



АЛРОСА  ALROSA

ALROSA Q1 2013 IFRS Results Conference Call Summary

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ALROSA speakers

Igor Kulichik – CFO

Ayaal Golub – Head of Capital Markets

Sergey Mezhokh – Head of Investor Relations

Anastasia Misharina – Head of IFRS Accounting

Presentation

Igor Kulichik (translated)

Ladies and gentlemen, my name is Igor Kulichik. I am Chief Financial Officer of ALROSA. On behalf of our team, I would like to welcome everyone on this call to present ALROSA's results for Q1 2013. Joining me today in this presentation are Sergey Mezhokh, Head of Investor Relations, Ayaal Golub, Head of Capital Markets, and Anastasia Misharina, Head of IFRS Accounting.

Let me start with an overview of the key events for ALROSA from the beginning of 2013 as you can see on slide three. As part of its non-core asset disposal strategy, on April 2nd ALROSA sold a 51% stake in Timir to EVRAZ plc for RUB 4.95 bn. The first tranche of RUB 495 mln was paid in April. The remaining part will be paid in three tranches in the course of 2013 and 2014. Let me remind you that Timir holds licenses to iron ore deposits in South Yakutia with total reserves of approximately 3.5 bn tonnes of ore with an iron content of 27% to 40%.

Also in April 2013, ALROSA obtained support from the President of Angola to expand its geological exploration in this country. We believe that Angola is one of the few remaining spots on the globe where new diamond discoveries are still probable. We see this achievement as an important landmark in expanding ALROSA's resource base.

In terms of developing the existing resource base, an important milestone was the launch of the third stage of Aikhal underground mine on April 6th. Aikhal has now reached its desired output of 0.5 mln tonnes of ore per year. 2013 diamond production from this mine is expected at the level 3 mln carats.

As part of diamond sales channel development, on April 15th ALROSA signed a letter of intent with Shanghai Diamond Exchange or SDE. The parties intend to develop the principles and terms and conditions of cooperation to sell ALROSA's diamonds at SDE. This is an important step in promoting ALROSA's relationship with China which is one of the most attractive regions of diamond consumption globally.

Another step in diamond sales channel development was signing of a letter of intent between ALROSA and Sotheby's auction house in May to sell special size, fancy color and high quality polished diamonds at Sotheby's auctions.

ALROSA's Management Board reduction from 20 to 13 members in April 2013 has become a notable step in our corporate governance improvements.

On June 5th, ALROSA has completed the acquisition of the alluvial diamond mining company "Nizhne-Lenskoe" from the Republic of Sakha (Yakutia) for a cash consideration of RUB 7 bn for a 100% stake. "Nizhne-Lenskoe" operates several alluvial deposits in the north-west part of the Republic of Sakha (Yakutia) close to existing ALROSA's producing assets with rough diamond prices from US\$100 to US\$180 per carat. In 2012, "Nizhne-Lenskoe" produced 1.5 mln carats with RUB 4.7 bn of revenue and EBITDA of RUB 1.5 bn. Expected life of mine of "Nizhne-Lenskoe" is at least 14 years.

Let me now move on to operational and financial results on slide four of our presentation. ALROSA's Q1 2013 diamond production was 7.5 mln carats, down 17% q-o-q and down 7% y-o-y. This is a scheduled dip in production envisaged by the production plan. We expect our full year production numbers to be slightly higher than in 2012 on the back of the "Nizhne-Lenskoe" acquisition.

I would like to point out the positive trend seen in the diamond market in the first quarter of 2013 and for the five months of 2013. ALROSA's sales prices in Q1 2013 were up by approximately 1.5% versus the beginning of the year and in April-May price growth continued to approximately 5% versus the beginning of the year. The market has currently stabilized at the achieved price level in anticipation of the quiet summer period. We expect the full year diamond market trend to remain positive on the back of economic growth acceleration in the US and positive financial results of diamond retailers.

ALROSA's revenue was RUB 39.6 bn in Q1 2013, up 6% y-o-y as the positive trend in the diamond market enabled us to sell more diamonds than in Q1 2012. Revenue was down 15% q-o-q as a result of the high base in Q4 2012 and leaner diamond sales mix in the reporting period.

Our cost of sales in Q1 2013 followed the diamond sales volumes. ALROSA's Q1 2013 EBITDA was RUB 15.8 bn up 15% q-o-q and broadly at the same level y-o-y. EBITDA margin in the reporting period grew to the usual level of 40% compared to 29% in Q4 2013.

Q1 2013 net profit was lower both y-o-y and q-o-q mainly due to the exchange rate losses on foreign currency denominated debt as a result of the rouble weakening against the dollar in 2013.

With that, let me now hand over to Sergey Mezhokh to provide more insight into our operational and financial results in the reporting period. Thank you.

Sergey Mezhokh

Thank you very much. I propose we turn to slide five. Here I'd like to say a few words about performance of our key operational units. Production at Nyurbinskaya and Jubilee diamond pipes in Q1 2013 increased by 13% and 67% respectively compared to Q1 2012 due to improved grades in each of the pipes. Production at Udachniy pipe continued to decrease as long as we build an underground mine for this diamond pipe. Production at International underground mine decreased by 54% in Q1 2013 compared to Q1 2012 due to processing of additional volumes of ore from storage in Q1 2012. Production at underground mine Mir in

Q1 2013 was 7% lower than in Q1 2012 as a result of lower grade. As scheduled along with the Company's plan, ore from Aikhal underground mine was not processed in Q1 2013. Production from alluvial placers increased significantly in Q1 2013 compared to Q1 2012 as scheduled and decreased almost by 50% to Q4 2012 due to seasonality.

Now a few words on sales, please turn to slide six. Favourable market situation in Q1 2013 allowed us to sell more than we did in Q1 2012. Therefore, our increased sales volumes of gem-quality diamonds in Q1 2013 compensated for prices staying 14% lower than in Q1 2012. Positive market dynamics reflected in price dynamics in Q1 2013 as well – it increased 1.4% to the beginning of the year. As Igor said today, diamond prices continued to grow in April and stabilized at the level of almost plus 5% since the beginning of the year. As a result, our Q1 2013 diamond revenue was 5% higher than in Q1 2012. The reason of our Q1 2013 diamond revenue staying lower than in Q4 2012 is different product mix – in Q4 2012 we sold more high quality diamonds above 10 carats. As you can see on this slide, in Q1 2013 our sales volumes of gem-quality diamonds were comparable to Q4 2012 but the average price was 14% lower. If we exclude shifts in product mix, gem-quality diamond prices increased by 1.4% in Q1 2013 to Q4 2012. We will continue with cost of sales on slide seven.

Our production costs in Q1 2013 decreased by 3% compared to Q1 2012 driven by production staying 7% lower. Costs have been driven up by increased expenses on fuel and energy due to higher prices and higher volumes. Cost of sales increased 12% compared to Q1 2012 along with sales volumes going up around 8%. Let's move to investment program and capex – slide eight, please.

Total capex for the Company in Q1 2013 reached RUB 6.6 bn. Expansion capex in Q1 2013 decreased by 55% compared to Q4 2012 in part of capex to Severalmaz and Gas assets. This decrease is scheduled, and we will see capex to these assets accelerating in the course of 2013. Our expansion capex grew by 31% in Q1 2013 due to investments in construction of underground mine Udachniy and Gas assets if you compare it to Q1 2012. Our maintenance capex amounted to RUB 3.5 bn and is in line with depreciation. A few words on debt portfolio.

In Q1 2013 we allocated additional short-term debt mostly for financing "Nizhne-Lenskoe" acquisition. Despite that additional debt, our leverage is in line with the leverage at the end of 2012. With this I'd like to finish my presentation and open the Q&A session. Thank you.

Questions and Answers

Alexander Sklemin – *Raiffeisen Bank, Vienna*

Congratulations on strong results and I have a couple of classic questions from the credit analyst, I believe. The first one is definitely an update on the situation with gas assets because there were some rumours in the media that you have probably sold these assets to Rosneft. So it is the first question. And a couple of questions on your liquidity profile. As I remember you thought about refinancing the puts on your Rouble bonds this year with proceeds of the sale of gas assets if it takes place. So what is your current view on that? So what are you planning to do with this puts on the Rouble paper and also in general with your short-term debt because it seems like it is still relatively high compared to at least to your cash holdings. And the third question is, do you have any ideas in mind with regard to your 2014 Eurobond? Do you plan to repay it probably also with the proceeds of, for instance, gas assets sale or refinance them with some financial instrument? That's all from my side. Thanks.

Ayaal Golub

We have already officially announced our intention to execute put options with respect to Rouble denominated bonds because here is a bond with a total amount of RUB 16 bn to be refinanced by bilateral credit facility. Well, this credit facility is to be executed by tomorrow. The term of the credit facility is six months with an extension option for another six months. Under this credit facility the company has a pre-payment rights condition to sell gas assets, so this facility is to be considered as a bridge to the gas assets disposal.

As to the transaction of the sale of gas assets, the transaction is on its track. We are negotiating legal documentation right now and taking formal steps to get approval from state entities.

Sergei Donskoy – *Société Générale, Moscow*

Thank you very much for this presentation. I have four small questions. Starting with your financials, could you please provide some more color on the reasons underlying this deterioration in your product mix in the first quarter which resulted in the decline in the average sales price? What caused this thing and do you expect the sales mix to go back to normal sometime soon? My second question is on your production guidance for 2013, could you please just confirm your latest budget number? And lastly, speaking of your development plans could you provide us an update on the construction of Udachniy underground mine when you expect this mine to start production? I think it was supposed to go on-stream somewhere at the end of 2014. Thank you.

Sergey Mezhokh

Thank you for your questions, Sergey. Regarding the question about the product mix in Q1 2013 the answer is yes, our product mix will return to its normal level throughout 2013 and product mix was different in Q4 2012 because we sold more high quality diamonds in "above 10.8 carats category". We did it along with seasonal strong demand for large diamonds. As far as production guidance for 2013, it will be higher than we declared

previously due to “Nizhne-Lenskoe” acquisition. As for our plans for developing Udachniy underground mine, no significant changes there – it is planned to be launched after 2014. Thank you.

Rodney Thomas – *Citigroup, London*

Hi, gentlemen. Thank you for running the call. Most of my questions have been answered but if you could just explain on the capex for the Udachniy mine, how much beyond the amount budgeted that is shown spent Q1 2013, how much of the cost of the development of the mine remains to be spent?

Sergey Mezhokh

By the end of 2012, we invested around \$700mln in Udachniy underground mine construction. In 2013, we plan to invest around \$200mln in it.

Josephine Shea – *Hartford Investment Management, Hartford*

Good day. Thank you for the call. My apologies I’m going to ask the same question as someone asked earlier because I could not quite understand your answer. So, could you please repeat the answer to refinancing, what will you do with the proceeds of the sale of the gas assets and how will you refinance your short-term debt coming through?

Ayaal Golub

We are going to direct all proceeds from the gas assets sale to refinance our short-term debt. So what we are doing now we are going to repay our two series of bonds for the total amount of RUB 16 bn with short-term credit facility and once we sell our gas assets we repay this short-term credit facility. That’s what we are going to do.

Josephine Shea

Ok and the outstanding 2014 Eurobonds. Do you have any intention to refinance them?

Ayaal Golub

Well, we do not have concrete plans for the repayment. We have more than one year but yes, there is a possibility that we will do another Eurobond issue, and again, we still have an option that we will manage to repay this Eurobond issue by our own cash.

Josephine Shea

I guess the \$427mln bank loans that are due this year and the Rouble bonds of 2015 you will refinance with the short-term credit facilities which will be paid down with the proceeds of the gas asset sales?

Ayaal Golub

Yes that’s right.

Josephine Shea

Perfect. Could you perhaps comment on the privatization discussions that are going on? I read this morning that there might be a change of plans with the amount of equity that will be sold by both estates and the local government in Yakutia.

Igor Kulichick (translated)

Indeed there have been a lot of comments on the part of the Yakutian Government, the Federal Government and Mr Shuvalov today. Obviously, we cannot comment on the statements by our shareholders. Our privatization plans are unchanged in 2013 – the Rosimuschestvo and the Yakutian Government will do privatization of these so-called 7% plus 7% basis, and this transaction is now in an active preparation stage together with the underwriter banks.

Josephine Shea

Could you give some color around your end demand so most of your sales go into I believe Brussels, has there been a shift in where your end demand is coming from? Obviously China is increasing. Could you give a little bit of color around end demand?

Sergey Mezhokh

Our end demand is mostly driven by consumption in the United States of America and we see China and India as the most promising regions of our end consumption in the next 10 years. Nevertheless, we are positive that the United States of America will be the largest consumer of diamond jewelry. As for the current situation for diamond demand we see rather strong economic signal from the United States of America and see economic situation in China and India in the level of the previous year.

Alexander Sklemin – *Raiffeisen Bank, Vienna*

In your short-term debt profile in 2013 you have about \$430mln due this year and also about \$500mln puttable of local bonds, so in total about \$1bn. I assume that the price for the gas assets is going to be about \$1bn which means that these two financial instruments, puts on domestic bonds and the current portion of bank loans, approximately worth \$1bn will be further refinanced, so to say, with the sale of gas assets. Am I right?

Ayaal Golub

Yes, you're absolutely right. The proceeds that we are expecting to get from the buyer are correct. It is slightly above \$1bn and the refinance needs after our announcement of repayment of the Rouble bonds is again around \$1bn. So that's what we're looking at. We are going to repay our short-term debt plus our put options under the Rouble denominated bonds by the proceeds of the sale of gas assets.

Sergey Mezhokh

Thank you very much for your attention, ladies and gentlemen. Have a good day. Bye-bye.