ALROSA Group's Q2 and 6M 2020 IFRS results

Moscow, 14 August 2020 – ALROSA, a global leader in diamond mining, announces its IFRS results for Q2 and 6M 2020

- Due to the economic crisis in the key markets triggered by COVID-19 in Q2 2020, ALROSA took steps to balance supply and demand through a flexible sales strategy allowing its clients to defer contract volumes to subsequent periods of the year. These factors were behind financial performance in Q2 and 6M 2020.
- In Q2, **revenue** decreased by 83% q-o-q (down 82% y-o-y) to **RUB 10.4 bn**, due to lower sales in carats which shrunk 93% q-o-q (down 92% y-o-y).
- **EBITDA**[1] in Q2 decreased to **RUB 0.1 bn** (down 100% q-o-q and y-o-y) on the back of a substantial sales drop which was partially offset by optimisation initiatives.
- **EBITDA margin** in Q2 amounted to **1%** (down 47 pp q-o-q and 43 pp y-o-y).
- **Net profit** in Q2 stood at **RUB 0.3 bn** (down by RUB 2.8 bn q-o-q and RUB 13.2 bn y-o-y), which also reflected the significant drop in revenue.
- **Free Cash Flow (FCF)** in Q2 turned negative at RUB 30 bn on the back of the decline in operating cash flow to minus RUB 25.6 bn (down RUB 50 bn q-o-q and RUB 33 bn y-o-y). Capex was RUB 4.5 bn (flat y-o-y).
- **Net debt / LTM EBITDA** as at the end of Q2 grew to **1.2x** (Q1'20: 0.7x).
- **2020 outlook** (no changes to the previously published figures):
    - Production – 28–31 m ct (vs the previous guidance of 34 m ct);
    - CAPEX – RUB 20 bn (previously: RUB 22 bn)

[1] EBITDA stands for the Group's earnings or loss for the period adjusted for income tax expenses, financial income and expenses, share of net profit of associates and joint ventures, depreciation and amortisation, impairment and disposals of property, plant and equipment, gain or loss on disposal of joint ventures, revaluation of investments, and one-off items.

RUB bn	Q2 2020	Q1 2020	q-o-q	Q2 2019	y-o-y	6M 2020	6M 2019	y-o-y
Diamond sales, m ct, incl.	0.6	9.4	*(93%)*	8.3	*(92%)*	10.1	18.9	*(47%)*
gem-quality	*0.4*	*7.1*	*(95%)*	6.0	*(94%)*	7.4	13.9	*(47%)*
industrial	*0.3*	*2.4*	*(88%)*	2.3	*(88%)*	2.6	5.0	*(47%)*
Revenue	10.4	62.7	*(83%)*	57.4	*(82%)*	73.1	127.9	*(43%)*
EBITDA	0.1	30.0	*(100%)*	25.1	*(100%)*	30.1	56.5	*(47%)*
EBITDA margin	1%	48%	*(47 pp)*	44%	*(43 pp)*	41%	44%	*(3 pp)*
Net profit	0.3	3.1	*(85%)*	13.4	*(98%)*	3.3	37.5	*(91%)*
Free cash flow[2]	(30.2)	21.8	–	2.4	–	(8.3)	28.3	–
Net debt[3]	100.6	77.4	*30%*	35.4	*2.8x*	100.6	35.4	*2.8x*
Net debt / LTM EBITDA	1.2x	0.7x	_	0.3x	_	1.2x	0.3x	_

Alexey Philippovskiy, ALROSA's CFO:

"In Q2 2020, consumption of jewelry in the key markets significantly declined as a result of the steps taken by a number of countries to contain the spread of the COVID-19. Both retailers and diamond cutters and polishers had sufficient stocks accumulated previously to meet the decreased demand. Taking that into account, the key mining companies, including ALROSA, decided to support their customers by allowing them not to purchase volumes under effective contracts so that they can work down their previously accumulated stocks. This decision helped to avoid market overstocking that would have only aggravated the situation and delayed the industry's recovery. Due to that, our performance in Q2 was low as expected – proceeds from diamonds' sales in this period amounted to $87 m.

The retail sector is already showing signs of recovery – in June, demand for jewelry in the US rose 1.9% y-o-y, and the consumer activity in China increased too. We are also seeing the first signs of growth in diamond imports to India as exports of polished diamonds recover. For now, this growth has been met by existing diamonds' stocks at the mid-stream cutters, but we believe that the cutters' purchasing activity will start to recover in September ahead of the seasonal growth in demand for polished diamonds in November–January. Obviously, if this scenario materialises, the demand will still be "cautious" anyway. Besides, we cannot rule out the possibility of the "second wave" of the virus, which can tame the nascent recovery.

The Company continues to take all necessary measures aimed at combating the pandemic and its consequences. To ensure employee safety, enhanced sanitary safety measures have been implemented at all of the Company's facilities, our administrative personnel continue to work remotely, and employees are being tested for COVID-19. We continue to support healthcare facilities located in the regions of Yakutia where the Company operates. By now, we have spent over RUB 0.5 bn on COVID-19 response and prevention measures.

[2]FCF (free cash flow) is the operating cash flow calculated in accordance with the International Financial Reporting Standards (IFRS), net of capital expenditure (posted as Purchase of Property, Plant and Equipment on the consolidated IFRS statement of cash flows).

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

In terms of operating activities, we take a number of anti-crisis steps, including decrease of production, cost optimisation, as well as revision of the Company's capex programme. These measures helped us contain the free cash flow losses in 6M 2020 at minus RUB 8 bn, despite almost zero sales in Q2. At the same time, we were active at the debt capital markets in Q2, and created a $1.7 bn liquidity cushion by the end of June, providing the Company with a stable basis for operations as well as the capabilities to meet debt and other liabilities. As a result, we managed to keep the leverage below the critical levels at 1.2x Net debt / EBITDA.

Let me remind you that on 25 June, ALROSA's shareholders decided to distribute RUB 19.4 bn as dividends for H2 2019, i.e. 100% of free cash flow for the period, which is the maximum level allowed by the dividend policy. As regards dividends for H1 2020, taking into account the negative free cash flow for the first half of the year at RUB 8.3 bn, there are no conditions for interim dividend payment, according to the dividend policy.

Hereinafter, data on Q2 and 6M 2020 production, sales, prices, and inventories is preliminary and may be updated. Data on the diamond market is the Company's estimate.

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Key events in the next three months (*Investor calendar*)

10 September	August 2020 sales results
9 October	September 2020 sales results
16 October	Q3 and 9M 2020 operating results
9 November	October 2020 sales results
10 November	Q3 and 9M 2020 IFRS results
10 December	November 2020 sales results

PUBLICATIONS ARCHIVE

- **July 2020 sales results.**
- **Q2 and 6M 2020 operating results**
- **Q1 2020 IFRS results.**
- **Investor Day**

MANAGEMENT DISCUSSION AND ANALYSIS OF ALROSA GROUP FINANCIAL RESULTS FOR Q2 AND 6M 2020

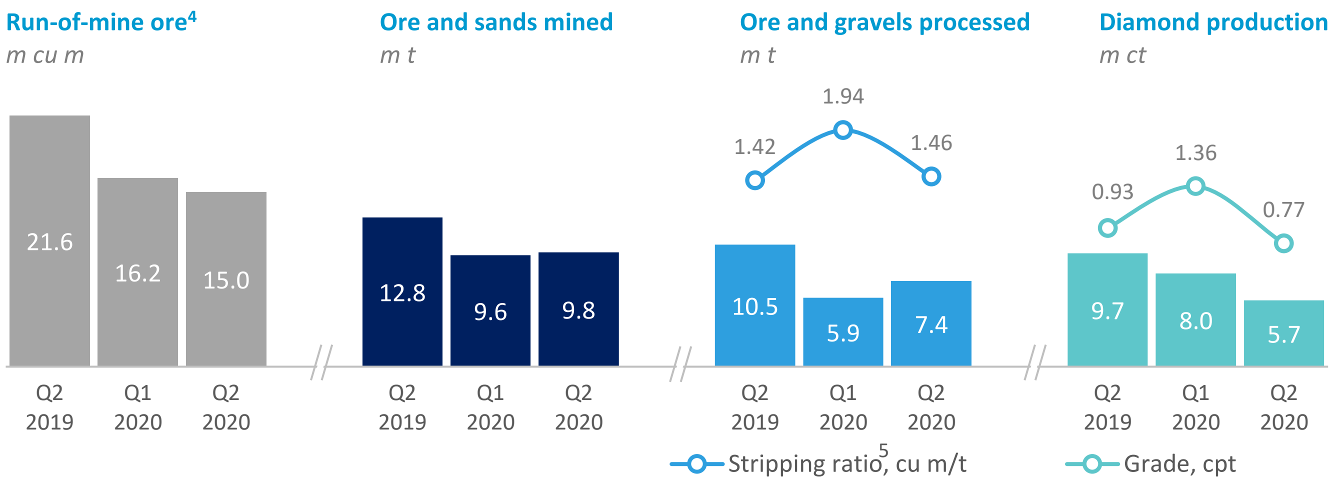
The structure and scope of the report and overview of ALROSA's business are shown in Appendix 4.

Q2 2020 ROUGH AND POLISHED DIAMOND MARKET OVERVIEW

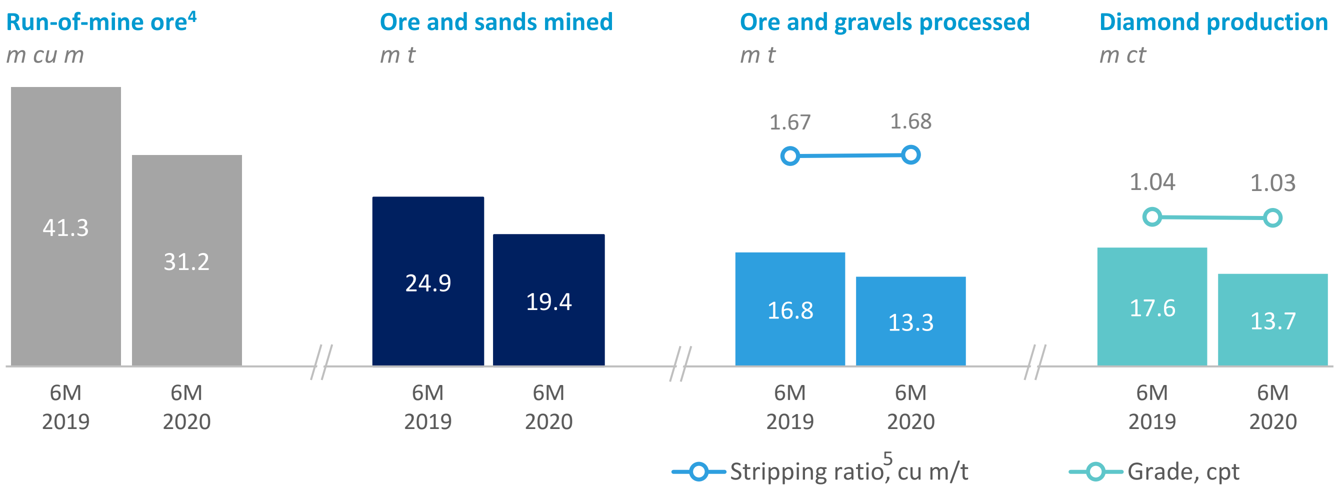
- **Diamond production:** most mining companies halted diamond production due to the pandemic and subsequent lockdowns between March and April/May, and several deposits remain closed pending market recovery. In the face of uncertainty, some companies withdrew their 2020 production plans, while others lowered their forecasts in the range of 7% to 22%.
- **Midstream:** the global diamond industry began to stir in May–June, when the global diamond exchanges resumed activities in strict compliance with the restrictions caused by COVID-19. The cutting centre in Surat, India, resumed limited operations after the second phase of the restrictions, the epidemiological situation in other cities is better and the work load of local facilities is higher.
- **Retail:** China coped with the pandemic ahead of other countries, which accelerated the recovery of demand for diamond jewelry. Major jewelry retailers report higher than expected May sales and continued positive momentum in June. In May–June, jewelry stores began to reopen in other countries, primarily in the USA, EU, Japan, and South Korea. However, the recovery of the US market was negatively affected by protests at the end of Q2.
- **ALROSA sales strategy:** on the back of weak demand, ALROSA remains committed to its price-over-volume policy and satisfies only the actual demand while maintaining a stable price. The policy is aimed at supporting long-term clients and the entire diamond industry. During the July trading session, ALROSA offered unprecedented flexible terms to support its customers and the diamond industry as a whole, allowing the clients to completely forego feedstock purchase under long-term contracts. Starting from the August session, monthly purchase volumes in carats under long-term contracts will be reduced by half, on average (see press release).

OPERATING HIGHLIGHTS

Key highlights for Q2



Key highlights for 6M



- **Production plan for 2020:** in Q2, amid unfavourable market conditions (see page 4) the Company's management decided to reduce the 2020 production outlook to 28–31 m ct. Earlier, in November 2019, the Company cut down its 2020 output plan from 38 to 34.2 m ct.

Run-of-mine ore
Q2: 15 m cu m
6M: 31.2 m cu m

- **Run-of-mine ore** in Q2 and 6M declined by 7% q-o-q (down 31% y-o-y) to 15 m cu m and by 24% to 31.2 m cu m, respectively, due to the production cutting decision.

[4] *Less pre-stripping.*

[5] *The stripping ratio is calculated as rock moved in cubic metres (less pre-stripping) divided by ore and sands processed (in tonnes).*

Production
Q2: 5.7 m ct
6M: 13.7 m ct

- **Diamond production** fell by 29% q-o-q (down 42% y-o-y) to 5.7 m ct due to lower output across all assets, except for Almazy Anabara and Nyurba Division alluvial deposits, which resumed seasonal operations in Q2.

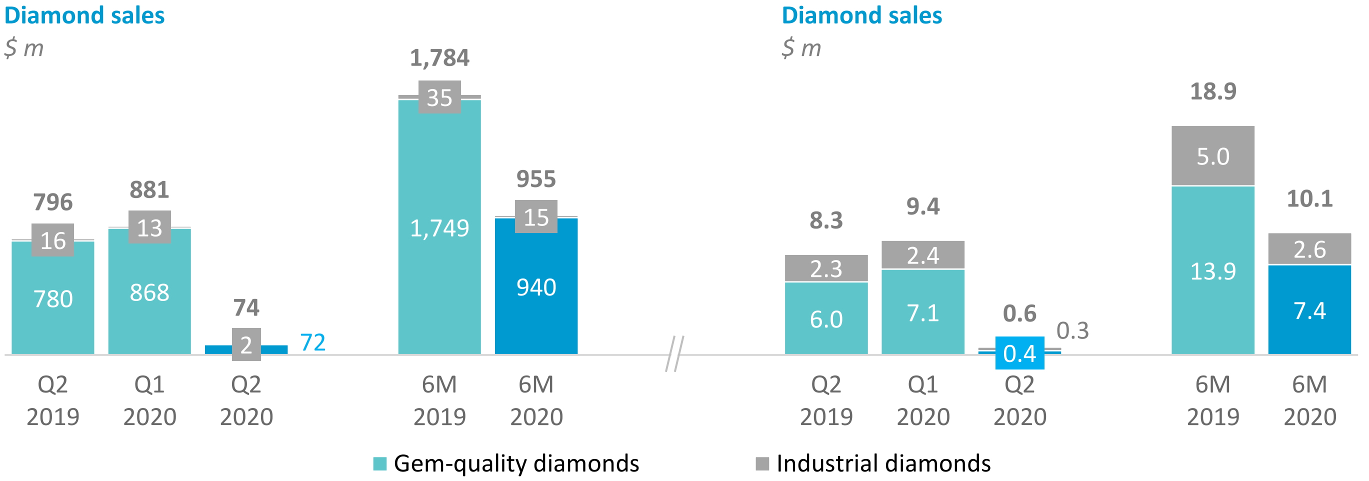
  Due to this factor, the 6M production declined by 22% to 13.7 m ct.

- **Stripping ratio**[7] in Q2 went down 25% q-o-q to 1.46 cu m/t due to a 6% decrease in stripping, which was partly caused by production cutting measures, while processing rose by 24% on the back of seasonal return to production at alluvial deposits. 6M stripping ratio remained largely unchanged at 1.68 cu m/t.

Average diamond grade:
Q2: 0.77 cpt
6M: 1.03 cpt

- **Average diamond grade** in Q2 saw a 43% q-o-q decrease to 0.77 cpt due to seasonal factors and lower processing of higher-grade ore (as part of the 2020 output optimisation initiatives, plants processing ore from the Udachnaya and International underground mines were suspended for four and five months, respectively). This factor also contributed to the 17% y-o-y decrease. For details, see the press release.

  6M average diamond grade saw a decline of 1% to 1.03 cpt.



Sales:
Q2: 0.6 m ct
6M: 10.1 m ct

- **Diamond sales (ex. polished diamonds) decreased by 8.8 m ct (down 93% q-o-q and 94% y-o-y) to 0.6 m ct**, with sales of gem-quality diamonds down by 6.7 m ct to 0.4 m ct (down 95% q-o-q). Industrial diamond sales were falling a little slower: down by 88% q-o-q and y-o-y, to 0.3 m ct. Their share in Q2 sales was 43%.

Inventories: 26.3 m ct

- **Diamond inventories (gem-quality and industrial)** as at the end of Q2 2020 increased 25% q-o-q to 26.3 m ct.

Total sales
(incl. polished diamonds)
Q2: $87 m
6M: $991 m

- **Q2 sales** totalled $87 m, including $74 m in rough diamond sales (down 92% q-o-q and 91% y-o-y as customers were allowed to refrain from buying diamonds (see page 4).

  6M sales fell by 45% to $991 m, including $955 m (down 46%) in rough diamond sales.

[7] *The stripping ratio is calculated as rock moved in cubic metres (less pre-stripping) divided by ore and sands processed (in tonnes).*

Gem-quality diamond sales
Q2: $72 m
6M: $940 m

- **Gem-quality diamond sales** in value terms totalled $72 m (down 92% q-o-q and 91% y-o-y).

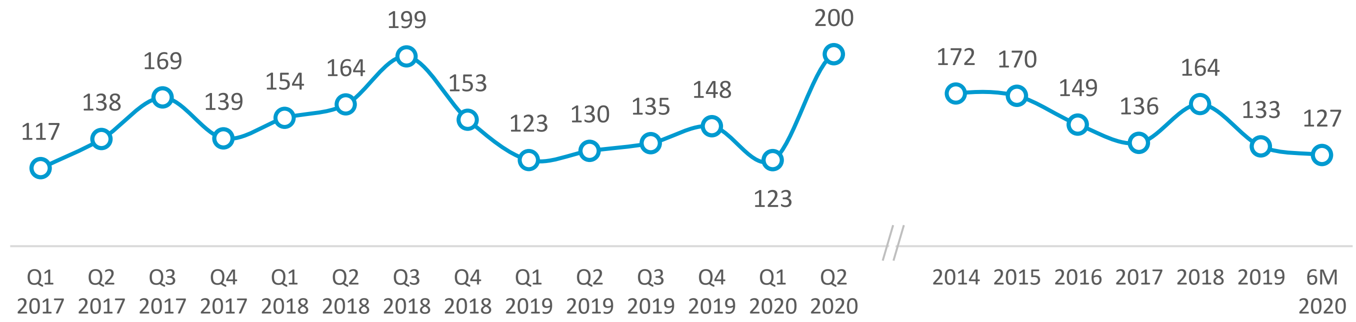
  6M gem-quality diamond sales totalled $940 m (down 46% y-o-y).

- **Q2 diamond sales** amounted to $13 m (down 45% q-o-q and up 16% y-o-y).

  6M polished diamond sales rose by 31% y-o-y to $36 m, among other things due to the consolidation of Kristall Group in October 2019.

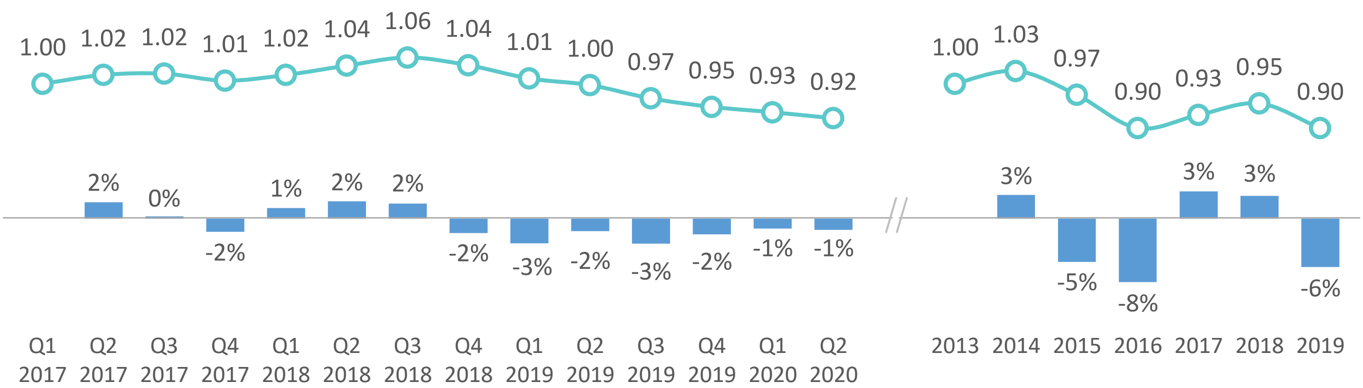
- **Q2 average realised prices for gem-quality diamonds** totalled $200/ct (up 63% q-o-q and 54% y-o-y) amid stronger demand for large-size diamonds in the sales mix.
  6M average realised prices increased marginally to $127/ct (up 1%).

Average realised prices for gem-quality diamond
$/ct



- In Q2, **the diamond price index** lost 1.4% q-o-q as a result of pursuing the price-over-volume strategy and fixing prices at the March level, down 2% year-to-date.

Gem-quality diamond price indices



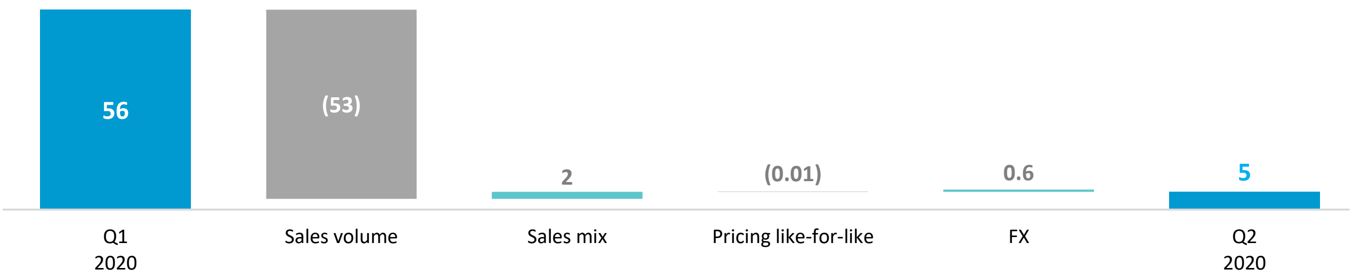
KEY FINANCIAL HIGHLIGHTS

Revenue

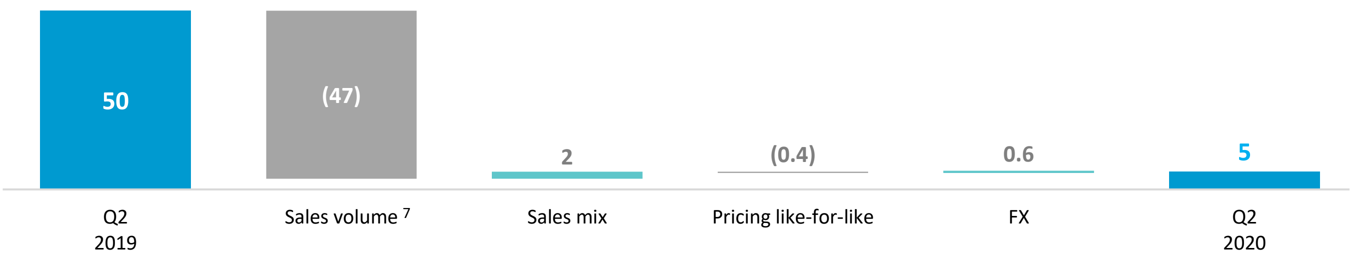
Revenue: RUB 10.4 bn

- In Q2, **revenue decreased by 83% q-o-q (down 82% y-o-y), to RUB 10.4 bn**, mainly due to the drop in sales in carats by 93% q-o-q (down 92% y-o-y) while average sale prices rose on the back of improved sales mix.

Gem-quality rough diamond revenue – key drivers, q-o-q
RUB bn



Gem-quality rough diamond revenue – key drivers, y-o-y
RUB bn



- **Revenue from diamond sales** in Q2 amounted to **RUB 6.3 bn** (down 89% q-o-q and 88% y-o-y), including **revenue from gem-quality diamond sales at RUB 5.2 bn** (down 91% q-o-q and 90% y-o-y), primarily due to a decline of 95% q-o-q and 94% y-o-y in sale volume in carats. A higher share of large-size diamonds in the sales mix had a positive impact which resulted in the increase of RUB 2 bn both q-o-q and y-o-y.
- **Other revenue** in Q2 decreased by 27% q-o-q (down 33% y-o-y) to **RUB 2.7 bn** mainly due to lower transportation segment revenue reflecting a reduced passenger traffic at ALROSA Air Company resulting from the introduction of measures to prevent the spread of COVID-19. The decline q-o-q was influenced by the seasonal reduction in electricity and gas consumption as well.

[8] *Including minus RUB 2.4 bn – revenue of gem-quality diamond sales by Kristall group in Q2 2019.*

- **Income from grants** in Q2 stood at **RUB 1.4 bn** (up 72% q-o-q and down 5% y-o-y). The quarterly growth is mainly due to higher electricity grants (up 177% q-o-q, down 7% y-o-y) resulting from (a) additional allowances for Q1 2020; (b) the lower base of Q1 2020, when part of the excess grant for 2019 was returned.
- In Q2, **total sales costs (production and non-production costs)** were down by 69% q-o-q to **RUB 10.2 bn** on the back of the following factors:
    - Production costs of goods sold (down 99% or RUB 18.0 bn):

      (+) decline of the *"Movement of diamond inventory"* item (to minus RUB 11.5 bn from RUB 1.1 bn in Q1'20) due to a decrease in diamond sales on the back of measures introduced due to COVID-19;

      (+) decline of the *"Movement of ore and sands inventories"* item (to minus RUB 8.3 bn from minus RUB 4.3 bn in Q1'20) as production exceeded processing following the decision to reduce the 2020 production plane and suspend operations at three processing plants;

      (+) decrease in wages, salaries and other staff costs by 7% (down RUB 0.8 bn) on the back of reduced production at a number of assets according to the revised 2020 production outlook;

      (+) reduction of fuel and energy costs by 28% (down RUB 1.2 bn) due to lower fuel consumption on the back of lower output;

      (-) growth in materials costs by 25% (up RUB 0.6 bn) due to scheduled maintenance and repairs of equipment;

      (+) reduction of third-party services and transportation expenses by 47% (down RUB 1.0 bn) mainly due to reduced output;
    - Non-production costs (down 32% q-o-q, or RUB 4.6 bn):

      (+) reduction of MET expenses by 77% (down RUB 3.7 bn) as a result of lower volumes of preliminary diamond valuation on the back of personnel lay-off in Q2 caused by the pandemic. In Q3, preliminary valuation will factor in suspended operations in Q2;

      (+) reduction of exploration expenses by 29% (down RUB 0.7 bn) according to the 2020 plan;

      (-) increase in SG&A expenses by 17% (up RUB 0.6 bn) due to the payment of management remuneration for 2019;

      (+) decrease in the cost of diamonds for resale by 94% (down RUB 0.9 bn) due to a drop in sales in Q2.
- **Decrease in total sales costs by 68% y-o-y** to RUB 10.2 bn (down RUB 22.0 bn). The key factors of decline are:
    - Production costs (down 99% or RUB 17.1 bn):

(-) reduction of the *"Movement of diamond inventory"* item by RUB 10.4 bn (to minus RUB 11.5 bn in Q2 2020 from RUB 1.0 bn in Q2 2019), as production was exceeding sales as a result of the pandemic-triggered restrictions;

(-) reduction of the *"Movement of ore and sands inventories" item* by RUB 5.3 bn (from minus RUB 3.0 bn in Q2 2019 to minus RUB 8.3 bn in Q2 2020) due to lower volumes of ore and sands processed;

(+) decrease in wages, salaries and other staff costs by 7% (down RUB 0.7 bn) on the back of reduced output;

(+) deduction of fuel and energy costs by 20% (down RUB 0.8 bn) also resulting from the lower output;

(-) decrease in third-party services and transportation expenses by 45% (down RUB 0.9 bn) also on the back of lower output.

- Non-production costs (down 33% or RUB 5.0 bn):

(+) reduction of MET expenses by 77% (down RUB 3.6 bn) as a result of lower volumes of preliminary diamonds valuation on the back of personnel lay-off in Q2 caused by the pandemic. In Q3, preliminary valuation will factor in suspended operations in Q2;

(+) decrease in social expenses by 45% (down RUB 0.7 bn) due to reduced charity spending;

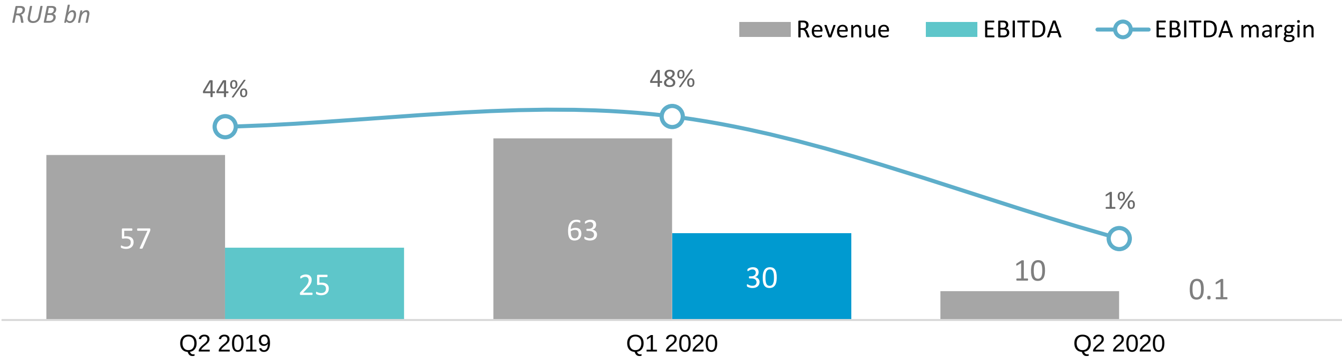
(+) decrease in the cost of diamonds for resale by 94% (down RUB 1.0 bn) caused by a drop in Q2 sales;

(-) increase in other expenses (up RUB 0.5 bn) mainly due to the funding of COVID-19 response expenses;

(+) decrease in SG&A expenses by 5% (down RUB 0.2 bn) mainly caused by the introduction of a reduced work week for the administrative personnel.

Q2 production costs, excluding inventory movement, amounted to RUB 19.9 bn. The decline was 7% q-o-q and y-o-y on the back of the measures aimed at reducing production in response to the pandemic.

EBITDA
RUB bn



EBITDA: RUB 0.1 bn

- **EBITDA** in Q2 amounted to RUB 0.1 bn on the back of a substantial reduction in the sales of rough diamonds which was partly offset by optimisation initiatives.
- **FX rate impact** on EBITDA in Q2 stood at RUB 0.6 bn q-o-q and y-o-y as a result of the positive effect of the FX rate on the Company's revenue.

EBITDA margin: 1%

- **Q2 EBITDA margin** amounted to **1%** (down 47 pp q-o-q).

EBITDA calculation

RUB m	**Q2 2020**	**Q1 2020**	**Q2 2019**	**6M 2020**	**6M 2019**
Operating profit	(8,350)	25,992	19,060	17,642	43,537
Depreciation	5,819	6,295	5,898	12,114	12,474
Adjustments (see financial statements in Excel)	2,648	(2,303)	173	345	473
EBITDA	**117**	**29,984**	**25,132**	**30,101**	**56,484**

Net profit: RUB 0.3 bn

- **Net profit** in Q2 stood at **RUB 0.3 bn** (Q1’20: RUB 3.1 bn, Q2’19: RUB 13.5 bn), the decrease was also due to a significant drop in revenue. The indicator was supported by FX gains of RUB 10.4 bn resulting from the revaluation of debt in foreign currency.

LIQUIDITY, WORKING CAPITAL, AND CAPITAL EXPENDITURE

Cash flows

- As at the end of Q2, **cash and cash equivalents and 90+ days deposits** rose by RUB 29.8 bn q-o-q, to **RUB 115.6 bn ($1,653 m)** as a result of raised borrowings to ensure sufficient liquidity during the period of weaker demand in the key markets (see page 4), as well as in anticipation of H2'19 dividend payments and the redemption of $494 m Eurobonds in November 2020.

  Breakdown by currency: 96% – US dollars, 4% – roubles.

Operating activity

- In Q2, **operating cash flow** declined to **minus RUB 25.6 bn** (down RUB 50.1 bn q-o-q). The decrease of RUB 32.6 bn y-o-y was due to lower sales and changes in the working capital growth rates (from RUB 11.9 bn in Q2'19 to RUB 24.2 bn in Q2'20, total effect on operating cash flow in Q2'20: minus RUB 12.9 bn y-o-y).

Working capital analysis

Working capital

RUB m	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Diamond inventories	83,871	71,883	73,905	63,447	44,247
Inventories of ore and sands mined	27,997	19,736	15,413	12,229	19,805
Mining and construction materials, consumable and other supplies	32,774	30,009	31,984	35,450	30,821
Trade and other receivables *(excl. interest receivable)*	11,898	14,750	12,873	16,756	20,751
Prepaid taxes, other than income tax	90	226	315	191	139
Accounts payable to employees	(11,286)	(11,844)	(11,917)	(11,376)	(11,961)
Trade and other payables *(excl. interest payable)*	(6,700)	(9,215)	(7,749)	(7,278)	(6,230)
Other taxes payable	(6,302)	(7,388)	(7,572)	(6,920)	(6,966)
Working capital	**132,342**	**108,157**	**107,252**	**102,499**	**90,606**

- **In Q2, working capital grew by RUB 24.2 bn** (up 22% q-o-q) as a result of:

  (-) increase in rough diamond inventories of RUB 12.0 bn (up 17%) as diamond production volumes exceeded sales by 5.2 m ct despite the adopted output reduction of 29% q-o-q (vs seasonal growth of production in Q2'19 of 24%);

  (-) growth in the inventories of ore and sands mined by RUB 8.3 bn (up +42%), as production exceeded processing following the decision to reduce the 2020 output and suspend operations at processing plants No. 3 (Mirny Division), No. 12 (Udachny Division) and No. 1 (Severalmaz);

  (-) seasonal increase in mining and construction materials, consumables and other supplies of RUB 2.8 bn (up 9%) due to the start of the navigation period on the Lena River;

(+) decrease in trade and other receivables by RUB 2.8 bn (down 19%) mainly due to lower trading activity, as well as lower exchange rate difference on the back of rouble appreciation in Q2;

(-) decline in trade and other payables by RUB 2.5 bn (down 27%) mainly due to a decrease in advances from customers resulting from lower sales.

As at the end of Q2, working capital grew by 46% y-o-y (up RUB 41.7 bn) as a result of:

(-) increase in rough diamond inventories of RUB 39.6 bn (up 90%), including in carats (up 65% or 10.4 m ct), as production exceeded sales on the back of weaker demand;

(-) growth in inventories of ore and sands mined by RUB 8.2 bn (up 41%) mainly due to an increased share of deposits with higher per unit costs resulting from the decisions to suspend processing plants at Mirny and Udachny Divisions and lower processing of sands from Almazy Anabara;

(-) increase in mining and construction materials, consumables and other supplies of RUB 1.9 bn (up 6%) due to previously planned increase in the scope of works and growth in prices for fuel and other supplies;

(+) decrease in trade and other receivables by RUB 8.8 bn (down 43%) mostly due to the consolidation of Kristall Group in Q4'19, and reduced trade volume.

Free Cash Flow

RUB m	Q2 2020	Q1 2020	Q2 2019	6M 2020	6M 2019
EBITDA	**117**	**29,984**	**25,132**	**30,101**	**56,484**
Changes in working capital	(24,187)	(905)	(11,891)	(25,090)	(8,263)
Income tax paid	(610)	(6,023)	(5,747)	(6,633)	(10,811)
Other	(943)	1,432	(562)	488	(742)
Operating cash flow	**(25,623)**	**24,488**	**6,932**	**(1,134)**	**36,669**
Capex	(4,538)	(2,645)	(4,534)	(7,183)	(8,410)
Free cash flow	**(30,161)**	**21,843**	**2,398**	**(8,317)**	**28,259**

FCF: RUB (30.2) bn

- **Free cash flow (FCF)** in Q2 amounted to **minus RUB 30.2 bn** as a result of a negative operating cash flow (minus RUB 25.6 bn) and an increase in capex of RUB 1.9 bn q-o-q.

  Compared to Q2'19, FCF decreased by RUB 32.6 bn due to the decline in operating cash flow by RUB 32.6 bn.

Investment activities

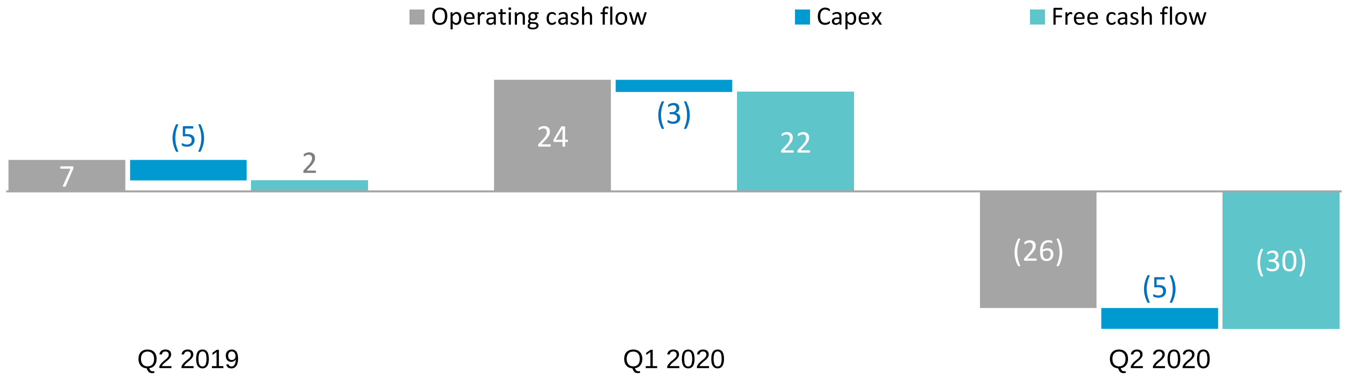
Investments: RUB 4.5 bn

- **Cash outflow from investing activities (excluding outflow of cash to bank deposits)** in Q2 was represented by capex of RUB 4.5 bn (up 72% q-o-q and flat y-o-y).

- **Cash inflow from investing activities (excl. cash received from bank deposits)** in Q2 amounted to **RUB 0.9 bn** (up RUB 0.4 bn – advance payment under the sale of JSC Almaznaya Osen Non-State Pension Fund and up RUB 0.4 bn – interest on bank deposits).
- **Net inflow from investing activities in Q2**, including cash received from bank deposits (up RUB 5.8 bn), amounted to **RUB 2.1 bn**.

Capex and free cash flow

RUB bn



Financing activities

Total debt: $3.1 bn

- **Total debt** (including operating lease liabilities[9]) for Q2 2020 increased to **$3,091 m** (up 47% q-o-q), or RUB 216.2 bn (up 32% q-o-q), mainly driven by the issue of 5Y exchange-traded bonds in the amount of RUB 25 bn in May, $500 m 7Y Eurobond issue in June, and two 2Y bank loans raised in April and May to meet the liquidity position requirements. The growth in total debt was partially offset by foreign exchange gains (minus RUB 15.3 bn q-o-q).
- As at the end of Q2, the **debt portfolio** (excl. lease liabilities) consisted of three Eurobond issues including one $494 m issue and two issues $500 m each, and five exchange-traded bond series totalling RUB 25 bn (all the bonds represent 61% of the total debt excluding lease liabilities), as well as bank loans in the total amount of $1,160 m (39% of total debt excluding lease liabilities) maturing in 2021–2022.

  As at the end of Q2, the debt portfolio (excl. lease liabilities) consisted of instruments denominated in foreign currencies (84%) and roubles (16%).
- **Interest payments** (excl. pension liabilities) in Q2 amounted to **RUB 2.1 bn** (up 41% q-o-q) due to the overall increase in debt and one-off costs to issue bonds and raise loans. Without this factor, the growth would have amounted to 33% q-o-q.
- The **average funding rate** in Q2 decreased from 4.25% to **4.19% per annum** (excluding one-off costs to issue bonds and raise loans). The decrease was influenced by the new $500 m Eurobond issue with a coupon rate of 3.1% per annum, as well as new bank loans ($275 m, 2 years maturities) at lower rates.
- The **weighted average maturity of debt** increased from 1.9 to **2.9 years** mainly due to the placement of 7Y Eurobonds and 5Y exchange-traded bonds.

[9] IFRS 16 Leases

Net debt

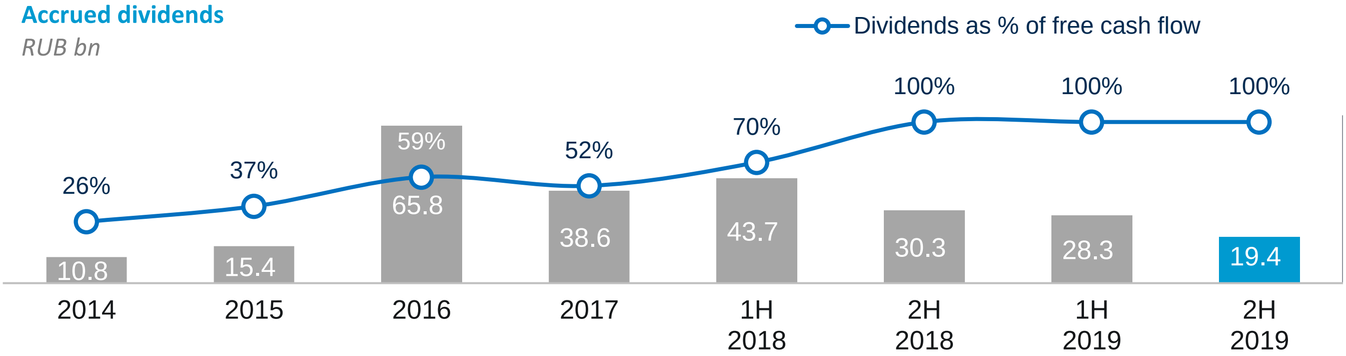
RUB m	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Long-term debt	143,902	104,439	84,171	102,015	87,282
Short-term debt	72,334	58,788	33,113	3,064	1,948
Cash and cash equivalents	65,471	25,786	13,315	20,666	5,706
Bank deposits	50,159	60,078	24,340	21,408	48,117
Net debt	**100,606**	**77,363**	**79,629**	**63,005**	**35,407**

Net debt grew to $1.4 bn

- **Net debt** in Q2 grew to **RUB 100.6 bn** (up 30% q-o-q) primarily due to a decrease in the positive free cash flow (up RUB 30.2 bn) partially offset by foreign exchange gains (minus RUB 9.2 bn).
- **Net debt / LTM EBITDA** as at the end of Q2 stood at **1.2x** (Q1’20: 0.7x).

Accrued dividends

RUB bn



- **H2’19 dividends:** At its meeting on 24 June, the AGM decided to distribute as dividends 100% of the Company’s free cash flow for 2019, amounting to RUB 47.7 bn, or RUB 6.47 per share. Taking into account the dividend paid for H1’19 (RUB 28.3 bn, or RUB 3.84 per share), the approved dividend amounted to RUB 19.4 bn, or RUB 2.63 per share for H2’19 (please see the press release). The dividends will be paid in full by the end of August.
- **H1’20 dividends:** Taking into account the free cash flow losses amounting to RUB 8.3 bn, there are no conditions for interim dividend payment according to the dividend policy. We would like to remind you that the condition of dividend payments of at least 50% of net profit under IFRS is aligned with annual indicators.

SOME OF THE FACTORS IMPACTING THE COMPANY'S OPERATING AND FINANCIAL PERFORMANCE

Macroeconomic environment

As ALROSA Group (the "Group") exports its products to Europe and elsewhere and raises a substantial amount of foreign currency borrowings, while the bulk of its expenses is denominated in roubles, it is exposed to a foreign exchange risk arising chiefly from the fluctuations in the RUB/USD rate and, to a lesser degree, in the RUB/EUR rate.

The table below shows rouble to euro and US dollar exchange rates as determined by the Central Bank of the Russian Federation as at specific dates:

RUB m	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019	30 Jun 2019
RUB/USD	69.9513	77.7325	61.9057	64.4156	63.0756
RUB/EUR	78.6812	85.7389	69.3406	70.3161	71.8179

The table further shows average RUB/USD and RUB/EUR exchange rates for the periods under review:

RUB m	**Q2 2020**	**Q1 2020**	**Q2 2019**	**6M 2020**	**6M 2019**
Average RUB/USD exchange rate for the period	72.0479	66.6263	64.5217	69.3371	65.1218
Average RUB/EUR exchange rate for the period	79.2421	73.4129	72.5069	76.3577	73.5766

MAJOR DEVELOPMENTS IN Q2 2020 AND AFTER THE REPORTING DATE

22 May 2020. The Company successfully issued 5Y RUB 25 bn exchange-traded bonds with a coupon rate of 5.75% per annum to finance its current operations (please see the press release).

17 June 2020. The Company successfully issued 7Y Eurobond in the amount of $500 million at a coupon rate of 3.1% per annum to refinance existing bank debt and for general corporate purposes (please see the press release).

24 June 2020 Shareholders elected a new Supervisory Board at the AGM (please see the press release). The new members of the Supervisory Board are:

- Alexey Noskov (independent director, first-time member of the Board) – Managing Director of JSC Polyus Aldan;
- Vladimir Rashevsky (first-time member of the Board) – a member of the Board of Directors of JSC SUEK;
- Maxim Tereshchenko (first-time member of the Board) – Minister of Industry and Geology of the Republic of Sakha (Yakutia).

APPENDICES

Appendix 1. Key financial indicators

RUB bn	Q2 2020	Q1 2020	*q-o-q*	Q2 2019	*y-o-y*	6M 2020	6M 2019	*y-o-y*
Revenue, incl.:	**10.4**	**62.7**	*(83%)*	**57.4**	*(82%)*	**73.1**	**127.9**	*57%*
revenue from diamond sales	6.3	58.2	*(89%)*	51.8	*(88%)*	64.5	117.8	*55%*
other revenue	2.7	3.7	*(27%)*	4.1	*(33%)*	6.5	7.7	*84%*
income from grants	1.4	0.8	*72%*	1.5	*(5%)*	2.2	2.4	*92%*
Costs, incl.:	**10.2**	**32.8**	***(69%)***	**32.2**	*(68%)*	**43.1**	**71.4**	*60%*
production costs	19.9	21.5	*(7%)*	21.3	*(7%)*	41.4	42.4	*98%*
non-production costs	10.0	14.5	*(32%)*	14.9	*(33%)*	24.7	29.4	*84%*
movement of diamond inventory, ore and sands	(19.7)	(3.3)	*6x*	(4.0)	*5x*	(23.0)	(0.4)	*58x*
EBITDA	**0.1**	**30.0**	***(100%)***	**25.1**	*(100%)*	**30.1**	**56.5**	*53%*
EBITDA margin	1%	48%	*(47 pp)*	44%	*(43 pp)*	41%	44%	*(3 pp)*
Depreciation and amortisation	(5.8)	(6.3)	*(8%)*	(5.9)	*(1%)*	(12.1)	(12.5)	*97%*
Financial income/(expenses)	8.4	(22.2)	–	(1.4)	–	(13.8)	3.0	–
Other income/(expenses)	(2.3)	3.3	–	0.0	–	1.0	1.4	*69%*
Income tax	(0.1)	(1.7)	*(95%)*	(4.5)	*(98%)*	(1.8)	(10.9)	*17%*
Net profit	**0.3**	**3.1**	***(91%)***	**13.4**	*(98%)*	**3.3**	**37.5**	*9%*
Net profit margin	3%	5%	*(2 pp)*	23%	*(20 pp)*	5%	29%	*(24 pp)*
Free cash flow	**(30.2)**	**21.8**	**–**	**2.4**	–	**(8.3)**	**28.3**	–
Net debt	**100.6**	**77.4**	***30%***	**35.4**	*2.8x*	**100.6**	**35.4**	*2.8x*
Net debt / LTM EBITDA	**1.2x**	**0.7x**	**–**	**0.3x**	–	**1.2x**	**0.3x**	–

Appendix 2. Revenue by customer geography

	Q2 2020	Q1 2020	Q2 2019	6M 2020	6M 2019
Russia	45%	13%	19%	17%	19%
India	20%	17%	13%	18%	15%
Israel	12%	8%	10%	9%	7%
Belgium	11%	45%	42%	42%	42%
UAE	4%	14%	10%	13%	11%
China	2%	1%	3%	1%	4%
Other countries	5%	2%	2%	2%	2%

Appendix 3. Per unit costs

RUB '000 / cu m	**Q2 2020**	**Q1 2020**	*q-o-q*	**Q2 2019**	*y-o-y*	**6M 2020**	**6M 2019**	*y-o-y*
Wages, salaries and other staff costs	0.76	0.76	*0%*	0.56	*36%*	0.76	0.59	*29%*
Fuel and energy	0.20	0.26	*(23%)*	0.18	*11%*	0.23	0.19	*21%*
Materials	0.22	0.16	*38%*	0.14	*57%*	0.19	0.14	*36%*
Services and transport	0.07	0.13	*(46%)*	0.09	*(22%)*	0.10	0.10	*0%*
Other	0.07	0.02	*3x*	0.01	*7x*	0.04	0.01	*4x*
Total	**1.33**	**1.32**	***1%***	**0.98**	***35%***	**1.33**	**1.03**	***29%***

Appendix 4. Structure (perimeter) of the report and overview of ALROSA's business

The report is a review of the financial condition of the Group for Q2 2020 compared to previous periods, and also of material factors that may influence the Group's future operations.
The Group's financial and operating details include PJSC ALROSA and its subsidiaries, associates and JVs. The report is published quarterly based on a schedule required for the Group's consolidated financial statements.
The report contains forward-looking statements subject to risks and uncertainties. As a result of a variety of factors, the Group's actual results may differ materially from future results projected by the forward-looking statements.

About the Company

The key strategic business of the Group is diamond mining and sales, prospecting and appraisal of diamond deposits, and production and sales of polished diamonds and diamond powders. As the industry's leader, the Group accounts for one third of all reserves worldwide and over 25% of global diamond mining.
The Group operates in two Russian regions – the Republic of Sakha (Yakutia) and Arkhangelsk Region, and in Africa through its associates and joint ventures.
The Group maintains and expands its resources and reserves by engaging in targeted exploration activities in line with a long-term development programme until 2024. The Group invests in geological exploration and prospecting of new potential diamond deposits while also carrying out follow-up exploration at existing assets. The Group conducts prospecting and appraisal in Russia and Africa.
While maintaining a focus on diamond mining, the Group is committed to a social policy based on social responsibility of businesses and relations with government agencies and local authorities that benefit all stakeholders in the regions of operations. The Group undertakes initiatives to mitigate its environmental footprint and ensure sustainable use of resources, all compliant with international environmental protection and safety standards.