Good morning and good afternoon ladies gentlemen. I am about to conduct conference call at ALROSA. Thank you for joining us today on our conference call to discuss ALROSA financial performance in the first quarter 2019.

The Company’s CEO, Sergey Ivanov, will discuss key operating and financial highlights and key developments of the Company and our CFO, Alexey Philippovskiy, will dive deeper into Q1 financials and then we will be happy to take your questions. Today, Aysen Nikolayev, member of ALROSA Board of directors and Governor of Yakutia and Yuri Okoyomov, Deputy CEO for Sales, are joining us and will be happy to answer your questions as well.

That is all on my side and I hand over the call to Sergey Ivanov.

Dear colleagues, I am happy to welcome you at our Q1 2019 results conference call. As Sergey already mentioned, today we have the opportunity to have Aysen Nikolayev with us, the first deputy chairman of the Board of directors and Governor of Yakutia and as long as there are a lot of questions by our investors about how the different shareholders see the strategy of the Company, it would be a wonderful opportunity to ask questions today, but I would only ask you, after we finish, to address questions to Aysen Nikolayev, because it is 10 p.m. in Yakutia to respect his time.

As you have seen in our presentation and before I and over to Alexey Philippovskiy who will discuss it in more detail, I would like to say a few words on the diamond market environment, our outlook and recent developments.

In the first three months of 2019, the diamond market performed weaker than usual due to lower jewellery sales during the Christmas season and Chinese New Year. Mixed performance on all key consumption markets for diamond jewellery coupled with tighter rough diamond supply kept stock
at customers mainly flat with rough stones inventories at customers hitting low levels. While we see that the underlying demand from end customers remains healthy, small, and midsized cutters and polishers in India continue to face challenges with access to affordable financing, which certainly affects the industry, though, we believe a side effect of the undergoing issue [audio] will result in better financial transparency and improved financial discipline in midstream.

Overall, we are cautiously optimistic about further moderate growth in demand and market activity in the second half of the year.

On 18th March, we hosted capital markets day where we provided an update on our strategic priorities. Our strategy, of course, focused on our core business, which is diamond production and sales remains unchanged and we believe our best in class assets have strong potential to demonstrate continued improvements in operational efficiency.

We, as the management, are strongly committed to increase shareholder value, allocate prudently our capital, and return cash to our shareholders. Based on the new dividend policy, we paid out RUB 43.7 billion dividends for the first half of 2018 and on 23rd April, the Board recommended ALROSA shareholders to approve dividends for RUB 30.3 billion for the second half of 2018, which is equivalent to 100% of free cash flow for this period. Thus, the total full year dividends will amount to RUB 74 billion; this is all time record level of annual dividend the company pays to our shareholders.

At this, I am handing over to Alexey Philippovskiy, our CFO, and Alexey will walk you through our financials and then we are ready to take your questions. Thank you.

**Alexey Philippovskiy**

Good day ladies and gentlemen. First, I would like to go briefly through our operating performance in the first quarter of 2019, let’s start with slide number five.

Our Q1 production in carats was down 24% qoq mostly due to a decrease in output of the International and Aikhal underground mines and the Jubilee pipe. Against first quarter of 2018, it grew by 5%. First quarter ROM ore went up 16% as we show on the chart on the top of page 4, that was mainly due to seasonal production growth at alluvial deposits. Q1 ore and sand processing was down 15% against the Q4 2018 due to decreased gravel processing at Mirny division. Average grade went down to 1.23 carats per ton, as a result of less high-grade ore processed at the International and Aikhal underground mines.

Now, I suggest to go to slide 6, diamond inventories went down to 14.3 million carats, down from 17 million carats at the beginning of the year on the back of 24% decrease in output and 18% growth in sales.

Now, let’s go to slide 7 where we talk about our sales. In Q1, we saw a gradual recovery in demand for smaller stones from Indian cutters and polishers, sales were up 18% qoq to 10.6 million carats. In value terms, sales added 20% to $980 million. Decrease in sales volume and value against Q1 2018 was due to high base effect, as you remember in the first half of 2018, our customers were replenishing stocks against strong jewellery demand in the Christmas and Chinese New Year season of 2018.
As for the average price index, which you can see on page 8, it was down by 3.1% on a like-for-like basis, mainly due to oversupply in the diamond market, weaker Indian rupee and reduced liquidity in the market in India.

Average realised price of gem-quality diamonds decreased to $123 per carat due to a larger share of small-size stones and sales mix as following a heavy destocking of smaller stones late last year, we saw revived buying activity for melee goods in the first months of 2019.

Additional factors which impacted our average selling price was the price index decrease as I mentioned earlier, the softening gradually coming from the mid-size stones.

Now, I suggest turning to slide 9 to view our key financial highlights. Q1 revenue was up 15% qoq to RUB 70.5 billion on the back of increased diamond sales in carats. Q1 EBITDA stood at RUB 31.4 billion, profitability stood unchanged qoq at 44%. Our free cash flow in the Q1 was up 81% to RUB 25.9 billion. Leverage stood at 0.2x, which is still below target level of 0.5-1.0x of Net debt-to-EBITDA, as we accumulate funds to pay dividends for the second half of 2018.

On slide 10, we discuss gem-quality diamonds revenue drivers. Q1 revenue from gem-quality diamonds grew by 20% qoq to RUB 64 billion on the back of increase in diamond sales in carats by 18%. Decline by 28% against Q1 of 2018 driven by 21% reduction in sales volumes and weaker product mix due to increase of small-size stone share.

Slide 11 shows our cost dynamics and breakdown. Q1 total costs increased by 14% qoq, it was RUB 39.1 billion, mostly due to increase in sales in carats. The unit production cost in nominal terms increased by 4% yoy in line with our target to restrain per unit cost growth at 2% less than the level of inflation in Russia.

On slide 12 we discuss our profitability drivers. Q1 EBITDA was up by 16% qoq to RUB 31.4 billion on the back of increased sales volume in carats despite weaker sales mix. Against Q1 2018, EBITDA decreased by 34% mainly due to drop in sales volumes and weaker sales mix, which was partially compensated by FX impact.

Now, let’s look at slide 13. Our CAPEX went down 45% qoq and reached RUB 3.9 billion, due to a seasonality decrease of expenditure in equipment maintenance by 68% and drop in capital investment in the Verkhne-Munskoye deposit, which we launched in October 2018. Most of our CAPEX is dedicated to maintenance with about 75% of it is rouble-based. 2019 CAPEX remains within our previous guidance at RUB 28.7 billion.

Slides 14 and 15 show leverage and Net debt change analysis. Net debt in Russian roubles equivalent decreased by 50% qoq from RUB 67.4 to 33.8 billion, due to growth in free cash flow. The company’s Net debt-to-EBITDA ratio stays at the low level of 0.2. On 9th April, we successfully placed $500 million Eurobond issue with maturity in April 2024 and the coupon rate of 4.65% per annum. Proceeds were used to partially refinance our Eurobond 2020 in the amount of $400 million.

On slide 16, you can see our EBITDA to free cash flow bridge. Q1 free cash flow increased by 81% qoq to RUB 25.9 billion on the back of strong profitability and conservative CAPEX. RUB 3.6 billion change in working capital was mainly driven by decrease of diamonds inventory and drop in mining and construction materials.
Our outlook is presented on slide 18. We believe that 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 midstream as Indian mid-streamers continue to face difficulties with access to affordable financing. Our 2019 production outlook remains unchanged at 38 million carats on continued ramp-up of Verkhne-Munskoye and Severalmaz. Production mix and sales mix are expected to normalise following sale of higher-grade stocks in the first half of 2018.

This concludes my presentation and we are now ready to take your questions.

**Question and Answer Session**

**Dan Shaw**

Just two questions on CAPEX. I think you answered them towards the end of your presentation, but just to confirm. Your CAPEX guidance for 2019 is confirmed at around RUB 29 billion so, therefore, you expect quite a material step up in CAPEX for the remaining quarters. Can you give any more detail on any of the projects or initiatives that sit within that other category of CAPEX on slide 13? I think you mentioned that was mostly maintenance but that is quite a bit higher than we have seen in the last four or five years, I suppose. Can you just give any more granularity around what sits within that number? Thank you.

**Alexey Philippovskiy (translated)**

Our CAPEX breakdown for 2019 is threefold. Firstly, this is maintenance CAPEX to the tune of RUB 13 billion which is 9% up yoy.

Secondly, this is expansionary CAPEX and here we see quite a material reduction from RUB 13 billion back in 2018 to RUB 6.5 billion in 2019 on the back of the completion of development works at the Verkhne-Munskoye deposit.

Thirdly, this is investment for production infrastructure upgrade. Here, we see quite a material increase to RUB 8.8 billion in 2019 from RUB 2.7 billion in 2018. The key items of spending here are power and energy supply, mini airport upgrades, then the upgrades of Helicopter Park for ALROSA airlines and upgrades of transportation fleet for the purposes of transporting down the Lena River.

**Boris Sinitsyn**

I have three questions to Aysen Nikolayev please. The first one is about Yakutia’s governance view on ALROSA strategy. After recent investor day and update of the strategy, does Yakutia shares this view presented by the management and more specifically, what is the trade off in Yakutia’s view between the dividends and investment into the company.

The second one is on the remaining portion of ALROSA’s privatization by the State, what is the Government’s view on it and probably on the timing.

The third one is the – what is the Yakutia Government’s take on ALROSA’s strategy to divest from non-core assets and what is the approach the government uses in order to determine what assets it is ready to buy from ALROSA.
Aysen Nikolayev (translated)
 Basically, we are happy with the growth outlook especially on the back of the new dividend policy of the Company approved back in August last year.

We are fully on the same page with the Company and we are supportive of the Company's strategy to focus on the core business which is rough diamond mining and sale, and we support the Company in the initiatives to spinoff non-core assets. So we are currently taking on increased commitments in view of the non-core assets being disposed of by the company, for the Company to be able to exclusively focus on their core business.

Boris Sinitsyn
 And just two questions on financials. Firstly, on subsidies, could you please remind what is the expected subsidies to be received by the company in 2019 and 2020 from the State?
 The second question is on CAPEX, given the low rates seen in the first quarter, how does it relate to your CAPEX guidance for the full year? Do you still maintain it? Thank you.

Alexey Philippovskiy
 In terms of the subsidies, we expect that the overall amount of subsidies will be in the range of around RUB 5 billion for this whole year, which is in line with what we saw in the last year.

For CAPEX, we maintain our guidance of RUB 28.7 billion, actually, historically, our CAPEX seasonality is such that the relatively low CAPEX in the first quarter of the year and a higher CAPEX at the year end and that is what we expect to see this year as well.

Daniel Major
 Two questions on working capital and your expected movements in finished diamond inventory. You stated previously that this has been an atypical year in terms of not destocking as much inventory in Q1. Can you give us any guidance, firstly, in expected movements in finished diamond inventory and in working capital through the remaining quarters and for the full year as a whole? Can you give us any indication of the value of stones held in the current 14 million carats of inventory? Are they still skewed to more lower grade stones or are they more in line with the average or what you have sold in the past?

Yuri Okoyomov (translated)
 Thanks for your questions. When it comes to inventory movement, indeed, in Q1 our stocks moved dramatically down from 17 million carats to just 14.3 million carats, and today we can see that based on the results of April, stocks have moved further down and this is quite usual seasonality that we see every year, because in Q1 we typically sell more diamonds than we produce. When it comes to the breakdown of our inventory then, as Alexey Philippovskiy has said, in Q1, demand was more skewed to cheaper stones and this is why the average realised price that we actually posted went somewhat down. On the back of that driver, the average value of our inventory has moved accordingly up year-to-date, because now in stocks we see more expensive stones.

When it comes to expected movement guidance, then all the analysts see the current seasonality, I believe even now, since our stocks are low, probably towards the year end they will be going up on the back of seasonality factors. However, at the end of the day, this all will depend on the overall market situation and demand. Now, we come closer to market guidance. This is something challenging to predict, because the market situation is driven by many factors. This is the retail
sales, midstream access to funding and what not. Now, if you want to hear my market projections, that must be a separate question.

However, when it comes to inventory guidance, I think I have addressed your question. Does it answer your question?

Daniel Major
Yes, it does. Can I just ask one follow-up? Should we assume that sales equals production this year? So based on the current market outlook, would it be fair to assume that you will sell the same amount of diamonds that you produce in this year, so sales should be around 38 million mark in line with your guidance.

Sergey Ivanov
We do not change our sales target for this year in terms of carats, so we don't have now any circumstances under which we should correct our sales volumes for this year. We are sure that the market would not allow us to sell more than 38 million carats, but we are just in May, so I think it would be more appropriate to say about our yearly sales forecast in August or September, but up until now, our plans is to sell the same amount as our production volumes.

Sergey Donskoy
My question on realised price in the first quarter is very simple. $123 per carat was the realised price for gem-quality diamonds. I wonder, is it possible to somehow estimate what the price would have been assuming some sort of normalised sales structure that would be more representative of your sales for the full year, given that first quarter was affected by higher proportion of lower value stones?

Yuri Okoyomov
So if we talk about gem-quality diamonds, I think that it would be over $10 per carat up.

Alexander Kuzovlev
A couple of short questions about subsidiaries. First, do you expect to get from ALROSA-Nyurba the comparable amount of dividends as in last year?

Second, are there any decisions about 100% consolidation of ALROSA-Nyurba stocks?

Alexey Philippovskiy (translated)
When it comes to your second question on consolidation, now, we do not have the final decision on the consolidation of the 100% of equity stake in ALROSA-Nyurba. On the whole, we would like to have this company fully consolidated in our books, but final decision is pending.

Your question about dividends is going to be addressed by the Board of directors of ALROSA-Nyurba, but this a matter of the future.

Individual investor
According to the previous questions about ALROSA-Nyurba, if there is no final decision about consolidation, can you reveal us main case scenarios which are discussed so that minority shareholders of ALROSA-Nyurba can get some confidence in the future?
Alexey Philippovskiy (translated)
When it comes to the protection of minority rights and equitable treatment of all the shareholders of ALROSA-Nyurba, this is our top priority, no doubt. However, talking about a specific mechanism, according to which the company may and will be consolidated, we are not ready to disclose it now, because this is now being discussed and the final decision is pending.

Nikolay Sosnovskiy
I have got two small questions. First, is on your production costs. I have noticed that in the last, at least, three years quarterly wages, salaries, and staff costs were around RUB 10.5-11 billion, but in Q4 2018 it kind of spiked to RUB 13.5 billion. I presume this is due to bonuses or something like this. But then once again in Q1 2019, it was more than RUB 12 billion. This is quite a significant growth over the first quarter of 2018, which was RUB 9.8 billion. Basically, the question is, should we extrapolate this wage growth onto the remaining three quarters of the year, or these are some uneven payments or some one-off payments we should ignore?

The second one is on dividends, you have moved to the 100% payment, which I think is very welcome by the market, but going forward, basically, we can see in other examples of minerals and mining in Russia, companies, for example, start to ignore working capital fluctuations to pay their dividends based on free cash flow, so the question is, are you planning how to start ignoring working capital and maybe start overpaying during some quarters to smooth out these payments?

Alexey Philippovskiy (translated)
The short answer for your first one is NO. You shouldn't extrapolate the RUB 12.2 billion in our labour costs for quarters second to fourth of the current year. In Q1 this has been somewhat higher than usual as since the beginning of 2019 we have somewhat changed part of our employee benefits scheme. The thing is that up until the end of 2018 we would compensate our people on sick leave to the tune of 100% of their average pay while they are on their sick leave. However, unfortunately, we have seen this benefit to be sometimes abused and this is why, starting 1st January 2019, we have to change this benefit, the structure of benefits, and now we offer our employees reimbursements of annual leisure travel expenses for themselves and their family once a year. This is why based on the accounting principles apply for Q1 we had to establish provisions for expected travel expenses to the tune of RUB 1.3 billion on a full year basis. However, this mark-up is going to be offset on the back of, firstly, increased performance going forward, which we expect, and, secondly, increased performance of our staff, taking sick leave less frequently and being compensated to a low tune while on sick leave.

So the remainder of the growth in our expenses in Q1 was due to inflation adjustment of pay that we performed annually for our staff. This amounted to 4% this year. Also, this happened on the back of additional amounts of work performed to develop the Verkhne-Munskoye deposit.

As to your second question, the only change in connection with our dividend policy currently considered by our Supervisory board is establishing clearer or rather more precise boundaries for the investor community to be able to tell whether we're paying 70 or towards 100% of our free cash flow in dividends with our Net debt-to-EBITDA leverage staying in the range between 0.0x and 1.0x.
Daniel Major
A question on your reported income from associates, which I'm assuming is principally from Angola, got a reasonable lift in associate income, what should we be expecting on a quarterly run rate basis for the remainder of the year and can you give us any indication of your expected timing of receipt of dividend payments Catoca in 2019?

Sergey Ivanov
I was just today talking to our CFO in Catoca and, yes, this part of our balance sheet, it's money received from Catoca, and I am happy to announce that just within the next weeks we expect to get additionally $46 million as dividends for 2017. And the shareholders meeting on distributing dividends of Catoca for 2018 was not held yet, but it will take place this year and I am sure the shareholders will support further distribution of dividends for 2018.

Daniel Major
Will you expect to receive a second dividend payment in the calendar year ’19 with respect to 2018 cash flow?

Sergey Ivanov
We would better answer these questions on our next conference call, because sometimes it takes several months since the shareholder meeting just for all the bureaucratic procedures and all the procedures with the Central Bank of Angola. So just to be on the safe side I would prefer to announce whether we will get dividends for 2018 in this calendar year during our next conference call, so that I would be more confident.

Alexey Philippovskiy
This concludes our conference call. Thank you for your participation and, once again, I apologise for the technical difficulties that we were experiencing during this call. Thank you for understanding and have a good day.