ALROSA FY 2011 IFRS Results

Conference Call Summary

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Corporate Participants

Igor Kulichik

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Head of Capital Markets – ALROSA

Presentation

Igor Kulichik

Dear ladies and gentlemen, my name is Igor Kulichik, I'm the Chief Financial Officer of ALROSA. On behalf of the company I would like to welcome you to the presentation of our financial results for 2011, and firstly some administrative announcements. Our results will be delivered by myself, and Mr Ayaal Golub who is our Head of Capital Markets, Mrs Anastasia Misharina, who is our Head of IFRS Department, and Mr Sergei Mezhokh, also representing the Capital Markets Department. We will be delivering the results using the presentation that was uploaded to our website both in English and Russian, and is also accessible through the website. Now let me give you brief highlights of our results of 2011, please turn to page three of our presentation.

In 2011, ALROSA maintained its number one position among global diamond producers. 2011 was a year of record operational financial performance for the company on the back of strong demand and pricing environment. Our revenues increased by 21% to 138 billion roubles, and EBITDA increased by 87% to 65 billion roubles. EBITDA margins reached 47% as compared to 31% in 2010. Production grew 1% to reach 34.6 million carats.

We strengthened our financial position by increasing liquidity and lowering leverage. Cash and cash equivalents grew 2.9 times in 2011, total debt was reduced by 6% and leverage was down to 1.5 times at the end of 2011, as compared to 2.9 times at the end of 2010.

We kept working on enhancing our public profile and transparency. ALROSA became an Open Joint Stock Company and started trading on MICEX. We also intensified our investor communications through regular results calls and broader disclosure. With that, let me pass on to Ayaal Golub who will tell you more about our operational and financial performance.

Ayaal Golub

Thank you. Hello everyone, my name is Ayaal Golub, and I would give you an update on our operations and financials in 2011. Please turn to page four of our presentation.

As Mr Kulichik has just said our production was stable both year on year 2011 over 2010 and quarterly throughout 2011. The decrease in production in the third quarter 2011 to 6.9 million carats was due to planned maintenance of the production plant. As you may well know, our operations are concentrated in six open pit mines, three underground mines and several alluvial placers. The share of underground production in 2011 was close to 25%. Our strategic plan is to increase the share of underground production to 40% in the next ten years.

A few words on the performance by key operational units. Production decreased at Udachniy pipe due to gradual phasing out of open pit operations and transformation into an underground mine. The mine development goes according to the plan, and we expect it to reach capacity of 5 million carats after 2016. Production decrease at Nyurbinskaya pipe in 2011 was planned in accordance with ALROSA's mining calendar, and is expected to get back to 2010 levels in 2012.

We expect the long term production at International pipe to be close to 2010 levels, circa 4 million carats, and the increase in 2011 was explained by the processing of ore mined in the previous periods. Production increases at Mir and Aikhal pipes were driven by planned expansions of underground operations. Mir is expected to reach target capacity of 3.7 million carats after 2013, and Aikhal pipe is planned to reach target capacity of 2.6 million carats in 2012-2013. The increase in production in alluvial placers and tailings is largely a result of the planned increase of alluvial operations at "Almazy Anabara".

Now a few words from sales and marketing, let's start with slide five. In 2011, ALROSA reached record diamond revenue of 125 billion roubles, which is an increase of 24% year on year. This growth was mostly driven by continuous increase in diamond prices, partially offset by lower sales volumes. As we reported in the past, high sales volumes in 2010 were explained by sales of diamonds from inventories accumulated in 2009. As there were no such sales in 2011, production was closer to total sales for the year. Our active sales and marketing policy enabled us to increase average diamond price per carat by 53% year on year, and reached the price of $130 per carat in 2011.

One thing that I would like to draw your attention to is the fact that ALROSA sells two categories of diamonds: gem and non-gem diamonds. Gem diamonds accounted for 65% of the total volume sold in 2011, in terms of carats, and for 99% of diamond revenue. In 2011, prices for gem and non-gem quality diamonds reached circa $197 per carat, and circa $8 per carat respectively. Let's continue with sales and marketing review on slide six.

2011 was characterised by strong demand in the first nine months, and a period of weaker demand in the fourth quarter. Average selling price increased from $84 per carat to $103 per carat in the first quarter of 2011. The price continued its increase to $119, $142 and $177 per carat in the second, third and fourth quarters of 2011 respectively. As a result, average selling price for 2011 stood at $129 per carat. As a response to the volatile conditions in the fourth quarter, we took certain measures to sustain the average selling price; in particular, ALROSA reduced auction sales, and offered diamonds of better quality to its clients under long-term agreements. These measures resulted in increasing ALROSA's average selling prices in the fourth quarter of 2011, as mentioned above, and helped partially compensate for lower sales volumes. Please turn to page seven of our presentation.

Let's take a look at numbers. As it was highlighted earlier, in 2011, our revenues increased by 21% to 138 billion roubles, EBITDA by 87%, to 65 billion roubles, EBITDA margin reached 47% as compared to 31% in 2010. Net profit increased 2.3 times compared to 2010, and reached 27 billion roubles, while net profit margin increased to 19%. We've strengthened financial position by increasing liquidity and lowering leverage. Cash and cash equivalents grew 2.9 times in 2011, total debt was reduced by 6%, and leverage was down to 1.5 times at the end of 2011 as compared to 2.9 times at the end of 2010. The company continued to generate strong cash flows and kept outflows under control.

Let's continue with slide eight, where I will give a brief overview of quarterly evolution of revenues and EBITDA in 2011. ALROSA was able to increase revenues and EBITDA in the first three quarters of the year as both demand for diamonds and pricing were strong. In response to volatile conditions for the fourth quarter of 2011, ALROSA actively lowered volumes of sales in general, and reduced auction sales more specifically. We also offered diamonds of better quality to our clients under long term agreements. As a result of implementation of this «price over volume strategy», our average price increased in the fourth quarter of 2011, yet revenue, EBITDA, and EBITDA margin were at or below the levels of each of the first three quarters.

Let's continue with slide nine, where I will give a brief overview of cost of sales. Firstly, no major changes to our cost structure in 2011. Labour related expenses contributed roughly 41% of costs, amortisation 16%, fuel and energy 13%, extraction tax 12%. Secondly, implied production costs, net of effect of change of inventories, grew 14% in 2011 from 55 to 63 billion roubles. This increase was mainly driven by planned growth of compensation expenses of personnel following record diamond sales.

Let's move to investment programme and CAPEX, slide ten, please. Total CAPEX for the company reached 21 billion roubles in 2011, out of which 9 billion were directed at expansion, which was dominated by investment into development of underground mines at Mir, Aikhal and Udachniy. For maintenance CAPEX, ALROSA spent 12 billion roubles on it in 2011, which was much higher than in 2009, and 2010. To give you some background, ALROSA kept maintenance expenses below normalised levels in 2009 and 2010 as a result of the implementation of the cash flow optimisation program during difficult macroeconomic conditions. Strong cash flow generation in 2011 provided the company with an opportunity to compensate for the under-investment of the previous two years.

Moving to our debt portfolio, slide 11 please. As I mentioned earlier, in 2011, we reduced total debt by 6% and our leveraging decreased to 1.5 times at the end of 2011, as compared to 2.9 times at the end of 2010. I also want to share with you some most recent information, as some time has passed since the year end. So our total debt as of May 2012 stands at $4.05 billion, and average debt interest rates across our portfolio is 6.57%. Currently, the structure of our debt portfolio is weighted towards public debt instruments, accounting for 90% of the portfolio. In addition, I would like to say that, as of today, 59% of ALROSA's debt portfolio has mid- and long-term maturities. As for the short term debt, we explore several options, and we'll provide you with an update in due course.

Last thing from me, dividend policy, let's turn to slide 12 please. In accordance with the dividend policy approved on December 20th 2011, the total amount of dividends is set to be not less than 10% of ALROSA's net income for the respective year based on Russian accounting standards. Management recommended to pay record dividends for 2011 financial year, 7.4 billion roubles, which corresponds to a payout ratio of 25%, based on Russian Accounting Standards, or 28% payout ratio based on IFRS.

That’s it from me, and I would like to conclude the presentation by highlighting our key achievements. 2011 was a year of record operational and financial performance for ALROSA on the back of strong demand and pricing environment. We’ve strengthened our financial position, and now have much lower leverage and ample liquidity. We have enhanced public profile and transparency and will continue to do so.

With that, let us open the session for your questions. Thank you.

Questions and Answers

Des Kilalea – *Royal Bank of Canada*

Thank you very much. Thanks for the presentation, gentlemen. I wonder if I could ask three questions. The first is, can you give us an indication of what inventory is still left in the Gokhran, maybe in carats and, if you can, in value. And then what are you seeing for rough prices in the first quarter of this year versus, say, the last quarter of last year? And then finally, are there any updates you can offer us on a potential IPO of the company? Thank you very much.

Ayaal Golub

Thanks for your question. As for the inventory of Gokhran of course we do not know the exact figure, but what we can state and what is publicly available, that in 2009 Gokhran bought diamonds from ALROSA, around $1 billion, and we think it didn’t sell them. As for the rough prices in the first quarter, we did not yet publish our results for first quarter of the year, but what we can state is that we see a price growth of 5 to 7% on gem-quality diamonds compared to fourth quarter of 2011. And it is even above our previous expectations to the whole of 2012. And the third question about IPO plans, I will pass it to our CFO, Igor Kulichik.

Igor Kulichik

At the moment, there are no specific plan in terms of IPO, it’s just discussion.

We’re waiting for the new government to be formed, and all the questions should be resolved as soon as it’s formed. During the last year we discussed several options with the Ministry of Finance and the Ministry of Economic Development, but again, for the specifics, we have to wait till June when the new government starts acting.

Yuri Vlasov – *JP Morgan*

Hello, thank you for the presentation, and congratulations with the very strong results. This is Yuri Vlasov from JP Morgan. I have a question about your projects which are held with Evraz at iron ore project Timir. As I understand, in these plans, there were stipulations that a steel facility should be built there. How feasible is that on the top of building an iron ore project in a very remote location? How realistic the state will enforce the party that will take part in this project in building this steel plant? Thank you.

Igor Kulichik

For the last year we're working on closing the transaction to sell 51% of Timir project to Evraz. The delay is due to a lack of required approval by the Russian State Property Department. Right now we're working on the proper documentation, additional geological explorations, and the financial model for the project development. Together with the Evraz we liberated the conditions of the license, which stipulate that the development is pushed back further. And the spend for this project in 2012 is around one billion roubles.

And so no major investment in respect of Timir, is expected in the next three years. This is a big project, but it's, you know, backdated.

Igor Kulichik

The prices and volumes recovered to the levels which we have seen in the third quarter of 2011. As you probably know, in the end of May there will be an exhibition in Las Vegas which will basically set the trend for the prices and volumes of 2012. All the analysts are upbeat. They're saying that the diamonds market is in good shape, and it's not correlated to the events related to Europe and Greece. In any case, we will have a good understanding of the rest of 2012 really soon.

Rodney Thomas – *Citi Group*

Hi, could you give us a bit of an update on the sale of the gas assets. I think when we last heard from you you'd been speaking to interested parties about this, and I was wondering if there was any news there.

Igor Kulichik

In the first quarter of 2012, we finalised the repurchase of the gas assets. Currently we have changed the composition of the boards of both of the companies and, we now have our managers within the management teams of both of the companies. At all levels we operate with the ALROSA's standards, both at management and core functions, and the key event of this year for these efforts would be the connection to the gas transportation network of Gazprom and the beginning of the sales of gas.

We still have an agreement with Zarubezhneft which stipulates that we have an intention to buy 51% in both assets, and this is the update for the gas assets.

Kaye Hope – *Merril Lynch*

Hello and thank you. I have a couple of questions. One follows on from Rodney's question. You said Zarubezhneft will buy a 51% stake, but can you give us a sense of the timing for that? And then my next question follows on as well. In terms of short term debt, it has now gotten to quite a high level. You said you would update us in due course, but I think with 1.4 billion before the end of this year, it would be great if you could give us a sense for where those funds may come from. And then finally can you give us a CAPEX guidance for this year.

Igor Kulichik

The agreement with Zarubezhneft is structured in two stages. The first stage is supposed to be closed on 30th of June, 2012, so very close, and this will be a purchase of 25%. And the rest, the remaining 25% have to be bought during 12 months after this. According to the company's budget, debt as of the end of 2012 should be at the level of US$2.7 billion, so it's not only refinancing but also the decrease of the total debt amount. And there are three main sources for this refinancing and repayment of debt. The first one is the sale of the stake in the gas assets, as we discussed above, then it's sale of 51% of Timir to Evraz, and the third one, and the principle one, is actually our operation of cash flow which we expect to be at least as strong as in 2011.

Tatiana Boroditskaya – *UBS*

Good afternoon, gentlemen, thank you very much for your presentation. Here are questions from my side. First of all, can you clarify if you intend to raise any debt in international markets by, before the end of this year? And secondly, we've seen there was a disposal of social infrastructure assets in the end of last year, and would you expect to see anything similar happening in 2012?

Igor Kulichik

Let's tackle social infrastructure first. We launched the programme of the transfer of social infrastructure to Yakutia government back in 2010, and it's planned to run until 2017. And so far we moved according to plan, and we expect to move according to plan, and so each year we transfer some part of social infrastructure to the municipalities of Yakutia, and, obviously we act in accordance to the plan, because we understand that this social infrastructure question is under, you know, high scrutiny in Yakutia.

As for the access to the international capital markets this year, we will be accessing the international capital markets only if we will have any changes in our plan to sell gas assets and Timir. We potentially may revise the timing of the actual payment due from this sale of stake. And we can access the international capital markets in autumn of this year to partially refinance our short term debt. The probability of that is quite low, and we will have better understanding in the beginning of the autumn.

Des Kilalea – *Royal Bank of Canada*

Hello, thanks. It's Des Kilalea again from RBC. Two questions, the first relates to the slide six on the short term, long term and auction sales, where you pointed out that you reduced auctions in Q4 to stabilise prices, what do you envisage 2012 sales will look like in terms of the balance between short term and long term, and auction sales, and then do you have any comment on Catoca, on its share of production and perhaps any of your revenue from Catoca. Thank you.

Ayaal Golub

Thanks for your question, Des. As for our 2012 sales, we expect that the split of sales to be at the level of 2011, which, where 70% goes through our long term contracts. And as for Catoca, we do not include Catoca production in our production, and what we get for ALROSA from Catoca are dividends which are stable around one billion roubles annually.

Yuri Vlasov – *JP Morgan*

Thank you, two more questions, if I may. Will you keep 25% dividend payout ratio in the future, and is there any limitations that would preclude you from paying such dividends? And the second question is will you continue expanding your retail business, or is there any plan to expand into retail? Thank you.

Igor Kulichik

Well, according to the dividend policy of the company we are allowed to pay more than 10% of the net profit based on Russian accounting standards. And, this year we will plan to pay 25%, and we plan that we will be in this range in future. We are not really present in the retail sector, and we plan to focus all our efforts on expanding in the production and wholesale segments.

Ayaal Golub

Thank you very much ladies and gentlemen; we are very much appreciative that you were with us. Goodbye.