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ALROSA Q3 and 9M 2018 IFRS results

Moscow, 08 November 2018 – ALROSA, the world's leader in diamond mining, announces its IFRS financial results for Q3 and 9M 2018.

Key highlights for 9M 2018

- **Revenue increased by 11% to RUB 238 bn,** on the back of higher price index and average diamond selling prices and a better sales mix, despite a 9% drop in sales in carats.
- **EBITDA grew by 29% to RUB 129 bn,** supported by higher top line and slightly lower production costs.
- **EBITDA margin** expanded by 7 p.p. to 54%.
- **9M net profit** grew by 33% y-o-y to RUB 82.5 bn, on stronger EBITDA.
- **Free cash flow (FCF) grew by 38%** on profitability expansion while investments increased by RUB 2.4 bn. An additional driver for the FCF growth was a working capital release due to increased sales from inventory.

Key highlights for Q3 2018

- **Revenue** decreased by 3% q-o-q to RUB 70.1 bn, on the back of weaker sales in carats (down 26% q-o-q) amid rising average prices, while a 19% y-o-y growth was driven by a higher price index and a better sales mix.
- **EBITDA** in Q3 declined by 3% q-o-q to RUB 40 bn, due to a 26% drop in sales in carats, which was partially offset by higher average selling prices supported by cost control measures. A 47% y-o-y growth resulted from lower costs and better prices.
- **EBITDA margin** in Q3 remained flat at 57%.
- **Net profit** in Q3 decreased to RUB 24.2 bn (down 5% q-o-q). An 87% y-o-y growth was driven by the improved market environment.
- **Free cash flow** increased to RUB 23.6 bn (up 13% q-o-q and two-fold y-o-y) due to a stronger operating cash flow (up 15% q-o-q and 75% y-o-y).
- **Net debt increased** from RUB 6 bn to RUB 36.6 bn, mainly due to a decrease in cash following a 2017 dividends payment (RUB 38.6 bn).
- **Net debt to EBITDA** was at 0.2x, below the target range of 0.5–1.0x.
- **Dividends:** on 30 September 2018, the General Meeting of Shareholders approved the 6M 2018 dividends of RUB 5.93 per share (70% of FCF).

Outlook: our guidance for 2018 sales has been revised to 37–38 million carats due to weaker demand for small-size rough diamonds in 2H 2018.

RUB bn	**Q3 2018**	**Q2 2018**	**q-o-q**	**Q3 2017**	**y-o-y**	**9M 2018**	**9M 2017**	**y-o-y**
Diamond sales, million carats, incl.	6.7	9.0	(26%)	7.5	(11%)	29.1	31.8	(9%)
gem-quality	4.7	6.3	(26%)	4.9	(4%)	21.1	23.9	(12%)
industrial	2.0	2.7	(27%)	2.7	(25%)	8.0	7.8	1%
Revenue	70.1	72.2	(3%)	58.9	19%	238.3	214.5	11%
EBITDA[1]	40.0	41.3	(3%)	27.2	47%	129.1	100.0	29%
EBITDA margin	57%	57%	-	46%	11 p.p.	54%	47%	7 p.p.
Net profit	24.2	25.4	(5%)	13.0	87%	82.5	61.9	33%
Free cash flow[2]	23.6	20.9	13%	11.5	2.0x	85.7	61.8	38%
Net debt[3]	36.6	6.0	6.1x	88.6	(59%)	36.6	88.6	(59%)
Net debt / EBITDA	0.2x	0.04x		0.7x		0.2x	0.7x	

ALROSA’s CEO Sergey Ivanov commented on the results:

“Our strong financial performance was driven by the recovery in demand for end products and higher prices, coupled with our efforts to improve margins through a more aggressive sales policy and implementation of the operational excellence programme. The Company increased its EBITDA margin by 7 p.p. to 54%, reaffirming its industry leadership both in market share and profitability. Stronger operating cash flow and a more balanced capex profile helped boost our free cash flow by 38% to RUB 86 bn and, ultimately, improve the Company's financial stability, with net debt to EBITDA ratio down to 0.2 vs 0.7 in the previous year.

In October 2018, the Company started commercial mining operations at the Verkhne-Munskoye deposit, which will produce 1.8 million carats of diamonds per year. With the deposit put on stream and an increased output at the existing assets, ALROSA will be able to partially make up for the volumes lost due to the shutdown of the Mir underground mine, and increase diamond production to 38 million carats in 2019.

On recommendation of the Supervisory Board, ALROSA's shareholders approved 6M 2018 dividends of RUB 5.93 per share based on a stable free cash flow”.

[1] EBITDA stands for earnings for the last twelve months before interest, income tax, depreciation and amortisation calculated for the past twelve months in accordance with the International Financial Reporting Standards (IFRS).

[2] FCF (free cash flow) is the operating cash flow net of investments (capital expenditure) in the core business in accordance with the IFRS.

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

CONFERENCE CALL DIAL-IN DETAILS, 08 NOVEMBER

ALROSA is pleased to invite the investment community to a conference call to discuss Q3 2018 IFRS results:

Thursday, 08 November 2018

Time: 09:00 (New York), 14:00 (London), 17:00 (Moscow)

Conference call dial-in details:

International:	+44 207 192 8000
Free Call USA:	+1 866 966 1396
Free Call UK:	0800 376 7922
Free Call Russia:	8 10 800 235 75011
Conference ID:	8287448

To join the webcast please follow the link https://webcasts.eqs.com/alrosa20181108

Or you can download a PDF version of the presentation at www.alrosa.ru
* We recommend participants to dial in 5–7 minutes prior to the start of the conference call.

2018 KEY EVENTS

- **09 November** – October sales results
- **10 December** – November sales results

PUBLICATIONS ARCHIVE

- Q3 and 9M 2018 IFRS results (Excel)
- Q3 2018 ALROSA Trading update (PDF)
- Company data book (Excel)
- September 2018 sales results (PDF)
- Investor presentation – October 2018 (PDF)
- Investor presentation – Prosperity conference (PDF)
- Presentation – Severalmaz – July 2018 (PDF)
- 2017 Annual report (PDF)

Rough and polished diamond market overview

- In Q3 2018, diamond jewellery sales in the largest markets such as the USA and Asia-Pacific countries continued to grow, albeit at a slower pace in September and October due to the growing concerns over the global worsening of trade relations.
- In Q3 2018, the diamond market experienced a traditional seasonal slowdown due to summer holidays. Resumed market activity following the summer slowdown saw weaker demand for inexpensive goods due, in part, to the depreciation of the world currencies against the US dollar and the difficulties associated with the bank financing of the diamond cutting business in India.

Operating highlights

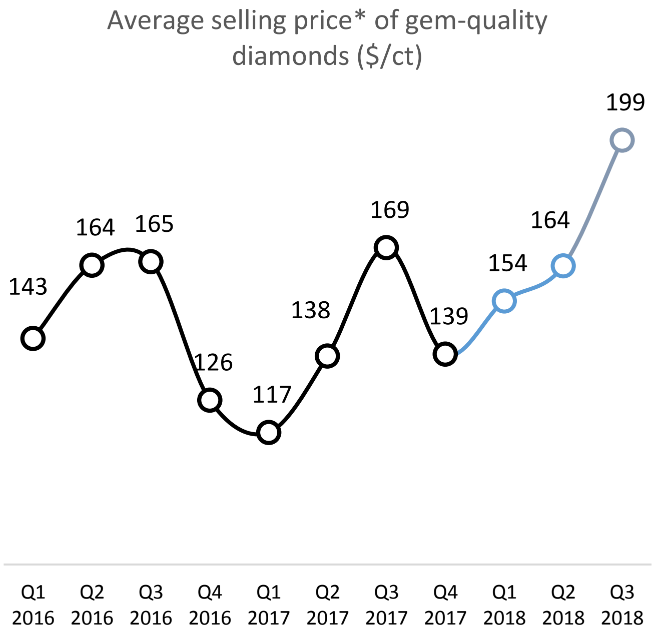
- In Q3 2018, diamond sales decreased by 2.3 million carats to 6.7 million carats (down 26% q-o-q), including gem-quality diamonds down to 4.7 million carats (down 26% q-o-q), due to a drop in sales of small-size diamonds. An 11% decrease y-o-y was also due to weaker small-size diamond sales.
- In 9M 2018, diamond sales declined by 9% to 29.1 million carats, including gem-quality diamonds down by 12% to 21.1 million carats, on the back of an overall y-o-y output reduction.
- Diamond inventories at the end of Q3 rose to 15.5 million carats (up 42% q-o-q), driven by a seasonal increase in production at alluvial deposits and a decline in small-size diamond sales in Q3 2018.

Growth of average selling prices for gem-quality diamonds

- Average realised prices grew by 22% q-o-q (up 18% y-o-y) to circa $199/ct, driven by both general demand growth and a higher share of large diamonds (+10.8 carats and +2 carats).

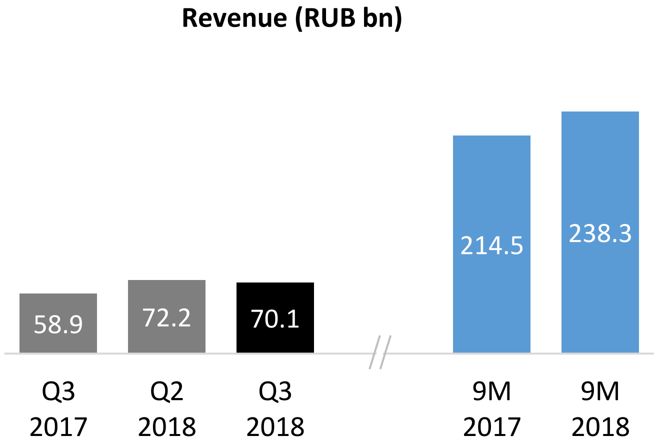
Seasonal production growth by 23% q-o-q

- Q-o-q diamond production growth is driven by an increase in production at alluvial deposits by 3.5 million carats. On top of that, the Nyurba Division's deposits increased ore processing, and the Udachny UM and Severalmaz gradually ramped up their production to design capacity. An 11% y-o-y decrease in output for 9M 2018 was mainly caused by the closure of the Mir underground mine.

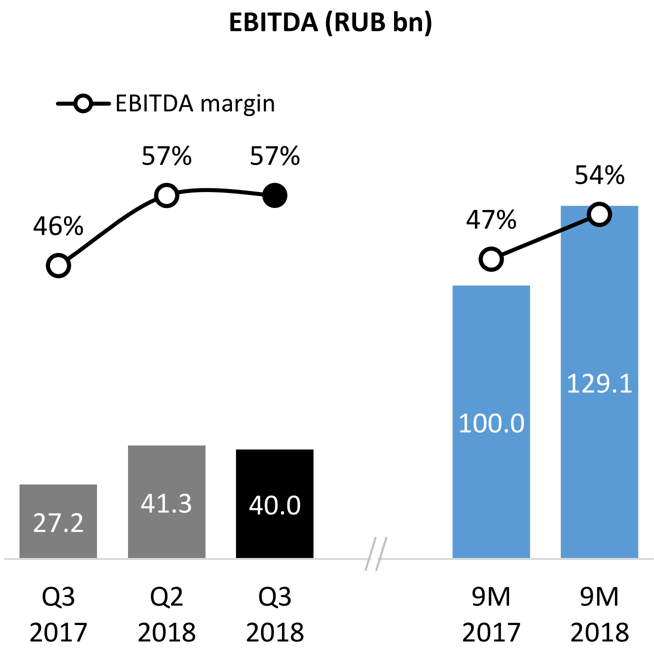


** Average selling prices (revenue divided by sales in carats) are affected, inter alia, by changes in the sales mix in the reporting period.*

Key financial highlights



- **In Q3 2018, revenue dropped by 3% q-o-q**, primarily due to lower sales (down 26% q-o-q). On a y-o-y basis, revenue increased by 19% due to the growing price index (adding more than 5% year-to-date) and improved sales mix. In 9M 2018, revenue grew to RUB 238 bn (up 11% y-o-y) following an increase in average selling prices, despite lower sales in carats.
- **The Company's costs in 9M 2018 went down by 5% from RUB 114.5 bn to RUB 109.2 bn,** due to the sale of less profitable gas assets in early 2018 and efficiency improvement initiatives resulting in reduced payroll expenses (down RUB 2.1 bn), lower mineral extraction tax (down RUB 1.8 bn) on the back of a decreased diamond output and the sale of gas assets, lower exploration costs resulting from the restructuring of exploration operations (down RUB 1.4 bn), and decreased materials costs (down RUB 1.0 bn) primarily due to lower costs of Mirny Division.



- **Q3 2018 saw EBITDA drop by 3% q-o-q,** mainly following a 26% decline in sales, which was partially offset by an improved sales mix, higher price index, FX rate impact, and changes in diamond and ore inventories. On a y-o-y basis, EBITDA grew by 47% driven by an improved sales mix and diamond market situation.
- **EBITDA for 9M 2018 went up to RUB 129.1 bn (up 29% y-o-y),** mostly thanks to a better mix of gem-quality diamonds, higher price index, and FX rate impact on the back of a 9% decline in sales, including gem-quality diamonds (down 12%).
- **FX rate impact** helped the Company add RUB 3.7 bn to its EBITDA in Q3 2018; on a y-o-y basis, the positive impact in 9M 2018 totalled RUB 8.9 bn.
- **EBITDA margin** remained flat at 57% in Q3 2018 and grew by 7 p.p. to 54% in 9M 2018. The growth in the 9M 2018 margin was driven by higher revenue supported by cost control measures, FX rate impact, and the effect of selling less profitable gas assets.
- **Net profit in Q3 2018 decreased to RUB 24.2 bn (down 5% q-o-q)** reflecting lower EBITDA. On the y-o-y basis, net profit increased by 87%, thanks to the improved market environment (higher prices) and cost control. 9M 2018 net profit grew by 33% y-o-y to RUB 82.5 bn, driven by a considerable profitability increase.

Debt management

- **In 9M 2018, the Company's total debt decreased from RUB 93.4 bn to RUB 86.0 bn.**
  In September 2018, pursuant to the Company's financial policy (please see the press release) approved by the Supervisory Board in August 2018, ALROSA raised USD 300 m worth of short-term loans to ensure a comfortable liquidity position. The remaining debt mainly consists of USD 934 m 10-year Eurobonds with a coupon rate of 7.75% due in November 2020 (as at 8 November 2018, the Company has outstanding Eurobonds worth USD 894 m).
- **In Q3 2018, interest payments increased by 12% q-o-q** to RUB 1.5 bn, due to, *inter alia*, the movements in the RUB/USD exchange rate, while in 9M 2018 interest payments dropped from RUB 8.5 bn to RUB 4.2 bn (down 50%) as a result of deleveraging by more than USD 1.0 bn since early 2017.
- **Net debt as at the end of Q3 2018 increased from RUB 6 bn to RUB 36.6 bn q-o-q** due to the payment of RUB 38.0 bn in dividends based on the Company's 2017 performance. Net debt reduced by 59% y-o-y thanks to the free cash flow generated. Cash and cash equivalents as at the end of Q3 2018 amounted to RUB 49.4 bn (down 15% q-o-q).
- In 9M 2018, **the net debt/EBITDA ratio** went down to 0.2x (from 0.7x a year ago).

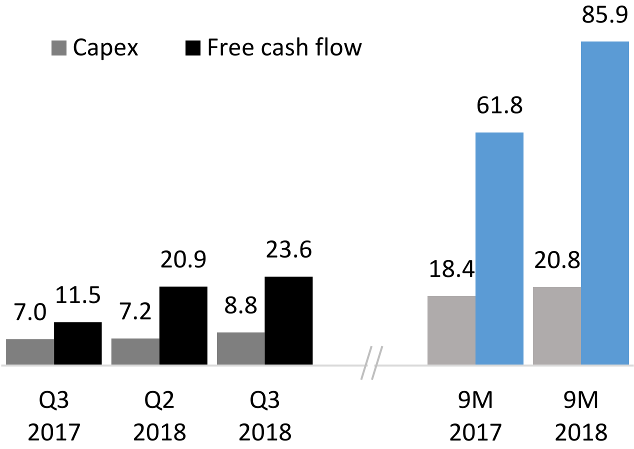
Working capital

- **In Q3 2018, the Company's working capital increased by 1% q-o-q (up RUB 1.0 bn)** as a result of:
  - increasing rough diamond inventories by RUB 10.9 bn (up 36% q-o-q), due to seasonal growth of production at alluvial deposits and weaker Q3 sales of small-size rough diamonds;
  - stocking up on supplies for RUB 2.6 bn (up 9% q-o-q) to ensure stable operations during the winter period;
  - decreasing ore inventories by RUB 7.1 bn (down 36% q-o-q);
  - reducing receivables by RUB 7.4 bn (down 23% q-o-q) mainly thanks to the payment of the RUB 6.3 bn insurance compensation for the Mir accident.
- **Launching a working capital optimisation programme.** ALROSA engaged The Boston Consulting Group to advise on the project designed to reduce the extraction-to-market time lag. The Company believes that in 2018 the initiative will help reduce its work-in-process inventories by more than USD 100 m.
- **The RUB 5.7 bn working capital release over 9M 2018** resulted from the increased sales of inventories.

Investments

- **In Q3 2018, investments in the core business grew by 22% q-o-q** mainly as a result of an increase in expansion capex associated with the Verkhne-Munskoye deposit (up RUB 2.2 bn q-o-q).
- **The growth of investments by 26% y-o-y** can be attributed to the mining investment cycle specifics.
- **In 9M 2018, investments rose by 13% y-o-y** on the peak in the Verkhne-Munskoye deposit investment cycle in 2018. The deposit was launched on 31 October 2018 (please see the press release).

Capex and free cash flow (RUB bn)



- **Free cash flow in Q3 2018 increased by 13% q-o-q** (up 2.0x y-o-y) to RUB 23.6 bn due to a 15% q-o-q operating cash flow increase, as well as improved sales mix and higher average selling prices.
  The 9M 2018 growth of the free cash flow by 38% y-o-y was driven by a stronger operating cash flow on the back of a slight increase in capex.

Dividends

- The Supervisory Board approved the new Dividend Policy providing for semi-annual dividend payments based on the Company's free cash flow (further details about the new Dividend Policy of ALROSA are available on ALROSA's official website).
- Based on the Company's performance in 6M 2018, on 30 September 2018, the General Meeting of Shareholders adopted a resolution approving a dividend payout of RUB 43.7 bn (RUB 5.93 per share).

Credit rating upgrade

- In July 2018, S&P, a global credit rating agency, upgraded ALROSA's credit rating to BBB- with a stable outlook. The agency highlighted ALROSA's consistently high margins, industry leadership, substantial improvements in financial stability, increasing operational excellence and a focus on core assets.

Stock option programme

- In December 2017, the Supervisory Board of ALROSA approved a three-year long-term incentive programme (stock option programme) offered to the Company's employees and based on changes in ALROSA's shareholder returns (please see the press release). The programme took effect in June 2018. To support it, the Company bought out 156,059,800 of its shares (2.1% of the authorised capital) in 9M 2018.

Asset portfolio management

ALROSA continued with its strategy of efficient asset portfolio management centred around diamond mining and disposal of non-core assets.

- In February 2018, the Company auctioned its gas assets (Geotransgaz and Urengoy Gas Company) off for RUB 30.3 bn.
- In Q3 2018, the Company increased capital share in ALROSA-Nyurba from 87.5% to 98.1% mainly through the purchase of a 10% stake of the Republic of Sakha (Yakutia) for RUB 12 bn.
- In October 2018, the Company started commercial diamond production at the Verkhne-Munskoye deposit, which is expected to produce about 1.8 million carats of diamonds a year and has reserves enough to continue mining operations until 2042.

Appendices

Appendix 1. Revenue by geographical location of the customers

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Belgium	40%	42%	47%	42%	42%	46%
Russia	21%	19%	13%	21%	22%	17%
India	14%	13%	15%	14%	14%	14%
United Arab Emirates	8%	10%	10%	8%	6%	9%
Israel	11%	10%	9%	9%	10%	9%
China	4%	3%	4%	4%	4%	4%
Other	2%	3%	2%	2%	2%	1%

Appendix 2. Free cash flow [TO BE UPDATED]

RUB m	**Q3 2018**	**Q2 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**
EBITDA	**39,975**	**41,336**	**47,742**	**26,932**	**27,158**	**37,647**
Changes in working capital	(1,049)	(6,151)	12,893	(12,719)	(4,089)	(7,609)
Income tax paid	(5,775)	(8,245)	(10,934)	(3,504)	(4,113)	(8,451)
Other	(775)	1,180	(3,749)	9,488	(466)	(199)
Operating cash flow	**32,376**	**28,120**	**45,952**	**20,197**	**18,490**	**21,388**
CAPEX	(8,765)	(7,182)	(4,844)	(8,526)	(6,986)	(5,604)
Free cash flow	**23,611**	**20,938**	**41,108**	**11,671**	**11,504**	**15,784**

Appendix 3. Working capital

RUB m	**Q3 2018**	**Q2 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**
Diamonds	41,567	30,646	33,424	50,223	48,787	38,905
Ores and sands mined	12,505	19,628	15,662	14,522	12,760	19,970
Mining and construction materials, consumable and other supplies	32,941	30,305	24,781	27,231	30,713	27,008
Trade and other receivables (excluding interest receivable)	24,539	31,917	29,598	23,631	14,725	14,385
Prepaid taxes, other than income tax	261	1,248	2,751	4,168	223	4,779
Accrual for employee expenses (including travel)	(10,694)	(10,541)	(11,579)	(13,213)	(11,416)	(11,863)
Trade and other payables (excluding interest accrued)	(9,667)	(12,181)	(8,704)	(8,258)	(11,065)	(11,650)
Other taxes payable	(5,347)	(5,966)	(7,028)	(6,506)	(5,648)	(6,544)
Working capital	**86,105**	**85,056**	**78,905**	**91,798**	**79,079**	**74,990**

Appendix 4. Net debt

RUB m	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Long-term debt	63,474	63,798	58,707	58,694	100,722	102,354
Short-term debt	22,547	63	99	34,734	12,850	848
Cash and cash equivalents	(49,403)	(52,674)	(40,221)	(7,381)	(24,933)	(61,995)
Bank deposits	(15)	(5,160)	(15)	–	(10)	(5,470)
Net debt	**36,603**	**6,027**	**18,570**	**86,047**	**88,629**	**35,737**

Appendix 5. EBITDA

RUB m	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Operating profit	34,541	36,735	41,391	23,139	14,998	35,267
Depreciation and amortisation	5,182	6,003	6,008	5,267	5,504	6,549
Adjustments (see financial statements in Excel)	252	(1,402)	343	(1,471)	6,656	(4,169)
EBITDA	**39,975**	**41,336**	**47,742**	**26,935**	**27,158**	**37,647**