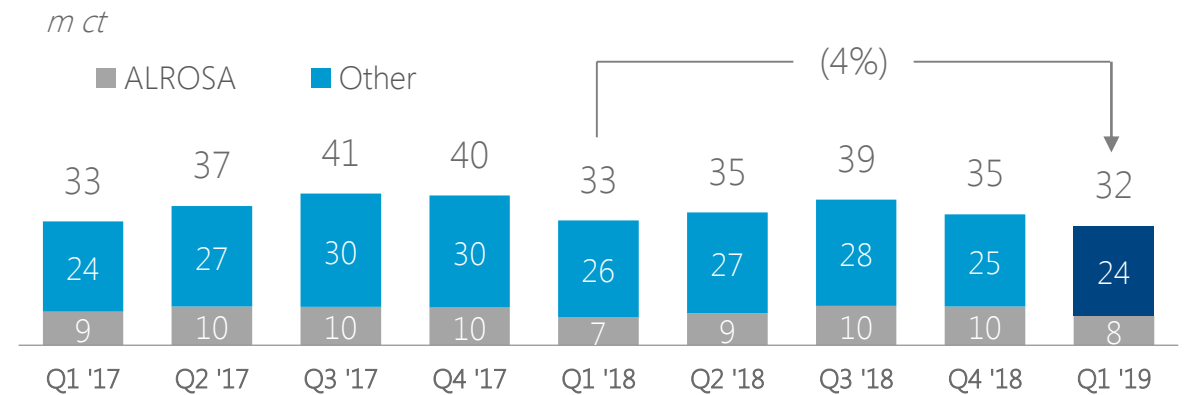
MARKET OVERVIEW

- Q1 '19 output down 4% yoy, mostly driven by De Beers and Rio Tinto
- Q1 '19 rough diamond stocks at customers remained largely flat (+1% yoy)
- Q1 '19 global diamond sales in USD decreased by 19% as overall demand for rough diamonds remained subdued as midstream kept production low

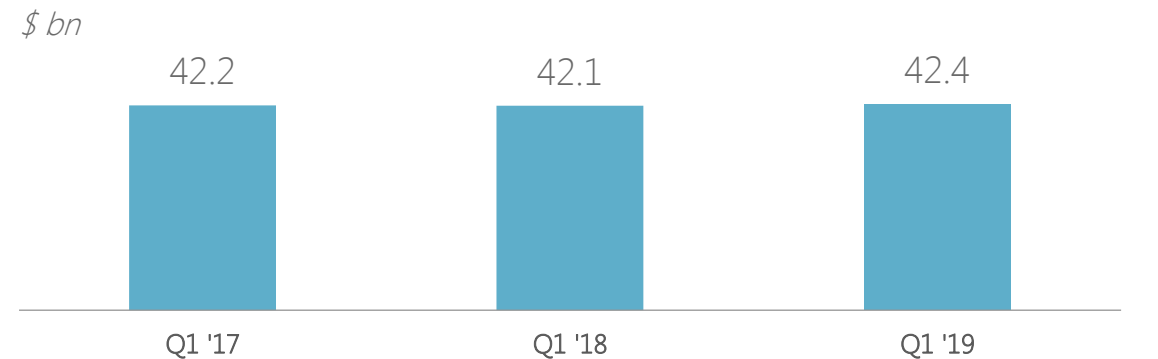
Major producers² diamond sales



Decrease in global diamond output¹



Rough diamond stocks at customers



Source: Company data and analysis.

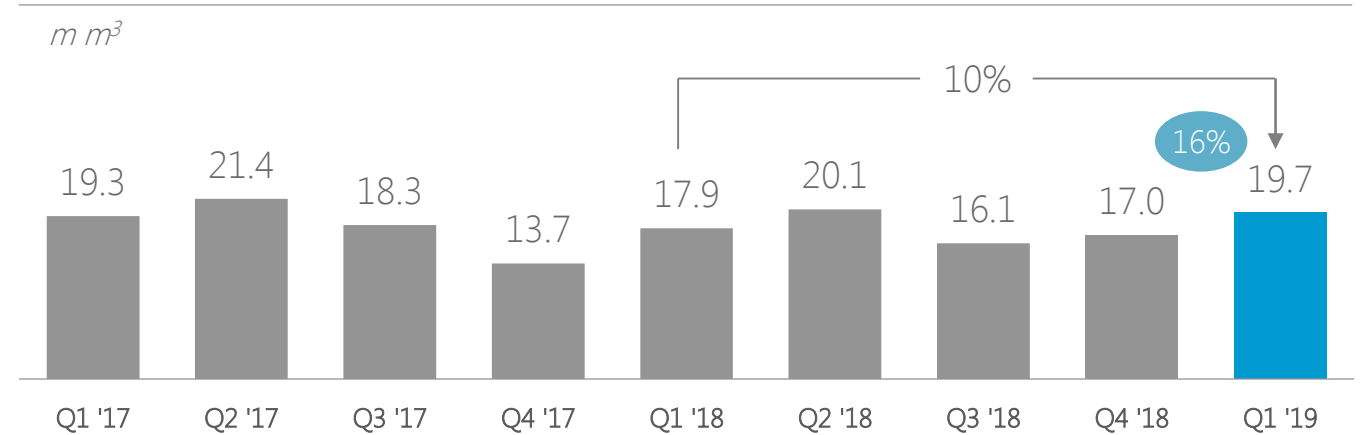
1. Data based on results of ALROSA and other diamond producers with a market share totalling c. 76% in 2017-2018

2. ALROSA, De Beers, Rio Tinto, Catoca, Petra Diamonds, Dominion Diamond (Diavik), Mountain Province, Stornoway Diamond

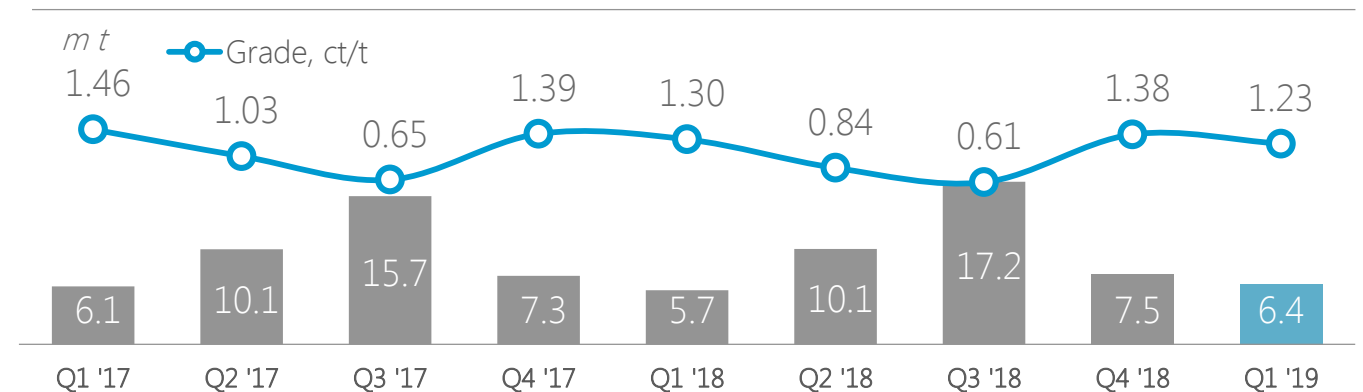
ALROSA PRODUCTION (1/2)

- Q1 '19 ROM ore went up 16% qoq to 19.7 m m³, mostly due to seasonal output growth at alluvial deposits (gravel extracted is processed in summer) and implementation of project solutions set to expand the open pit of the Arkhangelskaya pipe to increase its depth. A 10% yoy growth was mainly driven by launch of Verkhne-Munskoye (VM) deposit
- Q1 '19 processed feedstock down 15% qoq to 6.4 m t mainly due to decreased gravel processing at Mirny Division (down 72%). A 11% yoy growth was driven by VM deposit launch
- Q1 '19 average grade went down by 11% qoq (-5% yoy) to 1.23 cpt due to lower volumes of high-grade ore from International and Aikhal underground mines and a larger share of lower-grade (0.62 cpt) ore and gravels processed at Udachny deposits

Run-of-mine ore was up by 16% qoq



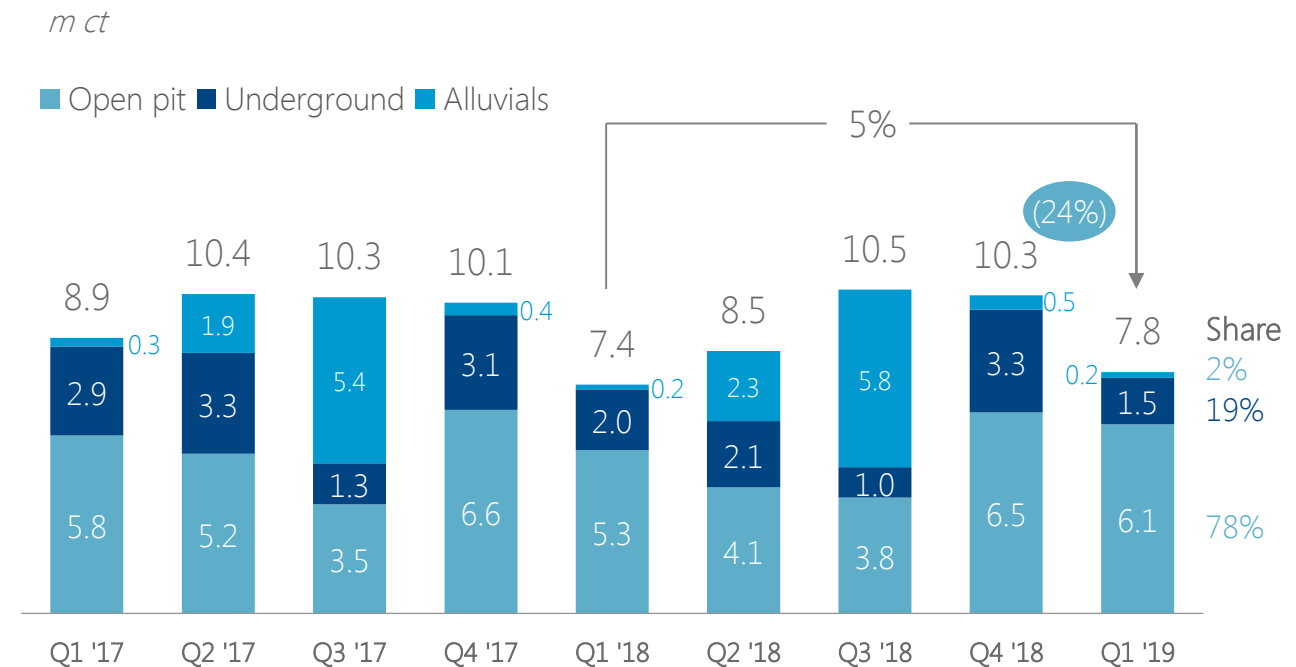
Ore and sands processing goes down 15% qoq



ALROSA PRODUCTION (2/2)

- Q1 '19 diamond production was down 24% qoq to 7.8 m cts, mostly due to a decrease in the output at the International and Aikhal underground mines and the Jubilee pipe
- Q1 '19 output was +5% yoy growth driven by:
 - increase in ore processing at the Botuobinskaya pipe
 - gradual ramp-up at the Udachny underground mine
 - launch of production at the Verkhne-Munskoye deposit
 - increase in the output at Severalmaz due to processing of higher-grade ore

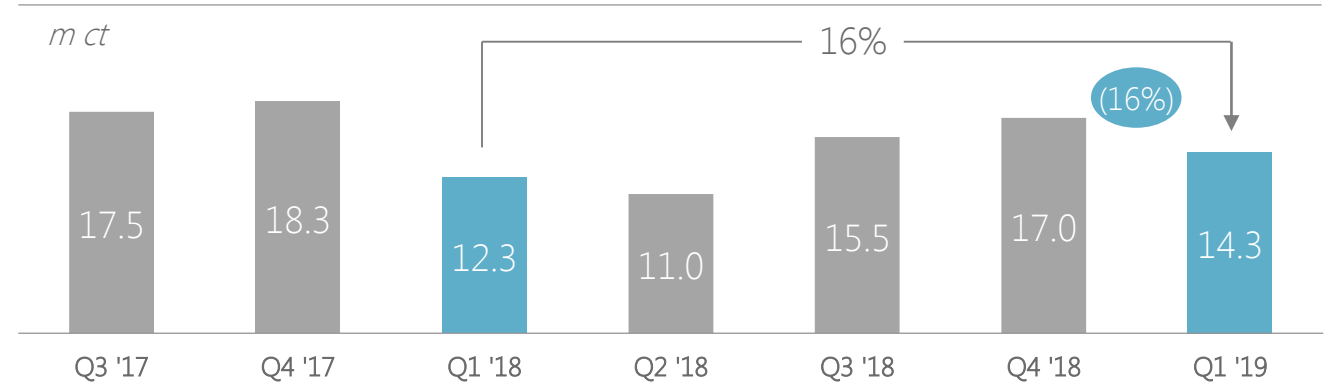
Diamond production was down by 24% qoq



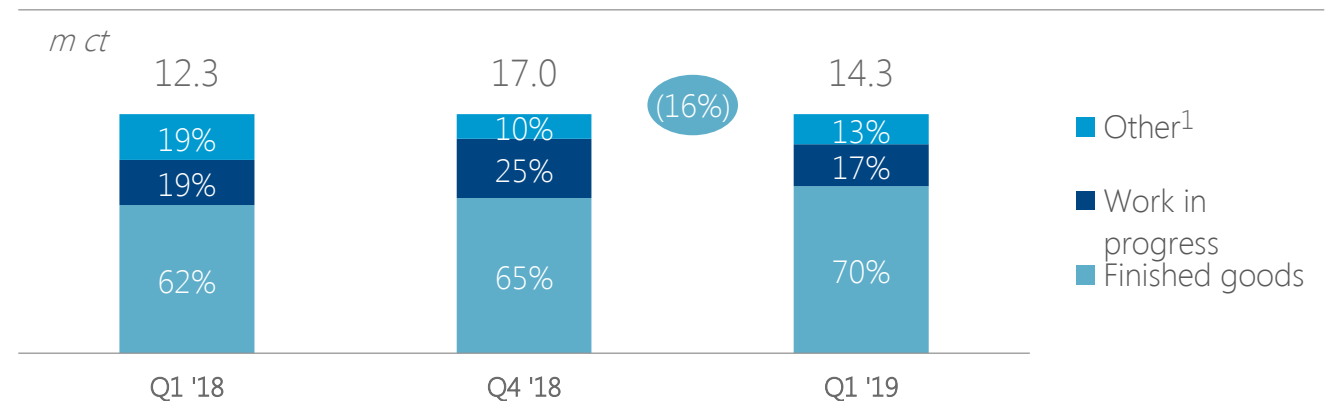
INVENTORIES

- Q1 '19 diamond inventories (14.3 m cts as at Q1 end) went down by 2.7 m cts (down 16% qoq) as output decreased 24% qoq while sales in cts grew 18% qoq
- On a yoy basis, inventories went up by 2 m cts (up 16%)

ALROSA's diamond inventories were down 16% qoq



ALROSA's diamond inventories structure



Source: Company data and analysis.

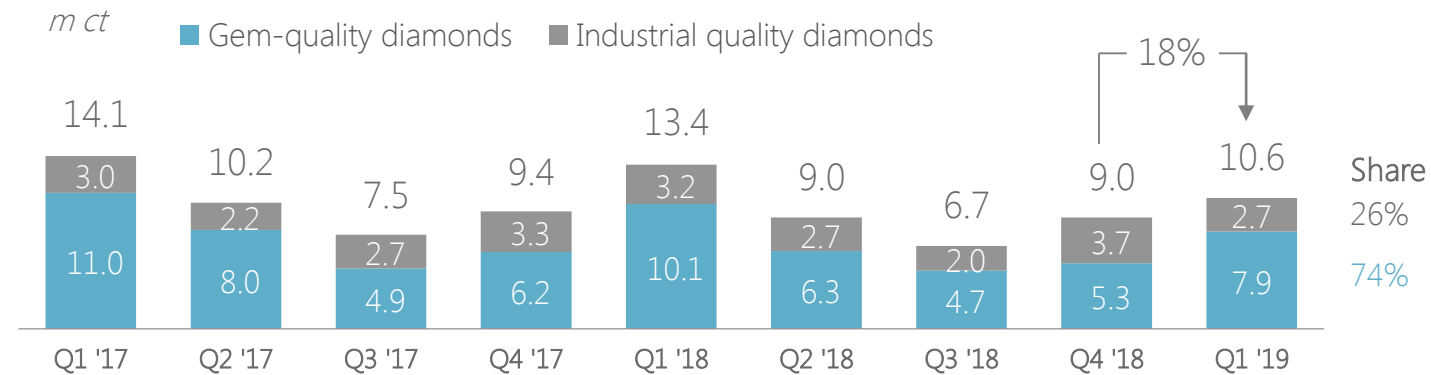
1. Diamond inventories at mining and processing divisions

ALROSA ROUGH DIAMOND SALES

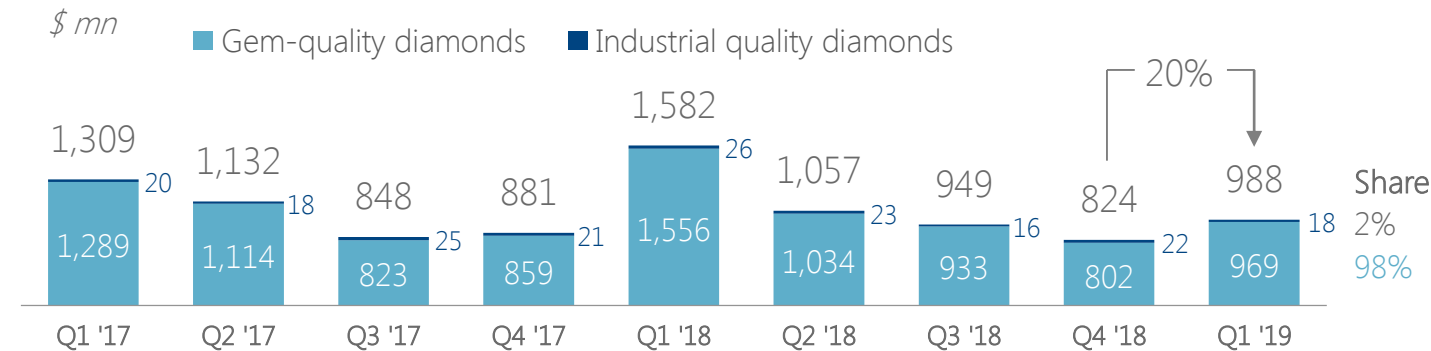
- Q1 '19 sales growth of 18% qoq to 10.6 m cts, including gem-quality diamonds sales growth of 50% qoq to 7.9 m cts, due to increased small-size diamond sales driven by restocking at mid-streamers
- 21% yoy decrease in diamond sales was due to high base effect of 2018, when consumers were restocking following a protracted slowdown in demand
- Q1 '19 sales in USD added 20% qoq (\$988 m) with an 18% qoq sales growth in carats due to a larger share of small-size diamonds
- Q1 '19 sales declined 38% yoy, while sales in carats fell by 21% yoy

Source: Company data and analysis.

Diamond sales 21% yoy down, but exceed production level by 35%



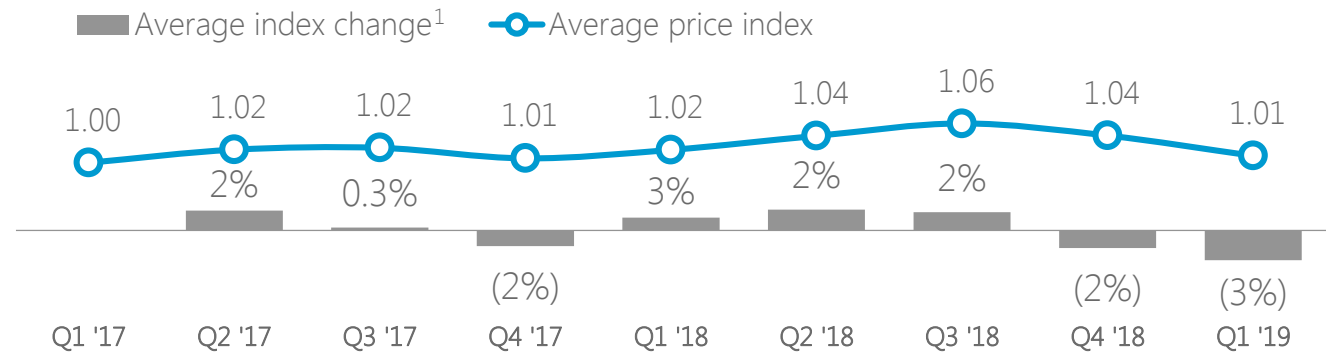
Diamond sales by value were up by 20% qoq on higher sales volume



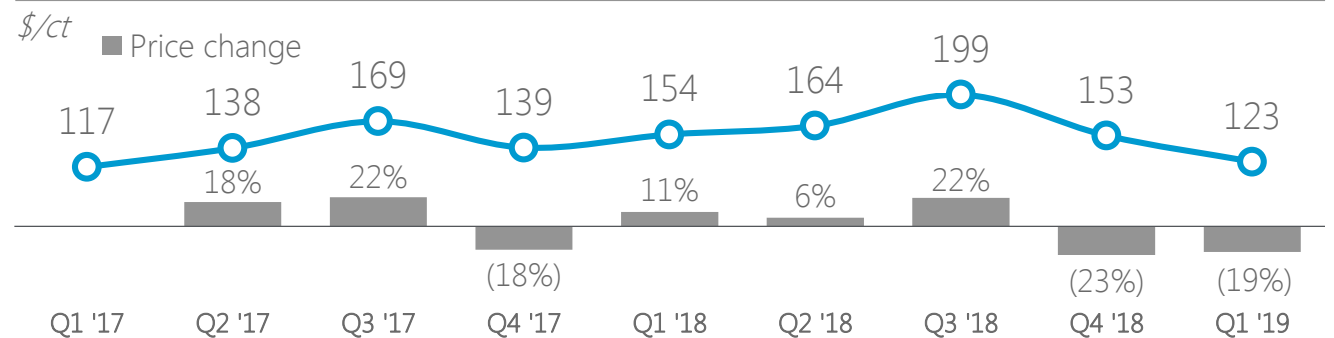
PRICE DYNAMICS

- In Q1 '19 average price index decreased by 3.1% mainly due to oversupply in the diamond market, weaker Indian rupee and limited access to affordable financing for mid-stream in India
- Q1 '19 average realised prices of gem-quality diamonds decreased by 19% qoq (down 20% yoy) to \$123/ct due to a larger share of small-size diamonds and lower prices mostly for medium-size diamonds

Price index for gem-quality diamonds was down by 3% qoq



Average selling price² for gem-quality diamonds was down by 19% qoq



Source: Company data and analysis.

1. Average index change of like-for-like diamonds prices (excl. +10.8 carats)

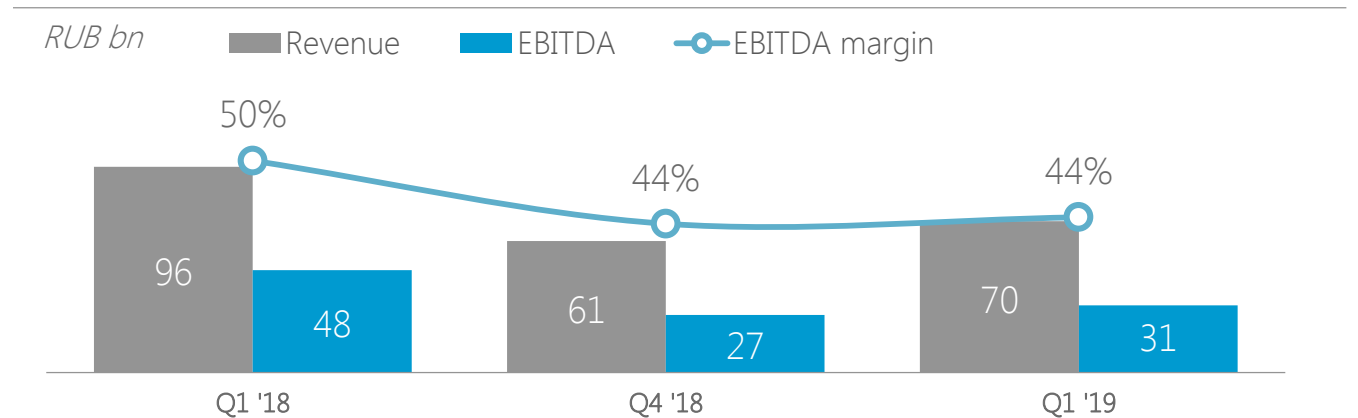
2. Average selling prices (sales revenue divided by sales volumes in carat terms) are also impacted by changes in the product mix throughout the reported period.

FINANCIAL HIGHLIGHTS

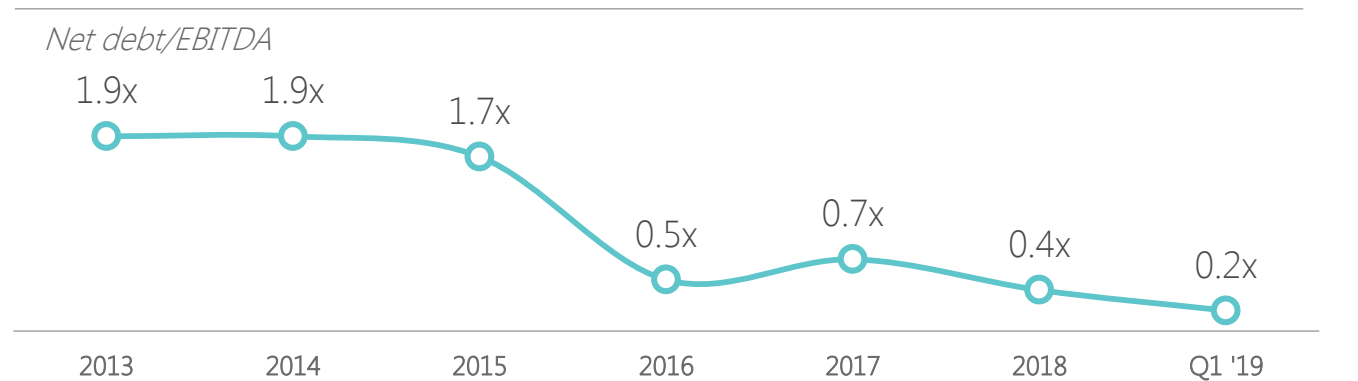
- Revenue came in at RUB 70 bn (up 15% qoq) due to increase of diamond sales in carats. **27% yoy decrease** was driven by reduction of diamond sales in carats and a weaker sales mix
- EBITDA was up 16% qoq to RUB 31 bn on increased diamond sales and cost control. **34% yoy decrease** was driven by revenue decline
- EBITDA margin stood at 44% (down 6 p.p. yoy)
- Net income stood at RUB 24 bn (up 3.0x qoq, down 27% yoy)
- FCF increased by 81% qoq to RUB 25.9 bn (down 37% yoy)
- Net debt / EBITDA stood at 0.2x

Source: Company data and analysis.

Margins sequentially expanded on stronger sales



Leverage trends down



GEM-QUALITY DIAMONDS REVENUE DRIVERS

- Q1 '19 gem-quality diamond sales were up by 20% qoq to RUB 64 bn driven by:
 - (+) 18% increase in sales volumes (in carats)
 - (-) weaker product mix
 - (-) softer like-for-like prices (av. index change – -3%)
 - (-) FX rate impact on stronger RUB
- Q1 '19 gem-quality diamond sales were down by 28% yoy to RUB 64 bn driven by:
 - (-) 21% reduction in sales volumes (in carats)
 - (-) weaker product mix
 - (-) softer like-for-like prices (av. index change – -1%)
 - (+) FX rate impact as RUB weakened

Q1 gem-quality rough diamond revenue bridge (qoq)



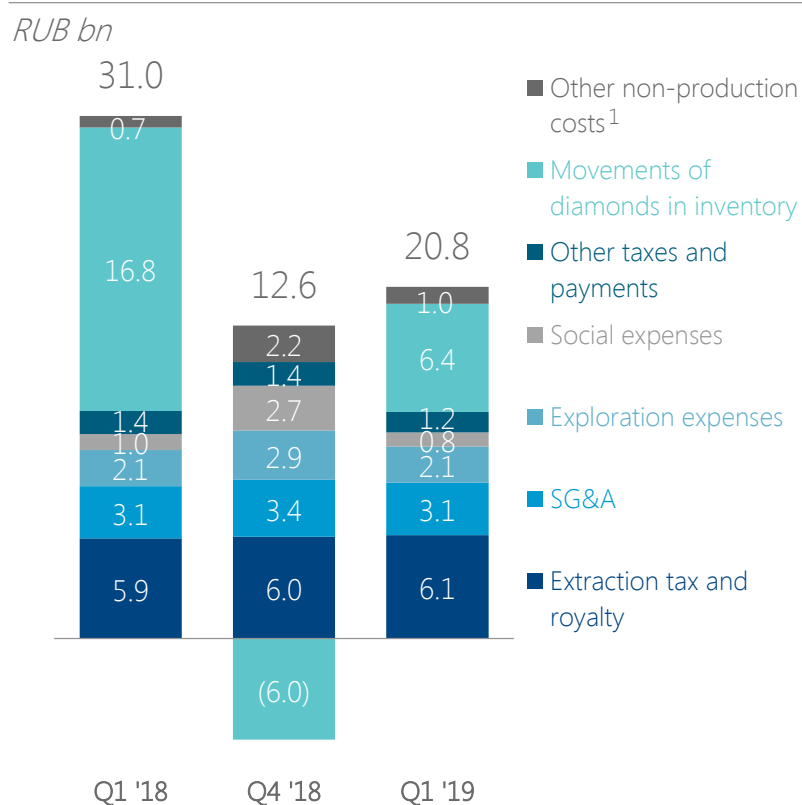
Q1 gem-quality rough diamond revenue bridge (yoy)



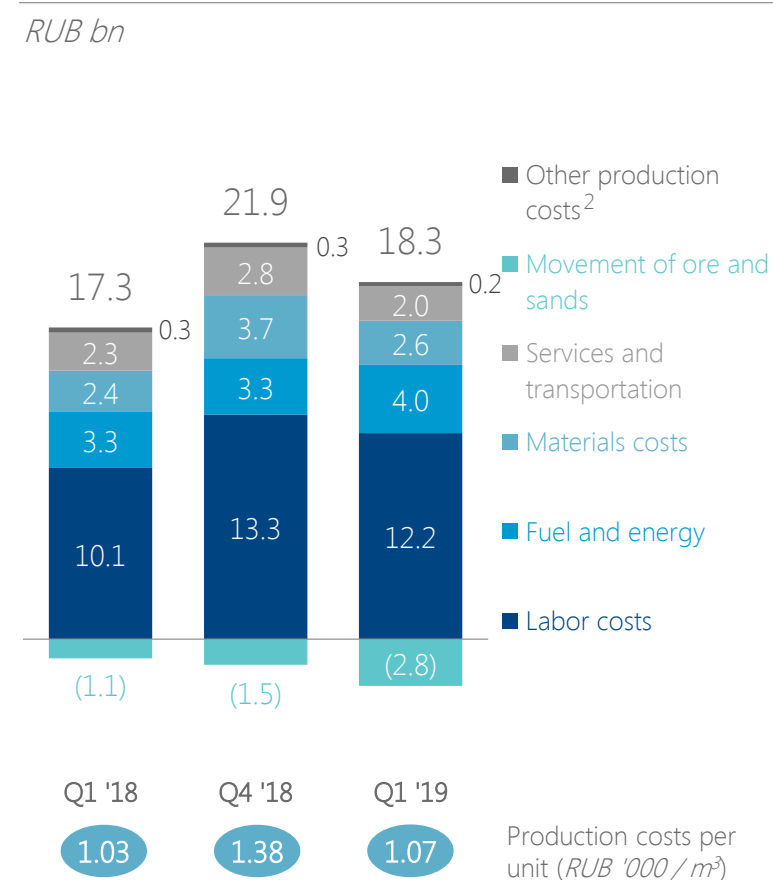
COSTS DYNAMICS AND BREAKDOWN

- Q1 '19 total costs were up by 14% qoq to RUB 39.1 bn mostly due to increase of sales in carats by 18%
- Q1 '19 total costs were down by 19% yoy mostly due 21% decrease in carat sales
- Q1 unit costs increased by 4% yoy mainly due to growth of production costs by 6%

Non-production costs were down by 33% yoy



Production costs increased by 6% yoy



Source: Company data and analysis.

1. Mainly includes mainly other operating income and other non-production costs

2. Mainly includes provision for obsolete inventory, etc.

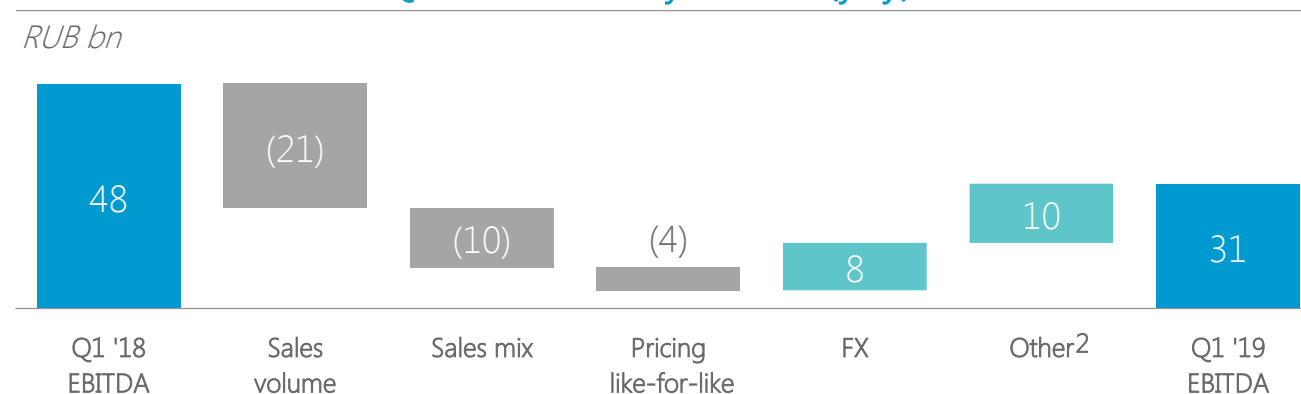
PROFITABILITY ANALYSIS

- Q1 '19 EBITDA was up by 16% qoq driven by:
 - (+) 18% increase in carat sales: impact RUB 26 bn
 - (-) sales mix: impact RUB 13 bn
 - (-) like-for-like prices: impact RUB 2 bn
 - (-) FX rate impact RUB 0.4 bn
 - (-) other factors: total impact RUB 6 bn
- Q1 '19 EBITDA was down by 34% yoy driven by:
 - (-) 21% reduction in carat sales: impact RUB 21 bn
 - (-) sales mix: impact RUB 10 bn
 - (-) like-for-like prices: impact RUB 4 bn
 - (+) FX rate impact RUB 8 bn
 - (+) other factors: total impact RUB 10 bn

Q1 EBITDA – key drivers (qoq)



Q1 EBITDA – key drivers (yoy)



Source: Company data and analysis.

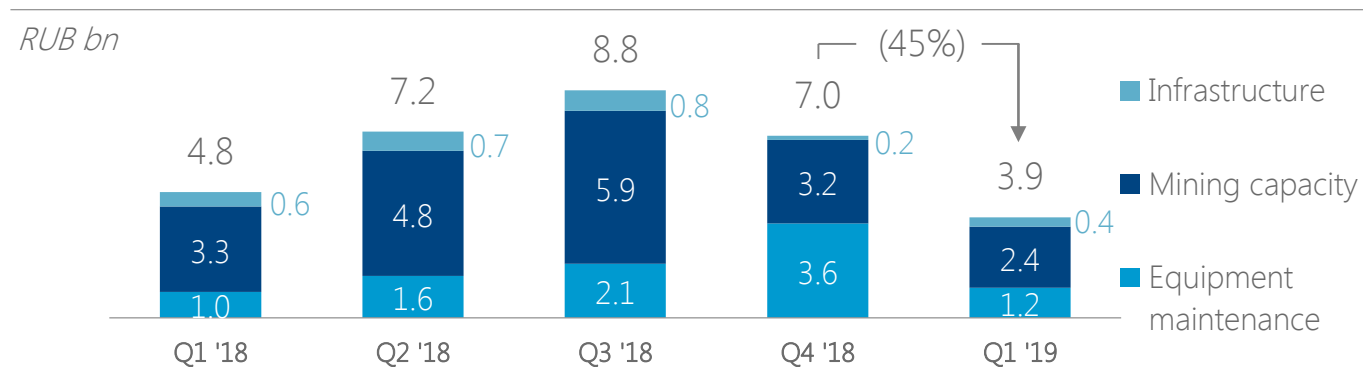
1. Mainly includes changes in inventory of ores and diamonds (-RUB 11 bn), COGS decrease (+RUB 5 bn)

2. Mainly includes changes in inventory of ores and diamonds (+RUB 12 bn) and changes of wages and salaries expenses (-RUB 2 bn)

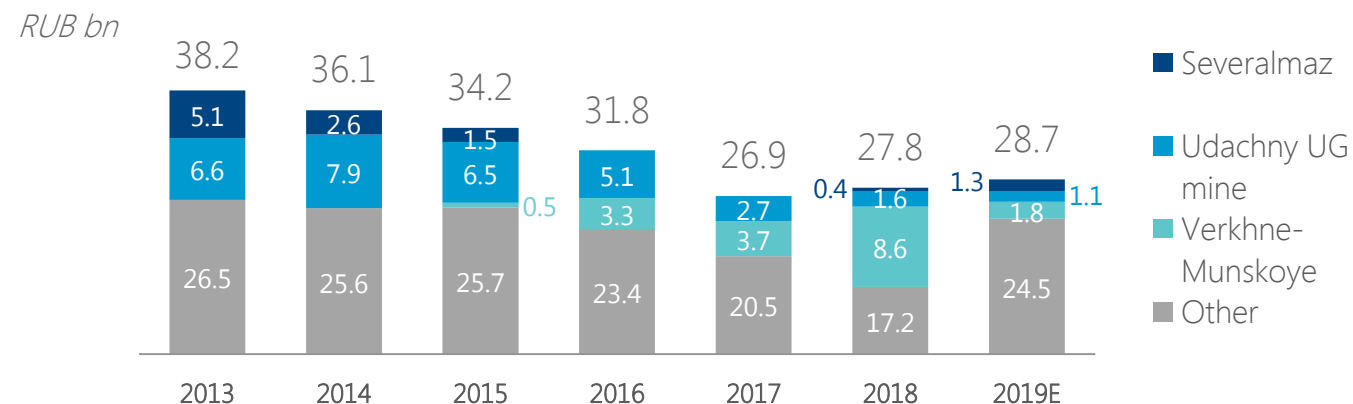
CAPEX

- In Q1 '19 capex was down 45% qoq to RUB 3.9 bn driven by:
 - Decrease of expenditure in equipment maintenance by RUB 2.8 bn (down 68% qoq) due to seasonality
 - Decrease of expenditure in Verkhne-Munskoye deposit by RUB 0.4 bn (down 51% qoq)
- In Q1 '19 capex was down 20% yoy mainly due to decrease of expenditure in Verkhne-Munskoye deposit by 68% yoy
- 2019 capex outlook remains unchanged at RUB 28.7 bn

Capex dynamics



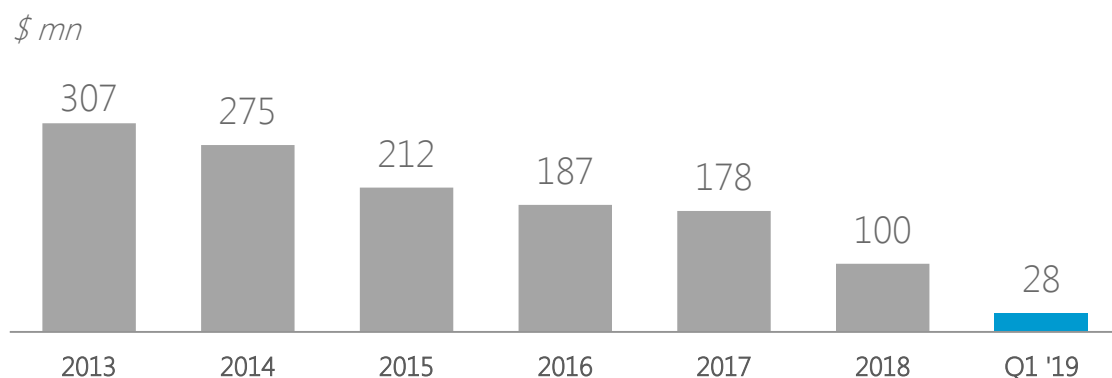
Annual capex by projects



DEBT POSITION

- Total debt stood at the level \$1.6 bn
- By the end of Q1 '19 liquidity increased to \$1.0 bn (+1.9x qoq) due to stronger FCF – in line with the new financial policy
- Net debt in USD decreased by 46% qoq to \$0.5 bn
- In Q1 '19, Net debt / EBITDA reduced to 0.2x (vs 0.4x) on the back of robust FCF
- Fitch upgraded our credit rating to investment grade in March 2019

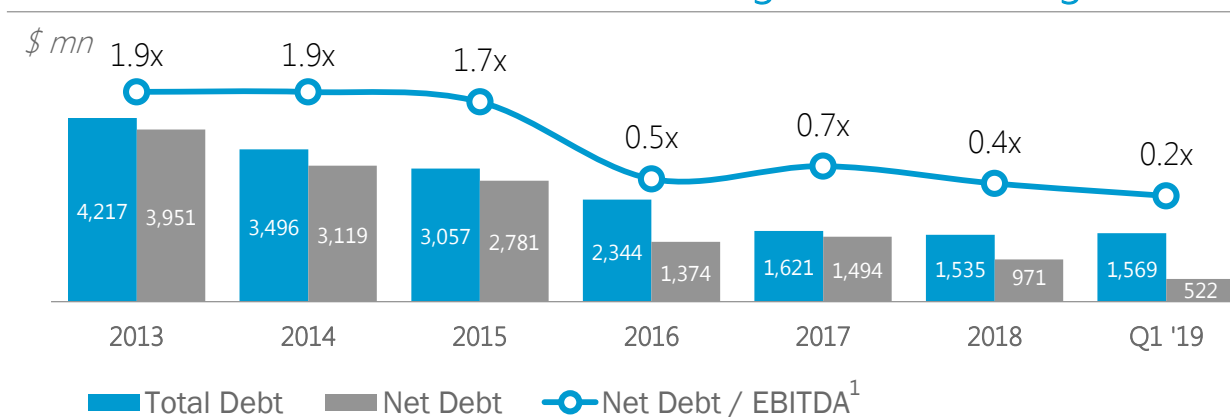
Interest expense, continue to decrease on lower debt level



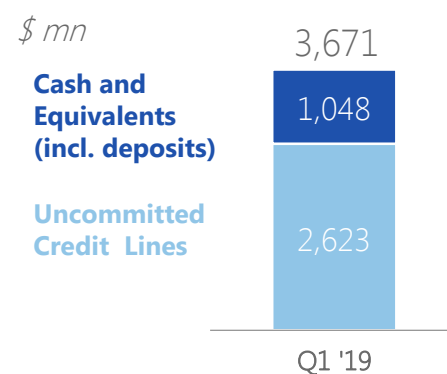
Source: Company data and analysis.

1. Based on EBITDA and Net Debt denominated in rubles.

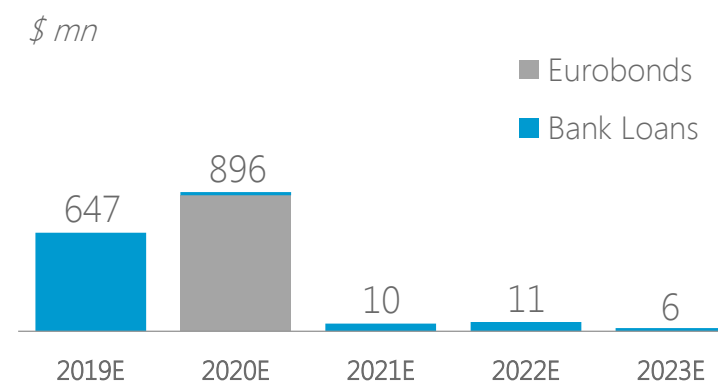
Net Debt evolution to investment grade credit ratings



Liquidity position

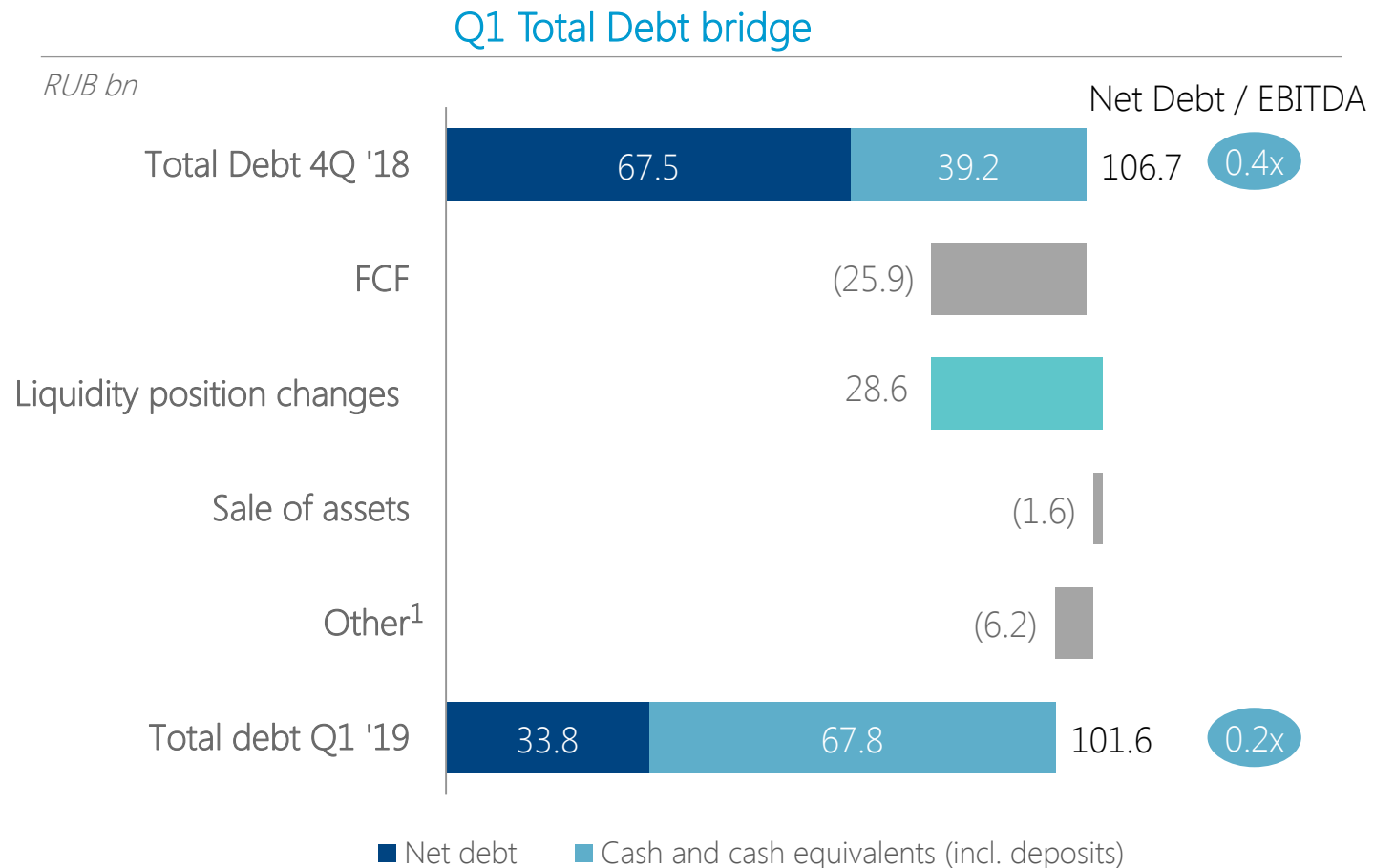


Debt repayment schedule



DEBT ANALYSIS

- In Q1 '19 net debt in RUB was down 50% qoq due to strong FCF
- In Q1 '19 total debt in RUB decreased by 5% qoq to RUB 101.6 bn
- 9 April 2019 ALROSA placed \$500 m 5Y Eurobond issue @ 4.65% pa. Proceeds were used to refinance a \$0.9 bn Eurobond 2020 in the amount of \$400 m



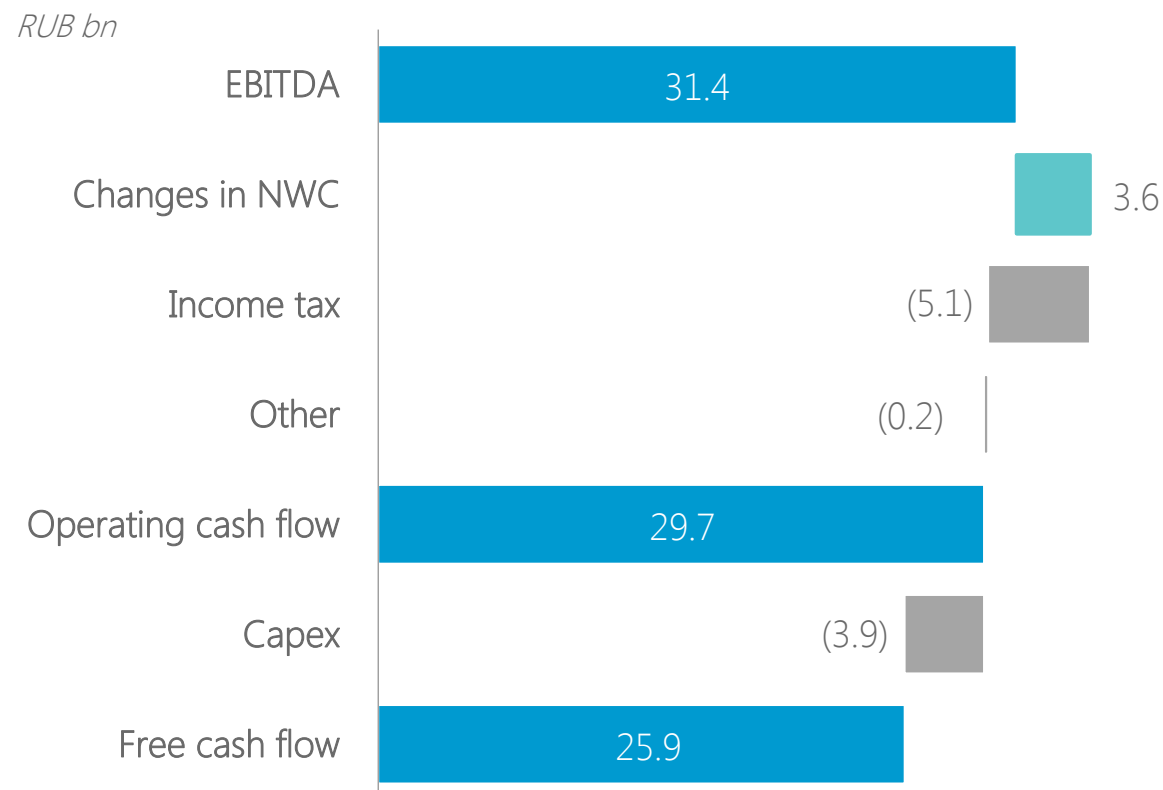
Source: Company data and analysis.

1. Mainly includes changes in FX, finance income/expense, income from grants, insurance reimbursement, etc.

FREE CASH FLOW GROWTH

- Q1 '19 FCF increased by 81% qoq to RUB 25.9 bn (down 37% yoy) driven by:
 - Profitability growth by 16% qoq (decrease by 34% yoy)
 - Conservative capex – seasonal decrease by 44% qoq and by 19% yoy due to drop in capital investments in the Verkhne-Munskoye deposit
- Change in working capital mainly due to:
 - (-) decrease of diamond inventories by RUB 7.1 bn
 - (+) increase of ores and sands inventories by RUB 2.8 bn
 - (-) decrease of mining and construction materials by RUB 1.9 bn
 - (+) increase of other taxes payable by RUB 1.2 bn

Q1 '19 EBITDA to free cash flow bridge



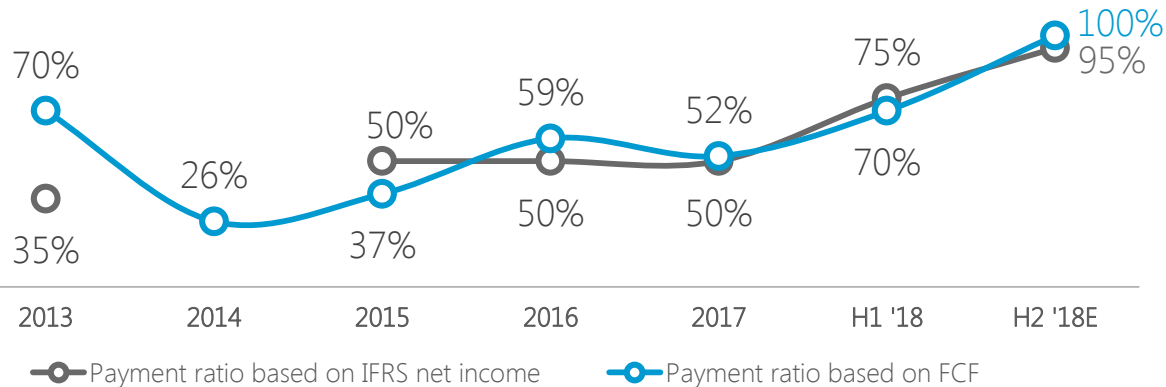
Source: Company data and analysis.

H2'18 DIVIDENDS AT 100% OF FCF

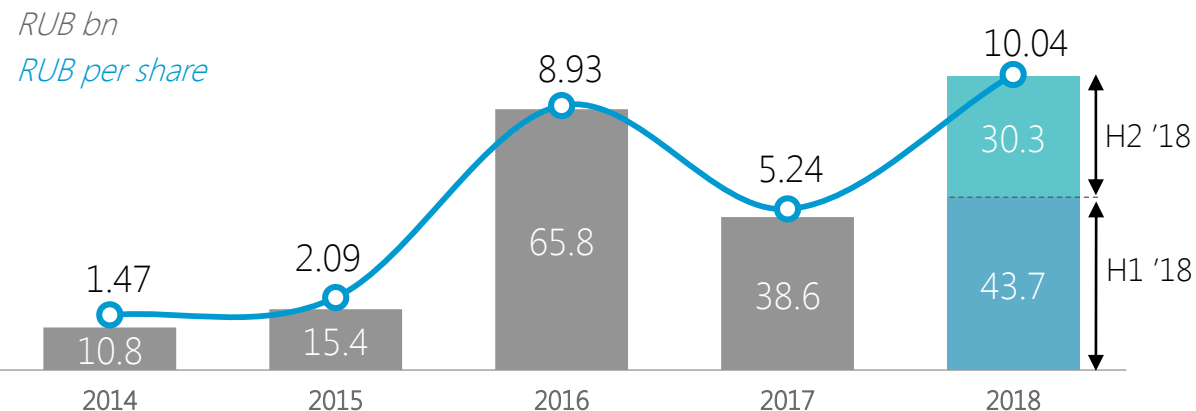
Dividend policy overview

- In 2018, the Company adopted new FCF-linked dividend policy with the payout ratio depending on the level of Net debt / EBITDA ratio:
 - 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
- H2'18 dividends recommendation (23 April 2019) - 100% of its H2 '18 FCF (RUB 30.3 bn or RUB 4.11 per share) (AGM scheduled on 26 June)

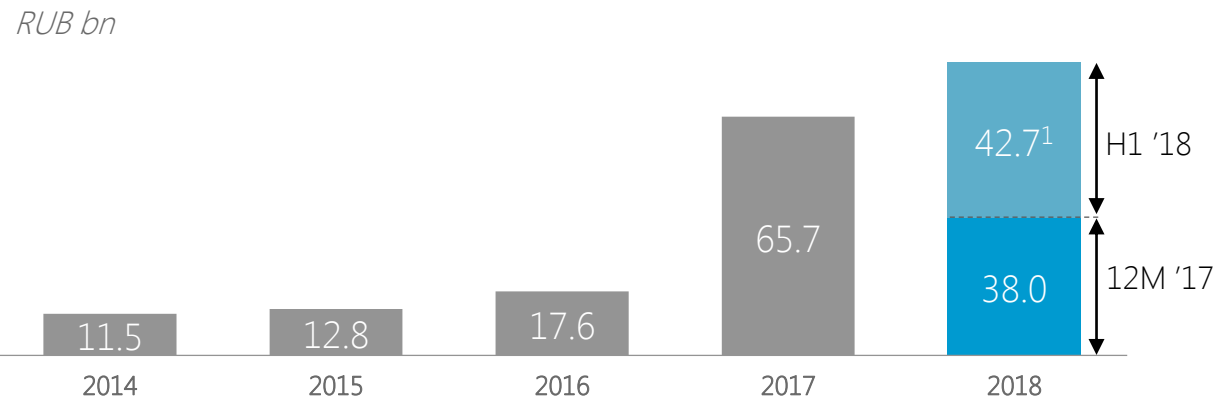
Dividend payout ratios



Dividend accruals



Dividend payments



Source: Company data and analysis.

1. Dividends paid less than dividends accrued for RUB 1 bn due to exclusion of dividends for treasury shares.

OUTLOOK

Market outlook

- Underlying demand for diamond jewellery demonstrates positive dynamics while escalation of trade tensions could weigh negatively on the growth rates
- Overall diamond stocks are expected to remain flat at mid-stream, as Indian mid-streamers continue to face difficulties with access to affordable financing
- Global diamonds supply continues to decrease

ALROSA operating performance

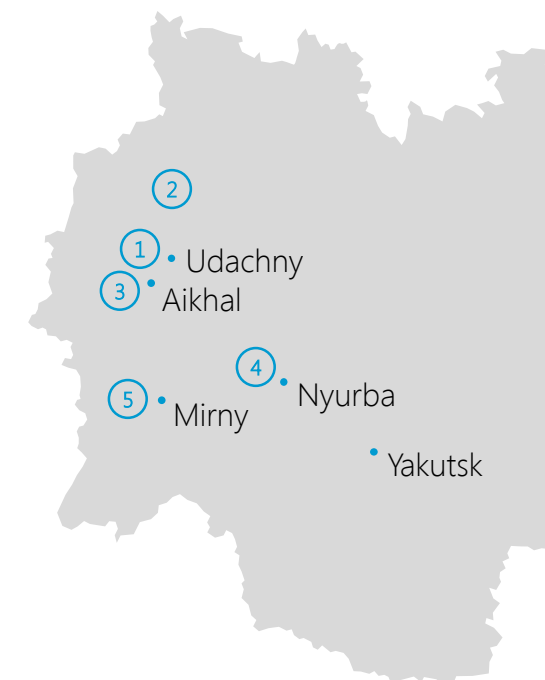
- Production outlook for 2019 remains unchanged at 38 m ct (+1.3 m ct yoy) on continued ramp-up of Verkhne-Munskoye and Severalmaz
- Grades are expected to stabilize at 0.9 ct/t
- Production mix and sales mix are expected to normalize following sale of higher grade stocks in the first half of 2018



APPENDIX

KEY INVESTMENTS PROJECTS

	① Udachny UG mine	② VM ¹ deposit	③ Zaria pipe	④ Maiskaya pipe	⑤ VG ² deposit
Type of mining	Underground	Open-pit	Open-pit	Open-pit	Alluvials
Production start	2014	2018	2020	2025	2022
Ramp-up	2021	2020	2021	2027	2022
Target ore output pa, m t	4.0	3.0	1.2	0.3	1.1
Target production pa, m ct	5.6	1.8	0.4	1.2	0.4
Total CAPEX, RUB bn	63.9	25.0	8.4	5.6	2.3
<i>Invested share</i>	<i>86%</i>	<i>70%</i>	<i>81%</i>	<i>1%</i>	<i>0%</i>
Resource base ³ , m ct	207.6	40.4	7.1	12.7	4.7



Source: Company data

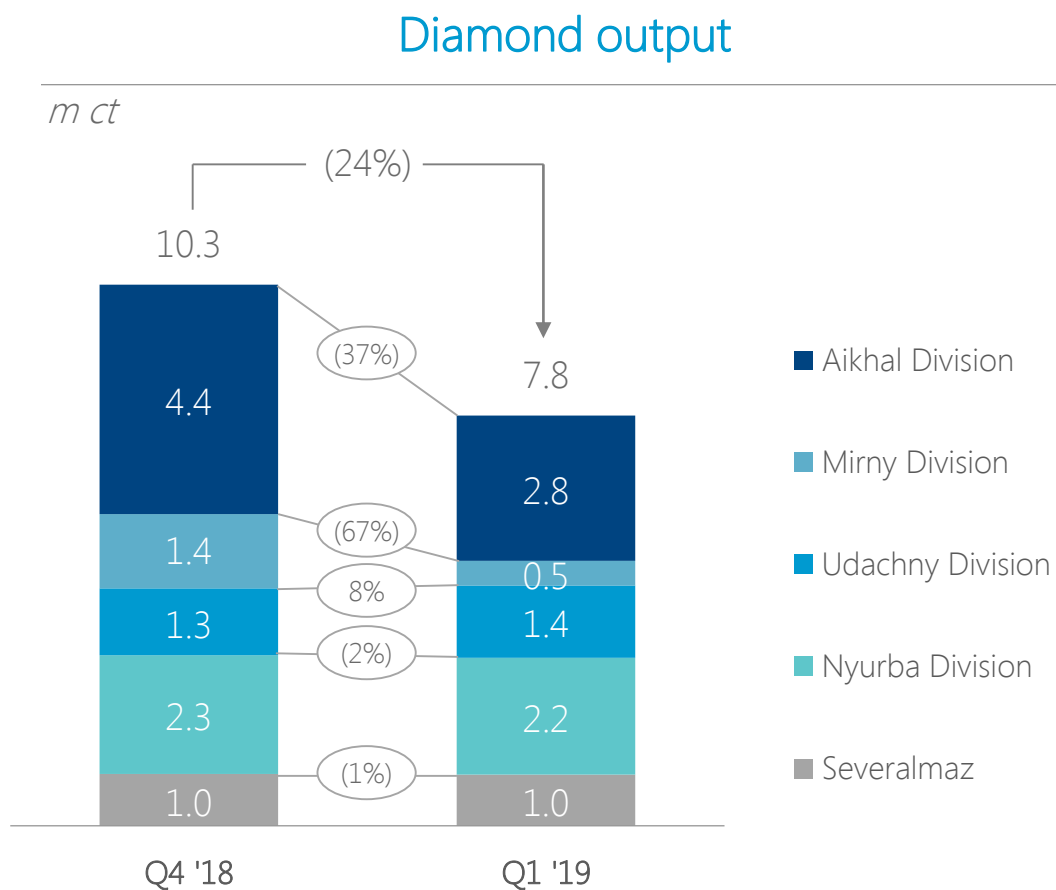
1. Verkhne-Munskoye deposit

2. Vodorazdelnye Galechniki deposit

3. Diamond mineral resources in accordance with the JORC Code as at 1 July 2018

DIAMOND PRODUCTION BY ASSETS

- Key drivers of diamond production decline in Q1 '19 (down 24%):
 - reduction in processing at the Aikhal, Jubilee and International pipes
 - lower grade at the Jubilee pipe
- Drivers affecting Q1 '19 performance:
 - Aikhal Division – output was **down 37%** due to lower-grade ore from the Jubilee pipe coming on-stream
 - Mirny Division – output was **down 67%** due to mining at deep horizons and complications caused by gas-dynamic phenomena at the International pipe
 - Udachny Division – output was **up 8%** due to gradual ramp-up to design capacity at the Verkhne-Munskoe deposit
 - Udachny Division – output was **up 8%** due to gradual ramp-up to design capacity at the Verkhne-Munskoe deposit



FX RATE

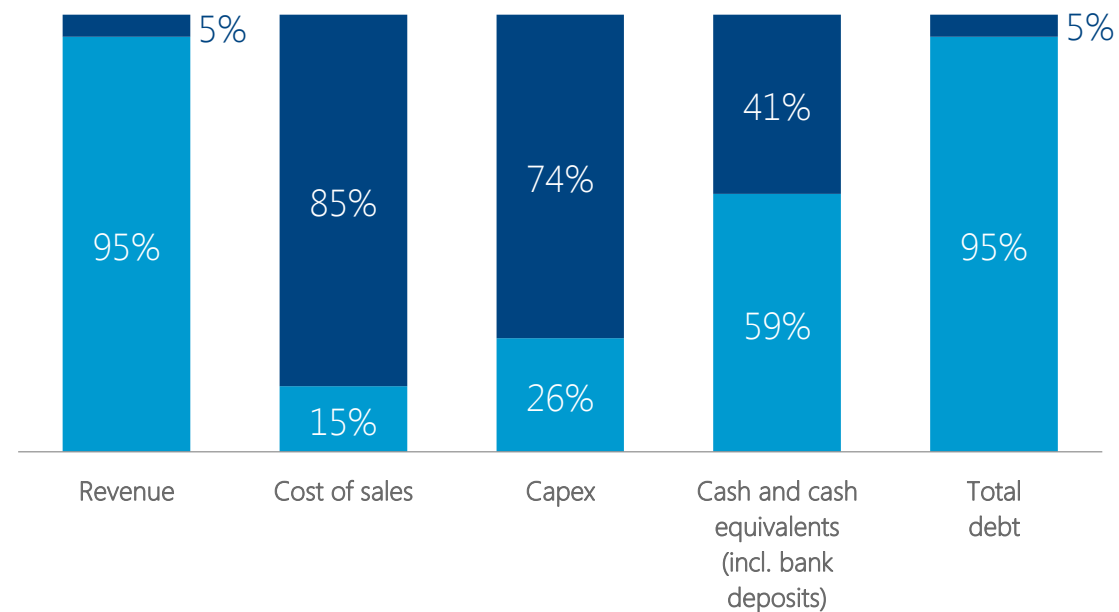
- ALROSA is an exporter with 94% of revenue denominated in USD
- Major portion (74%) of costs and capex is denominated in RUB
95% of the Company's debt portfolio is denominated in USD to create a natural hedge against FX risks
- ALROSA's financial sensitivity analysis shows that a change in the USD exchange rate by +/- 1 RUB/USD leads to the following change in metrics:
 - revenue – +/-1.42%
 - cost of sales – +/-0.23%
 - EBITDA – +/-2.91%
 - capex – +/-0.39%

Source: Company data and analysis.

Financial metrics breakdown by currency

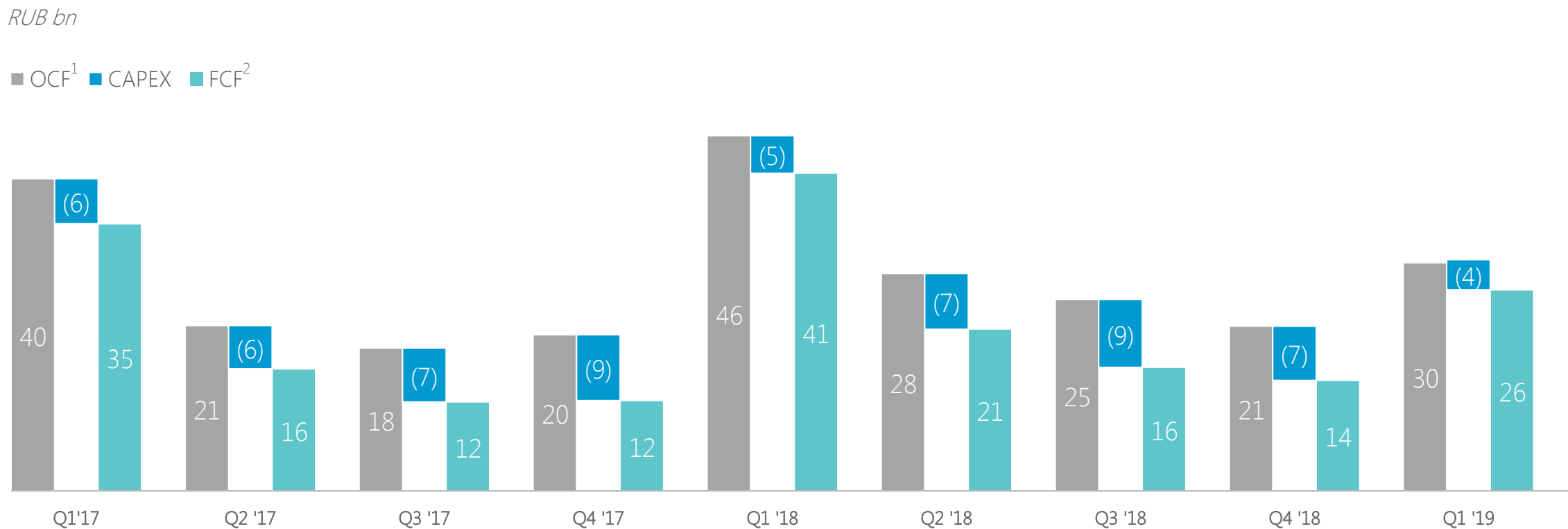
% of metric's total

- RUB
- USD



OPERATING CASH FLOW AND CAPEX

Operating cash flow and capex dynamics



Source: Company data and analysis.

1. OCF – operating cash flow

2. FCF – free cash flow is defined as OCF net of capex in the core business

THANK YOU!

HEAD OF CORPORATE FINANCE
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