
ALROSA

Q2&6M 2019 IFRS RESULTS

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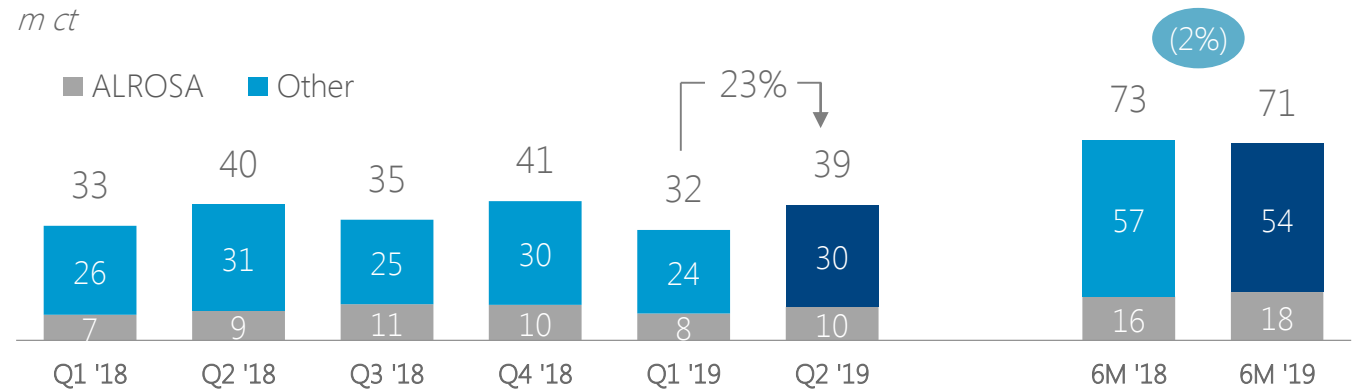
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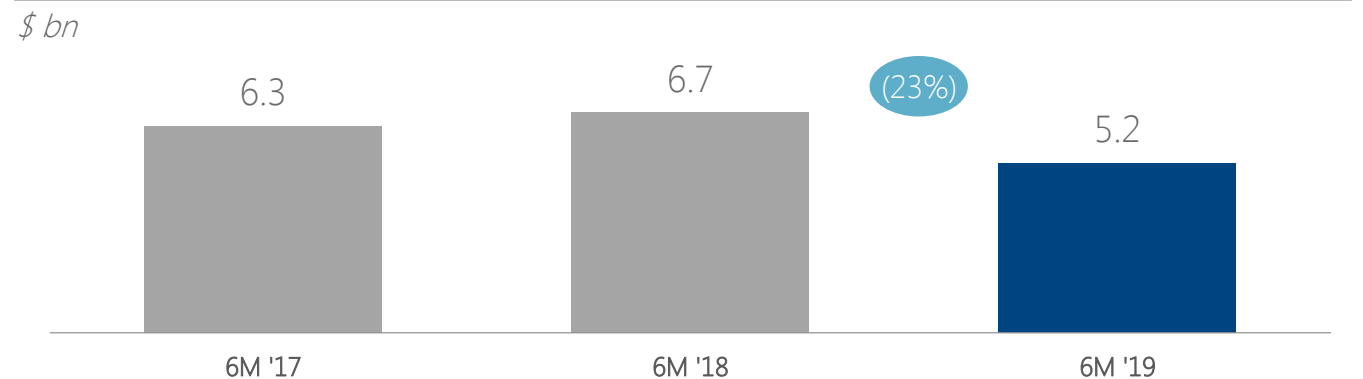
DIAMOND MARKET OVERVIEW

- 6M '19 global output down 2% yoy, driven by lower DeBeers and Rio Tinto production
- Stocks of polished diamond at mid-stream grew as retailers were in destocking mode on slowdown in demand
- In 6M '19 miners reduced sales by -23% yoy as mid-stream faces tighter financing conditions and elevated polished diamonds stocks

Decrease in global diamond output¹



Miners² diamond sales were 23% down



Source: Company data and analysis.

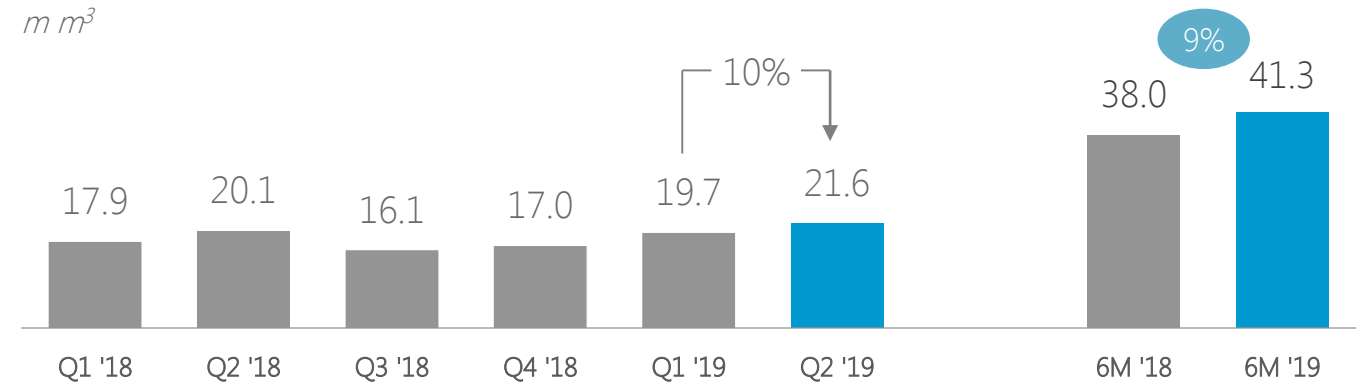
1. Data based on results of ALROSA and other diamond producers with a market share totalling c. 71% in 6M 2018

2. ALROSA, De Beers, Rio Tinto, Catoca, Petra Diamonds, Mountain Province, Stornoway Diamond

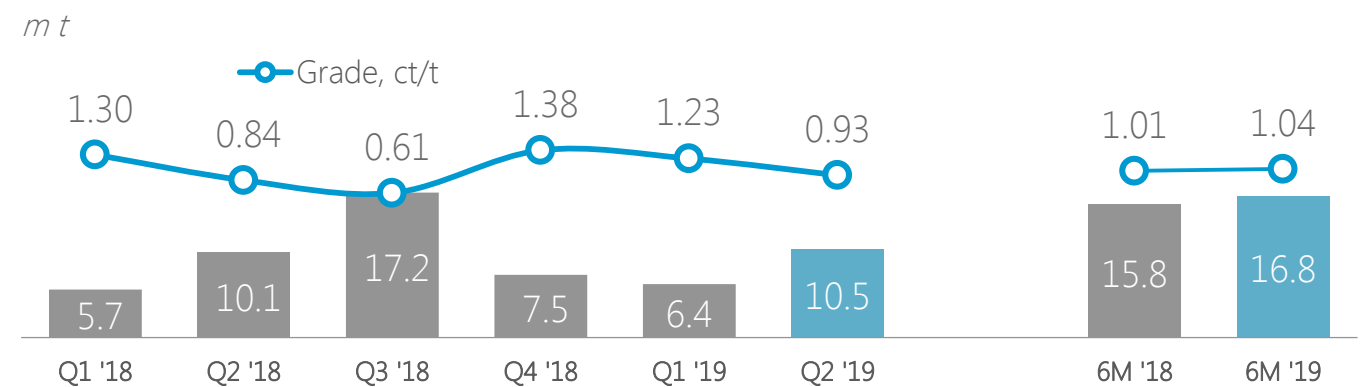
ALROSA PRODUCTION (1/2)

- Q2 '19 ROM¹ ore up 10% qoq (+8% yoy) to 21.6 m m³, driven by higher stripping ratio at the Nyurbinskaya pipe, pre-mining operations at Almazy Anabara, and seasonal output at alluvials. 6M '19 ROM ore was 9% yoy up to 41.3 m m³, mostly due to the launch of production at the V.Munskoye deposit.
- Q2 '19 processed feedstock seasonally grew by 65% qoq (+4% yoy). Ore and gravels processing in 6M '19 increased 6% yoy to 16.8 mt supported by the ramp-up of production at the V.Munskoye deposit and increased productivity at Nyurba Division and Udachny's processing plants.
- Q2 '19 average grade was 10% up yoy on better grades at Severalmaz, and better grades at Udachny gravels. A qoq decrease of 25% was due to seasonality.

Run-of-mine ore was up by 10% qoq



Ore and sands processing goes up 65% qoq



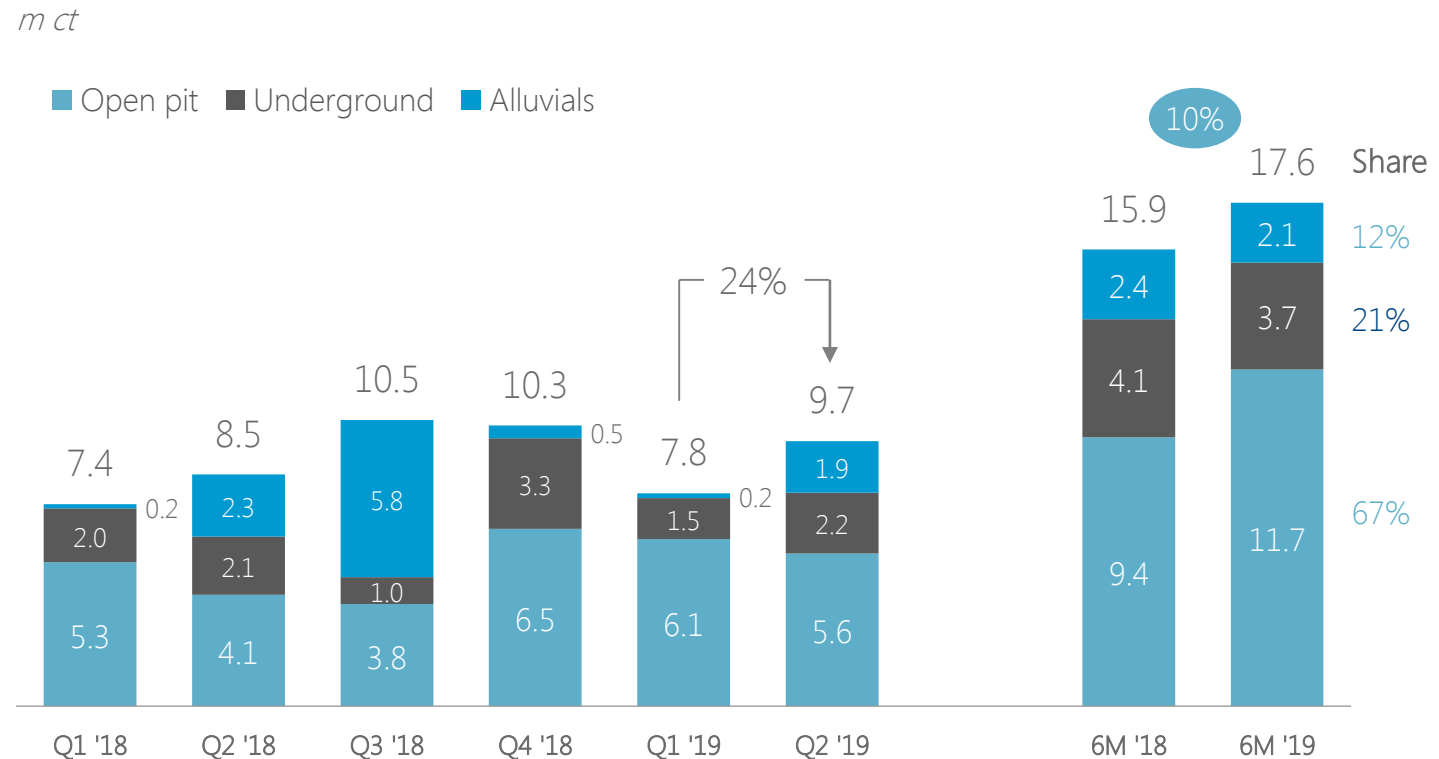
Source: Company data and analysis.

1. ROM – run of mine

ALROSA PRODUCTION (2/2)

- Q2 '19 diamond output grew 24% qoq to 9.7 m cts, mostly due to seasonal activity at alluvial deposits.
- Q2 '19 output was up 14% yoy driven by:
 - launch of production at the VMunskoye deposit
 - increase in higher-grade ore processing at the Botuobinskaya pipe (Nyurba Division)
- 6M '19 diamond output grew 10% yoy driven by:
 - +0.7 m cts - launch of production at VMunskoye deposit
 - +0.3 m cts – growth from Seversalmaz on better grades from richer ore
 - increase in ore processing at the Botuobinskaya pipe and productivity gains

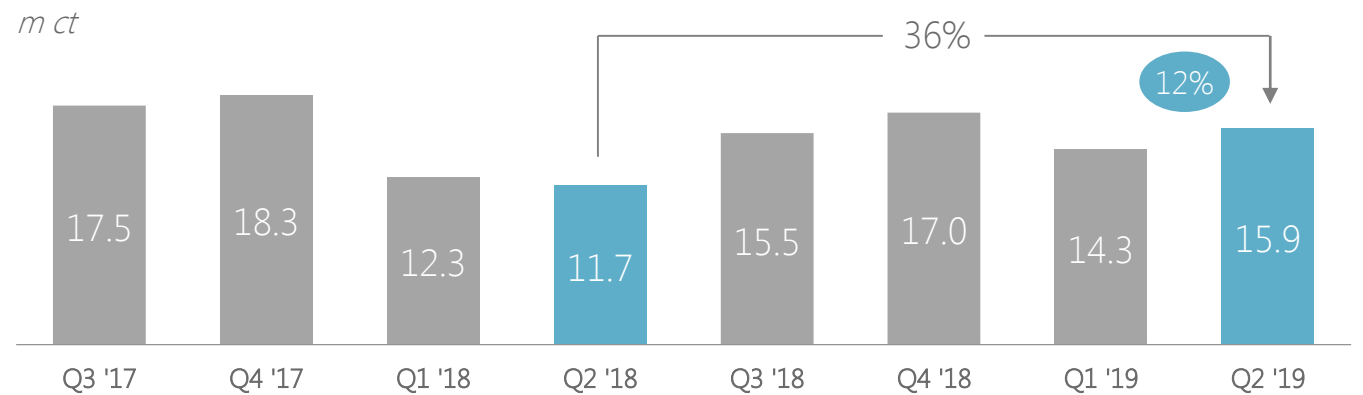
Diamond production was up by 24% qoq



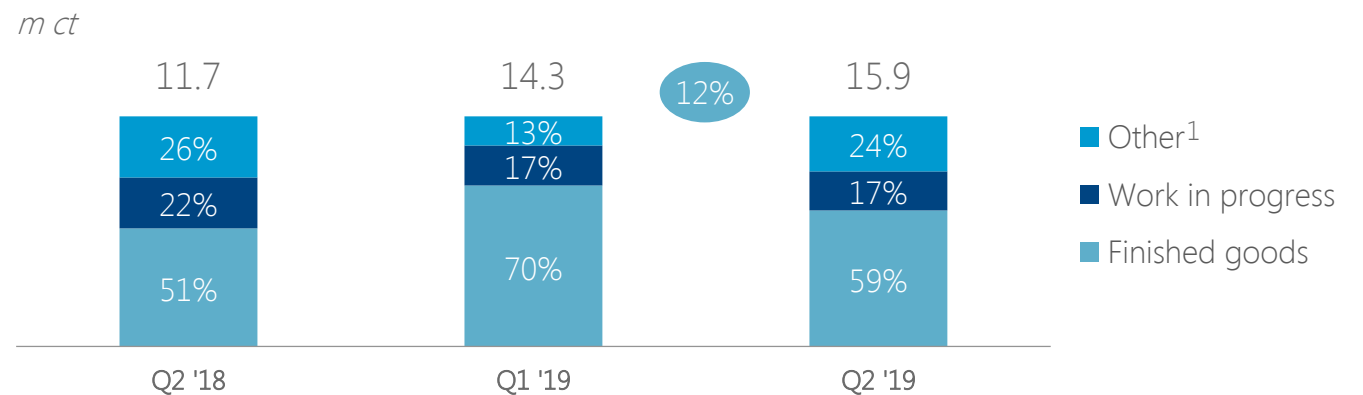
INVENTORIES

- Q2 '19 diamond inventories added 1.6 m cts (+12% qoq) 15.9 m cts as output increased by 24% qoq while sales in cts decreased by 22% qoq
- 36% yoy growth in Q2 inventories (+4.2 m cts) due to lower sales (-8% yoy), while output increased (+14% yoy)

ALROSA's diamond inventories were up 12% qoq



ALROSA's diamond inventories structure



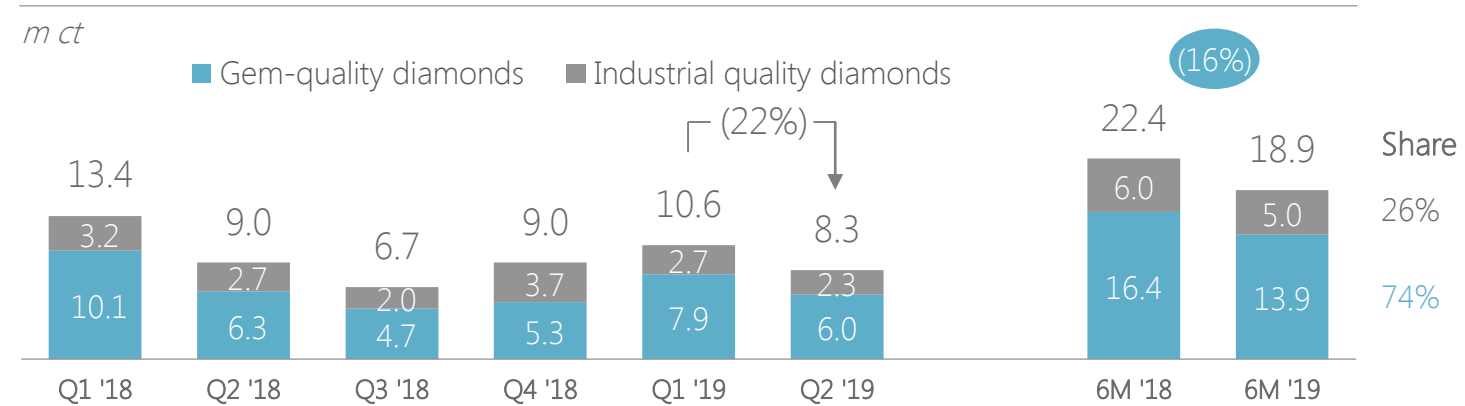
Source: Company data and analysis.

1. Diamond inventories at mining and processing divisions

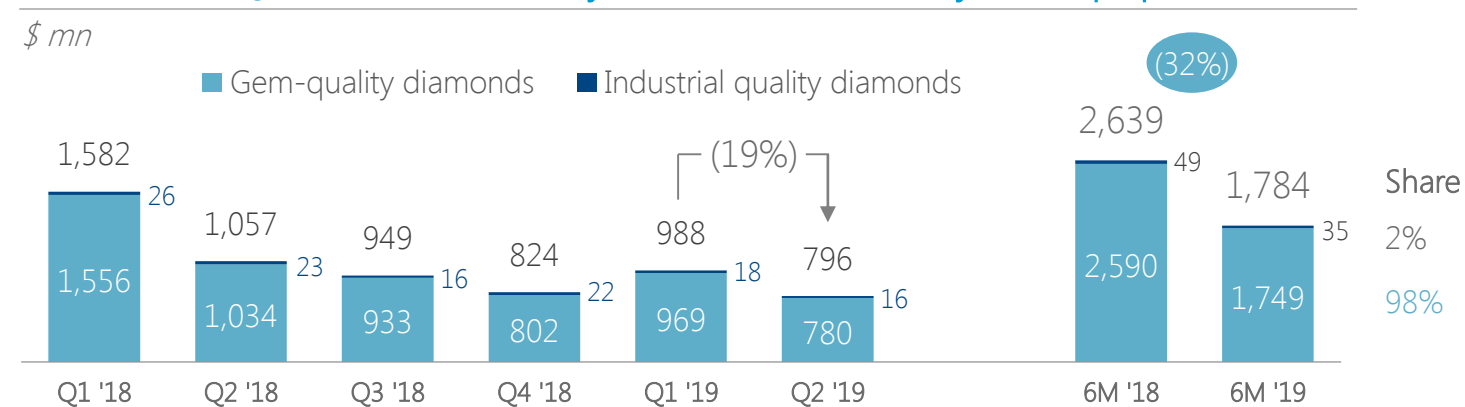
ALROSA ROUGH DIAMOND SALES

- Q2 '19 sales down by 22% qoq (-8% yoy) to 8.3 m cts, including a 24% qoq decline in gem-quality diamonds sales (down 5% yoy) to 6.0 m cts, due to excessive stocks of rough and polished diamonds in the mid-stream
- Q2 '19 sales in USD decreased by 19% qoq (\$796 m) due to 22% qoq sales decline in carats
- Q2 '19 sales declined 25% yoy, while sales in carats fell by 8% yoy

Q2 diamond sales went down by 22% qoq (-8% yoy)



Q2 diamond sales by value were down by 19% qoq

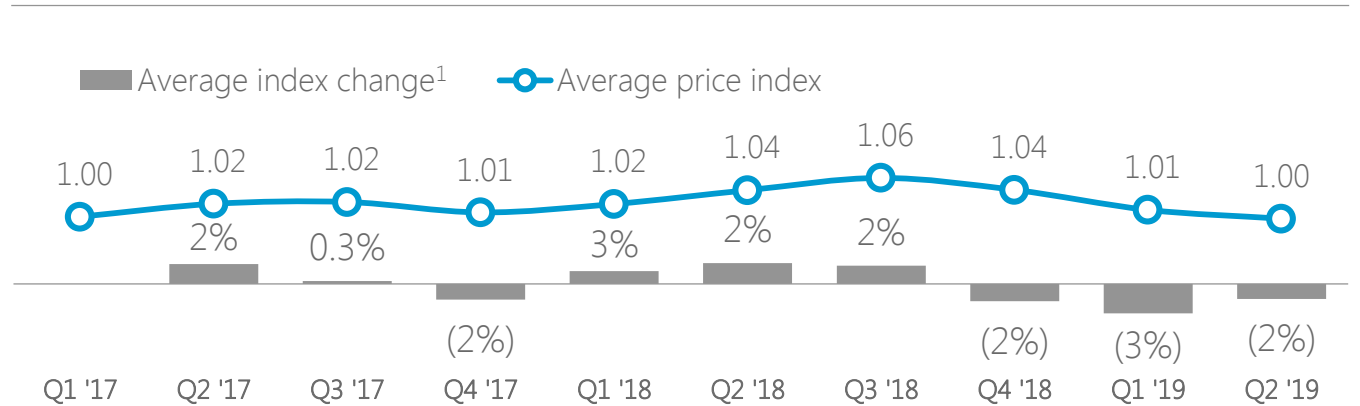


Source: Company data and analysis.

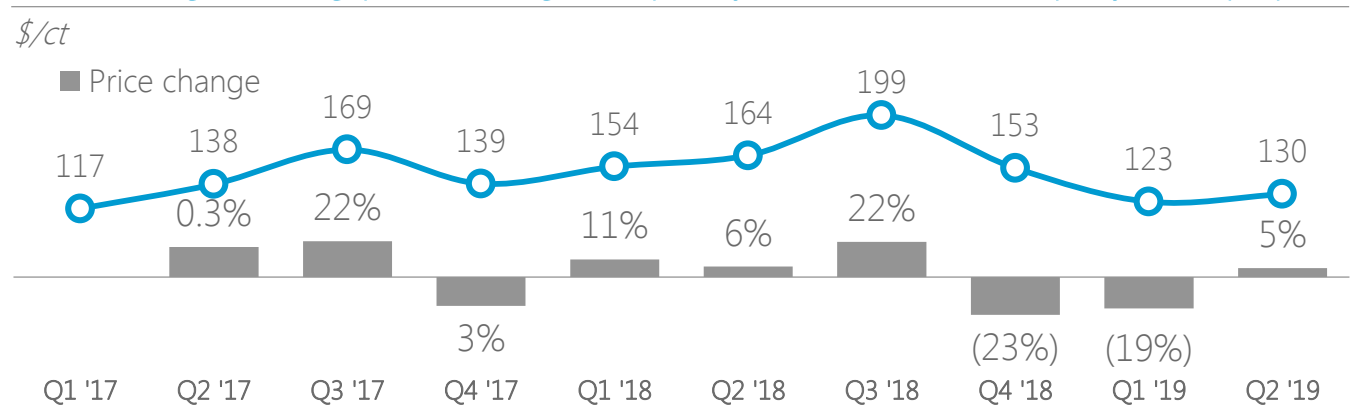
PRICE DYNAMICS

- In Q2 '19, the diamond price index was -1.6% qoq, a YTD decrease of 4.6%, mainly due to lower demand from mid-stream and limited access to affordable financing for mid-stream in India
- In Q2 '19, average realised prices for gem-quality diamonds rose 5% qoq to \$130/ct due to low base effect as in Q1 sales share of small stones (in carats) was 1.8x higher than historical average

Price index for gem-quality diamonds was down by 2% qoq



Average selling price² for gem-quality diamonds was up by 5% qoq



Source: Company data and analysis.

1. Average index change of like-for-like diamonds prices (excl. +10.8 carats)

2. Average selling prices (sales revenue divided by sales volumes in carat terms) are also impacted by changes in the product mix throughout the reported period.

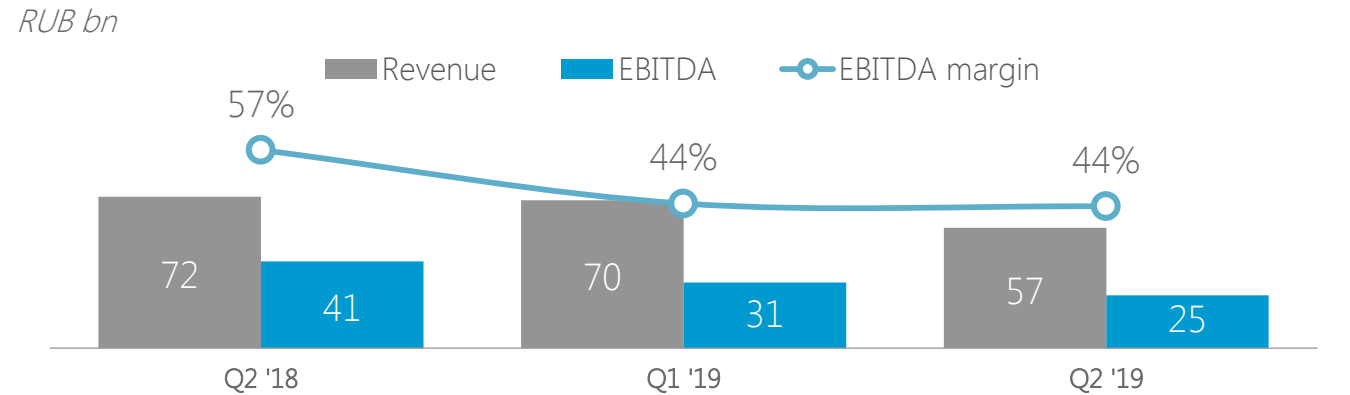
FINANCIAL HIGHLIGHTS

- Q2 '19 revenue came at RUB 57 bn (-19% qoq) due to a 24% decline in gem-diamond sales in carats. 21% yoy decrease due to decrease in both sales volumes and like-for-like prices.
- Q2 '19 EBITDA was RUB 25 bn (-20% qoq and -39% yoy) largely due to top line decrease.
- Q2 '19 EBITDA margin was flat at 44% (-13 p.p. yoy)
- Q2 '19 net income was down to RUB 13 bn (-44% qoq, -47% yoy) due to revenue decline and decrease of FX gains.
- Q2 '19 FCF amounted to RUB 2.4 bn
- Net debt / LTM EBITDA remains unchanged at 0.3x¹

Source: Company data and analysis.

1. Net debt/LTM EBITDA at the end of Q1 '19 was restated due to inclusion of operating lease obligation and amounted to 0.3x

Margins are stable qoq



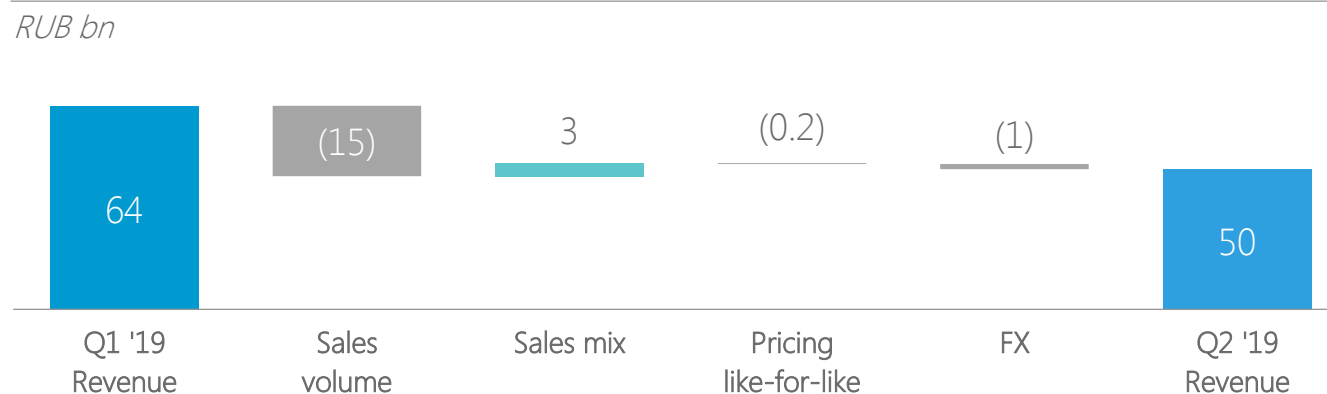
Leverage remains low



GEM-QUALITY DIAMONDS REVENUE DRIVERS

- Q2 '19 gem-diamond sales were down by 21% qoq to RUB 50 bn driven by:
 - (-) 24% decrease in sales volumes (in carats)
 - (+) normalized product mix
 - (-) softer like-for-like prices (av. index change – -1.6%)
 - (-) FX rate impact on stronger RUB
- 22% yoy decrease driven by:
 - (-) 8% reduction in sales volumes (in carats)
 - (-) weaker product mix
 - (-) softer like-for-like prices (av. index change – -4.5%)
 - (+) positive FX rate impact as RUB weakened

Q2 gem-quality rough diamond revenue bridge (qoq)



Q2 gem-quality rough diamond revenue bridge (yoy)

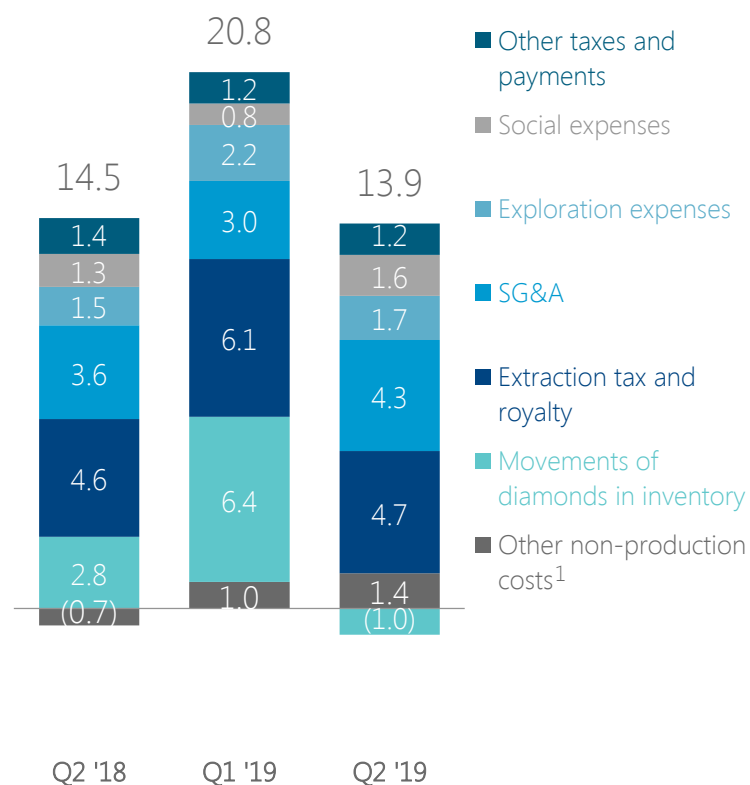


COSTS DYNAMICS AND BREAKDOWN

- Q2 '19 total costs were down by 18% qoq to RUB 32.2 bn mostly due to decrease of sales in carats by 22%
- Q2 '19 total costs were up by 3% yoy mostly due to increase of production

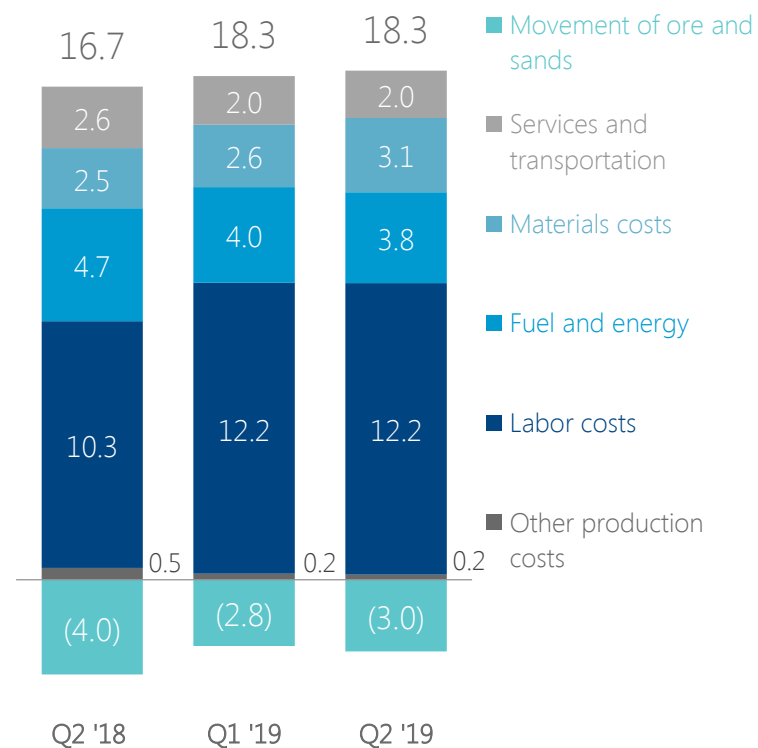
Non-production costs were down by 33% qoq

RUB bn



Production costs remained unchanged qoq

RUB bn



Source: Company data and analysis.

1. Mainly includes cost of diamonds for resale and other non-production costs

PROFITABILITY ANALYSIS

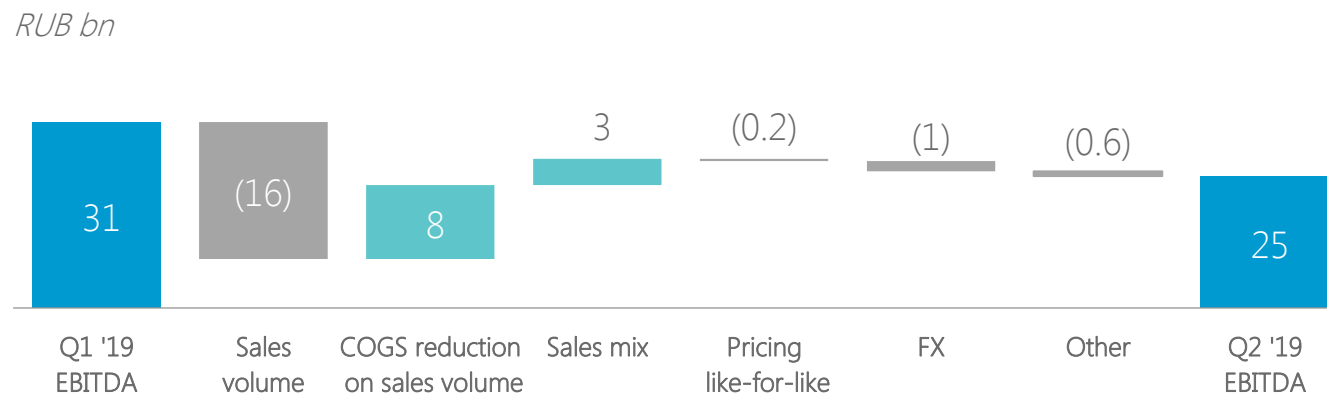
- Q2 '19 EBITDA was down by 20% qoq driven by:

- (-) 22% decrease in volumes -RUB 16 bn
- (+) COGS reduction on sales volume: +RUB 8 bn
- (+) sales mix +RUB 3 bn
- (-) like-for-like prices: -RUB 0.2 bn
- (-) FX rate: -RUB 1 bn
- (-) other factors: net impact -RUB 0.6 bn

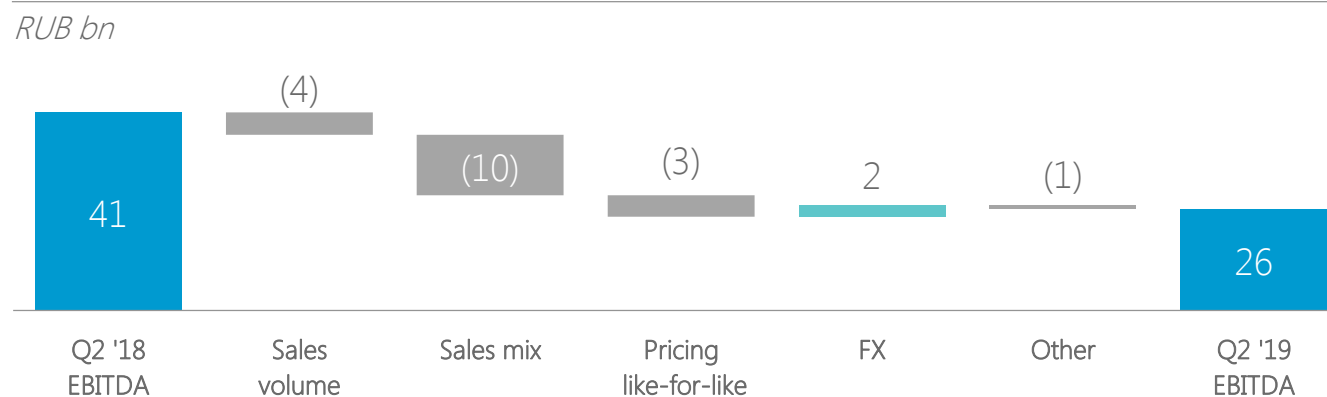
- ... 39% yoy decrease driven by:

- (-) 8% reduction in carat sales: -RUB 4 bn
- (-) sales mix: -RUB 10 bn
- (-) like-for-like prices: -RUB 3 bn
- (+) FX rate: +RUB 2 bn
- (-) other factors: net impact -RUB 1 bn

Q2 EBITDA – key drivers (qoq)



Q2 EBITDA – key drivers (yoy)

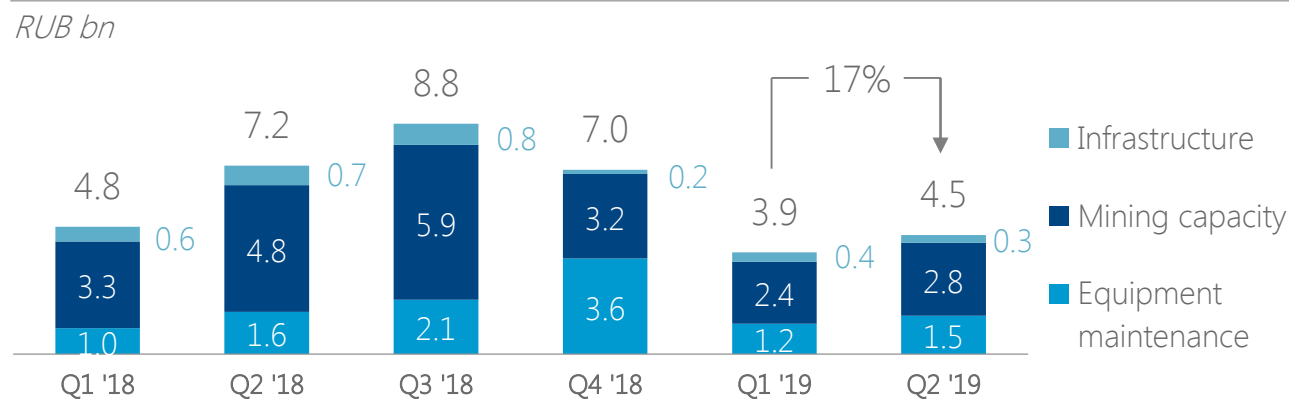


Source: Company data and analysis.

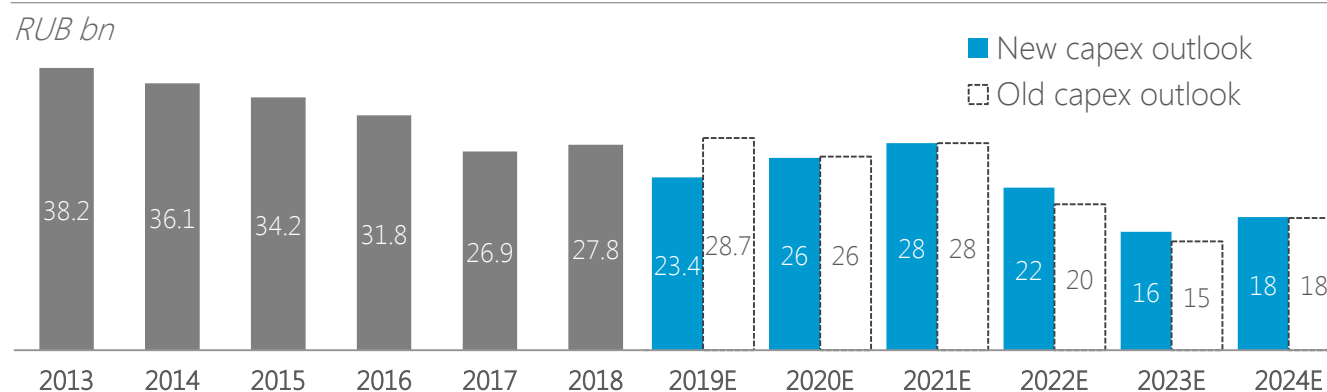
CAPEX

- Q2 '19 capex grew +17% qoq to RUB 4.5 bn driven by:
 - Maintenance capex seasonally up by RUB 0.3 bn (+26%)
 - Zarya pipe capex up by RUB 0.3 bn (+70% qoq)
- -37% yoy mainly due to lower capex in V.Munskoye deposit by 88% yoy and Udachny UM by 87% yoy
- 2019 capex outlook was reduced to RUB 23.4 bn

Q2 capex increased by 17% qoq



2019 capex outlook revised down to RUB 23 bn

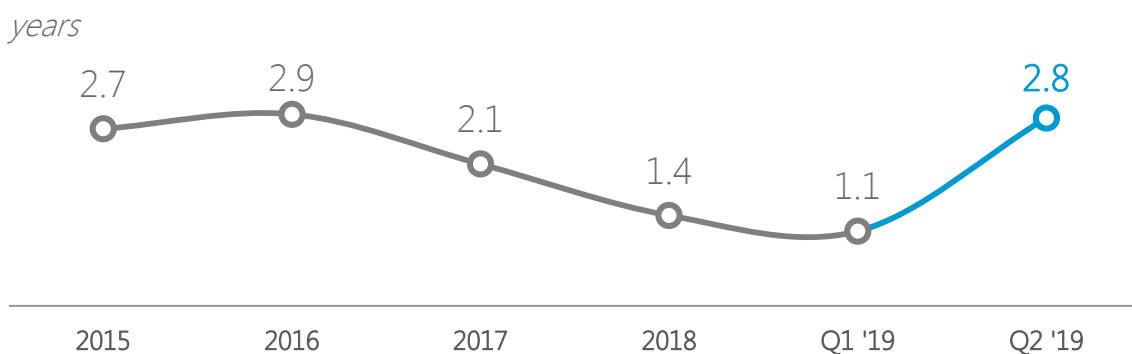


Source: Company data and analysis.

DEBT POSITION

- Total debt in Q2 decreased by 14% to **\$1.4 bn**
- Q2 '19 liquidity decreased 19% qoq to **\$0.9 bn** due to repayment of bank loans in May-June 2019
- Net debt in USD decreased by 6% qoq to **\$561 m** on FCF growth
- In Q2 '19, Net debt / EBITDA remains unchanged at **0.3x**
- April '19 – a 5Y \$500 m Eurobond placed with a 4.65% pa coupon
- June '19 – a 2Y \$300 m bank loan raised to refinance ST debt

Weighted average debt maturity extended



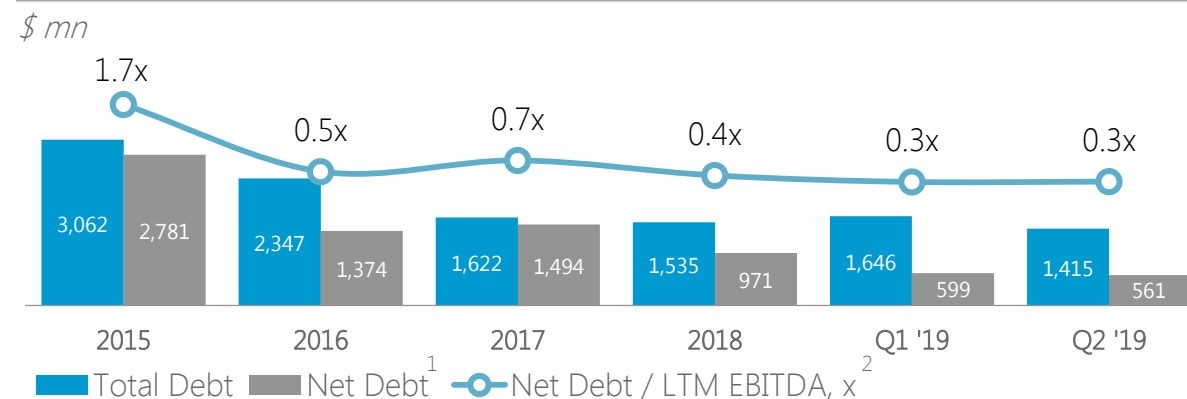
Source: Company data and analysis.

1. Including operating lease obligation starting from 2019Y (RUB 4.7 bn in Q2 '19)

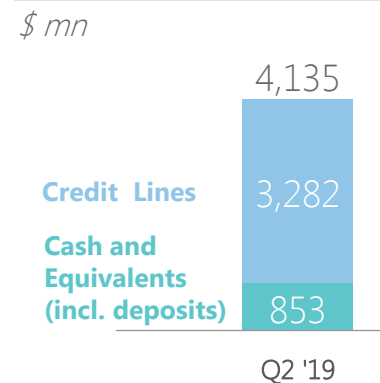
2. Based on EBITDA and Net Debt denominated in rubles

3. Excluding operating lease obligation (RUB 4.7 bn in Q2 '19) and amortization of discount

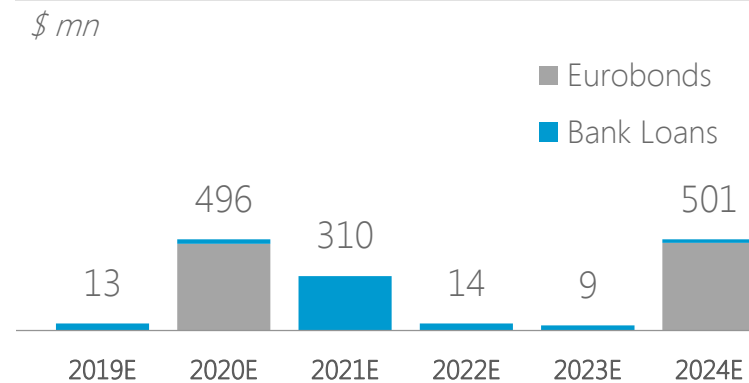
Sound financial profile



Liquidity position



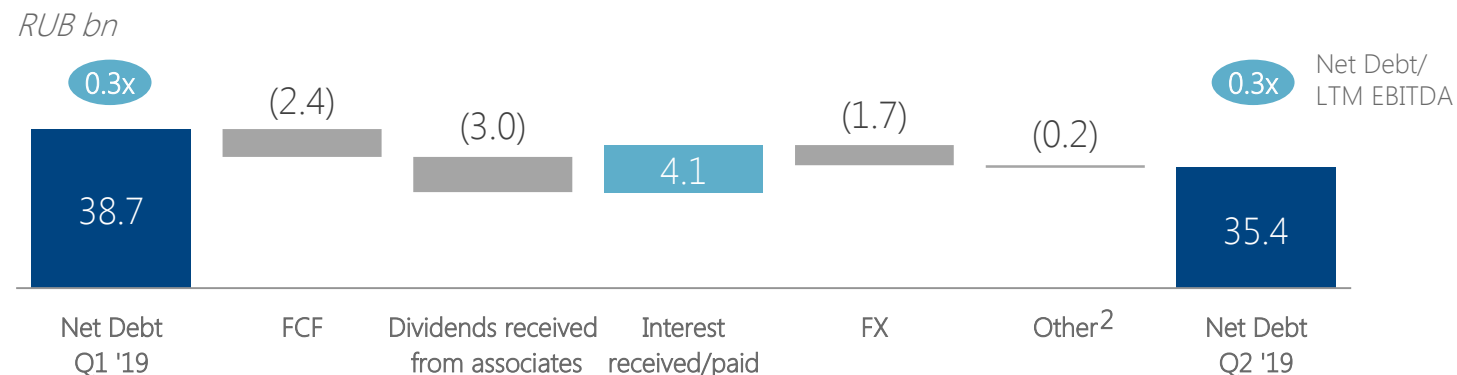
Debt³ repayment schedule



DEBT ANALYSIS

- In Q2 '19 net debt in RUB was down by 9% qoq to RUB 35.4 bn due to:
 - (-) free cash flow (-RUB 2.4 bn)
 - (-) dividends received from Catoca (-RUB 3.0 bn)
 - (+) net interest expense (+RUB 4.1 bn)
 - (-) FX rate (-RUB 1.7 bn)
 - (-) other factors (-RUB 0.2 bn)
- In Q2 '19 total debt in RUB decreased by 16% qoq to RUB 89.2 bn due to:
 - (+) 5Y Eurobond of \$500 m and received RUB 16.0 bn bank loan
 - (-) repayment of Eurobond 2020 of \$400 m, bank loans of \$300 m and bank overdraft of RUB 18.2 bn
 - (-) FX rate (-RUB 2.6 bn)
 - (-) change of operating lease obligation

Q2 Net Debt¹ bridge



Q2 Total Debt¹ bridge



Source: Company data and analysis.

1. Including finance lease liabilities

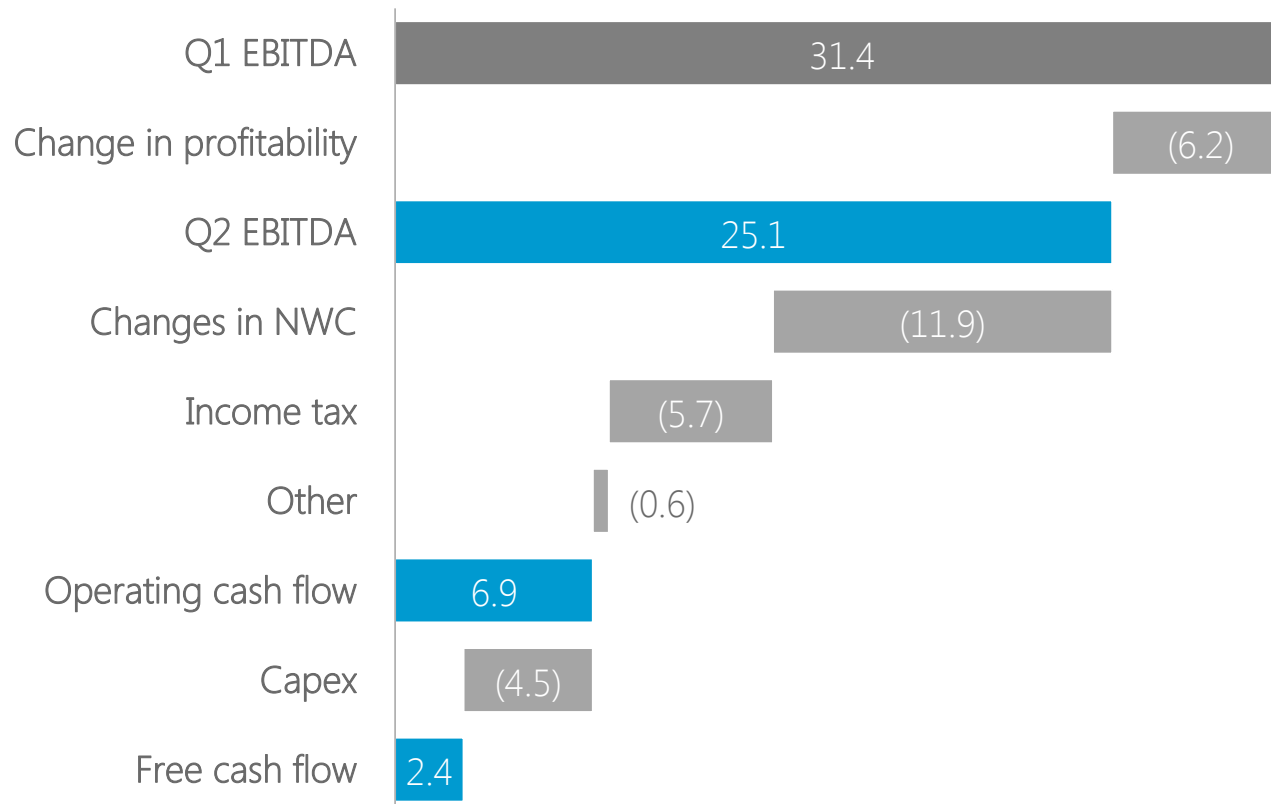
2. Mainly includes income from grants, operating lease obligation change, etc.

FREE CASH FLOW

- Q2 '19 FCF decreased to RUB 2.4 bn (vs. RUB 25.8 bn in Q1) mainly due to:
 - Profitability decline by 20% qoq (-39% yoy)
 - Working capital growth by RUB 11.9 bn or +15% qoq (+15% yoy) mainly due to:
 - (+) increase of diamond inventories by RUB 1.8 bn due to excess production volumes over sales volumes
 - (+) seasonal growth of ores and sands inventories by RUB 3.0 bn primarily on alluvial deposits
 - (+) seasonal growth of mining and construction materials by RUB 3.8 bn due to the beginning of the navigation period
 - (+) increase of trade and other receivables by RUB 2.9 bn
 - (+) increase of other taxes payable by RUB 0.4 bn

EBITDA to Free cash flow bridge

RUB bn

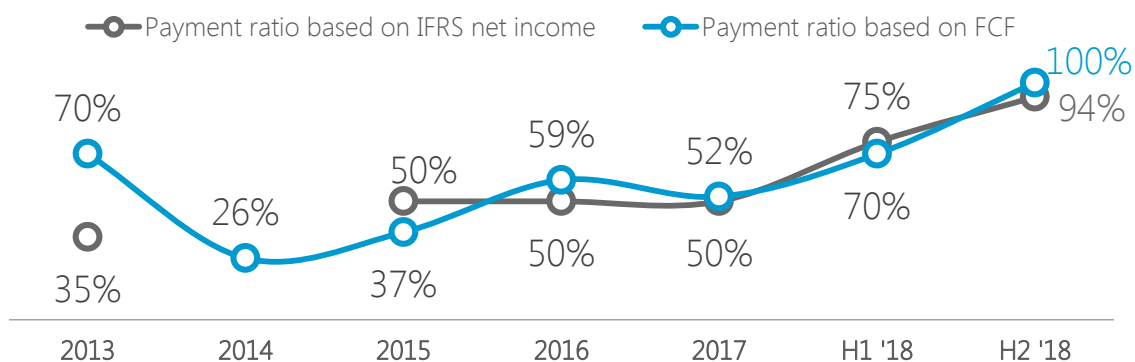


Source: Company data and analysis.

DIVIDENDS

- On 26 June the AGM approved H2'18 dividends - 100% of FCF (RUB 30.3 bn or RUB 4.11 per share)
- 26 Aug. - Board will discuss recommendation to the shareholders on H1'19 dividends
- ALROSA's dividend policy adopted in 2018: FCF-linked with the payout ratios depending on the level of Net debt/LTM EBITDA ratio

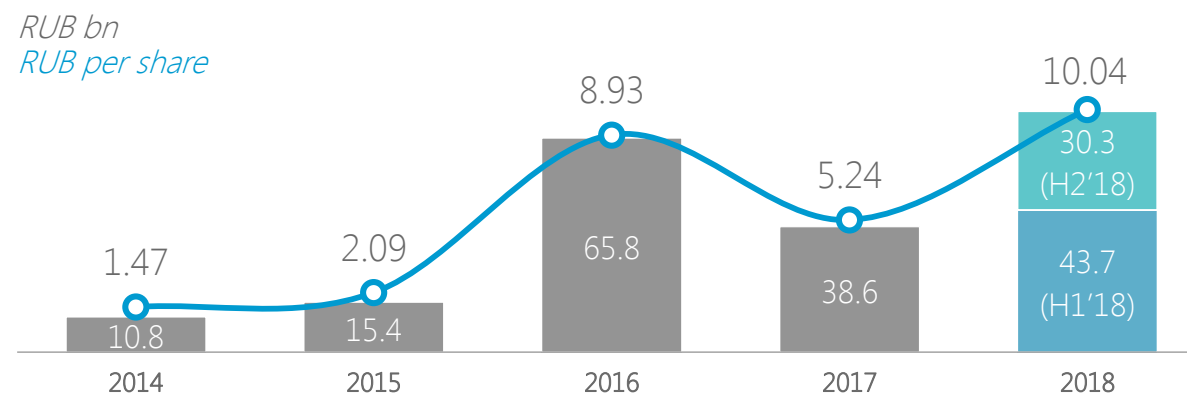
Dividend payout ratios



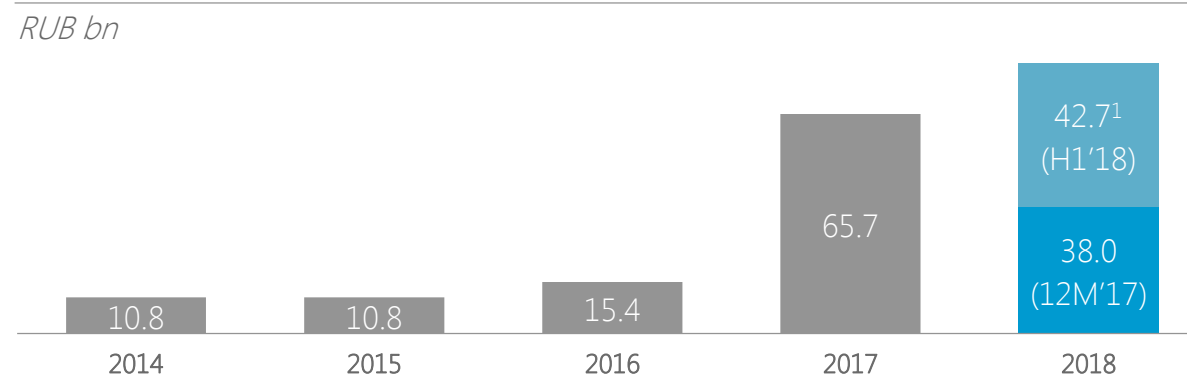
Source: Company data and analysis.

1. Dividends paid less than dividends accrued for RUB 1 bn due to exclusion of dividends for treasury shares.

Dividend accruals



Dividend payments



OUTLOOK

Market outlook

- Diamond jewelry sales in 2019, following a several consecutive years of growth, are expected to stabilize at around 2018 (all-time high as per industry records) levels
- Long term fundamentals for the jewelry demand growth remain strong in both Developed and Emerging markets
- In H2'2019 market will continue to gradually restore supply and demand balance – supply of rough diamonds was quickly adjusted, while polished stocks at mid-stream are expected to decrease as season approaches
- Mid-term view on global supply of rough diamonds suggests the market supply to become tighter as major players close their operations

Company performance

- 2019 capex outlook revised down from RUB 28 bn to RUB 23 bn with no effect on operational performance
- 2019 production outlook is expected to slightly exceed our previous guidance of 38 m cts to ~38.5 m cts driven by efficiency gains
- 2019 sales are expected to come lower than planned to 32-33 m ct due to market conditions. ALROSA's price over volume strategy offers more flexibility and accuracy when it comes to defining sales, hence holding back pressure on the market.

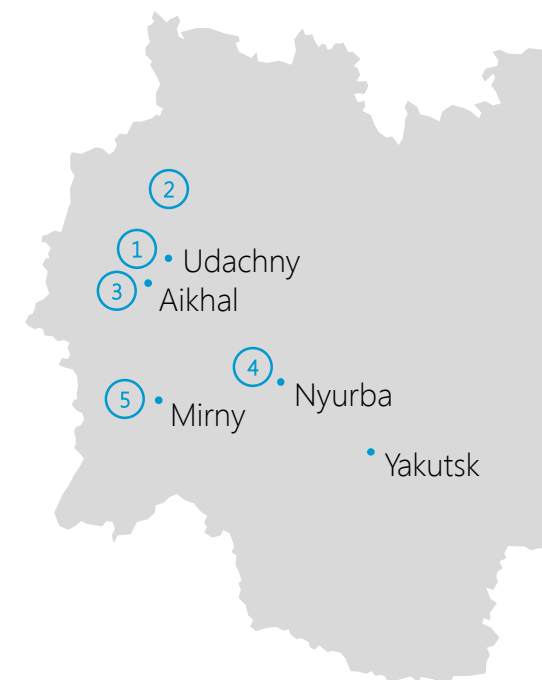
Source: Company data and analysis.



APPENDIX

KEY INVESTMENTS PROJECTS

	① Udachny UG mine	② VM ¹ deposit	③ Zaria pipe	④ Maiskaya pipe	⑤ VG ² deposit
Type of mining	Underground	Open-pit	Open-pit	Open-pit	Alluvials
Production start	2014	2018	2020	2025	2022
Ramp-up	2021	2020	2021	2027	2022
Target ore output pa, m t	4.0	3.0	1.2	0.3	1.1
Target production pa, m ct	5.6	1.8	0.4	1.2	0.4
Total CAPEX, RUB bn	63.9	22.3	8.4	5.6	2.3
<i>Invested share</i>	<i>86%</i>	<i>80%</i>	<i>88%</i>	<i>2%</i>	<i>0%</i>
Resource base ³ , m ct	207.6	40.4	7.1	12.7	4.7



Source: Company data

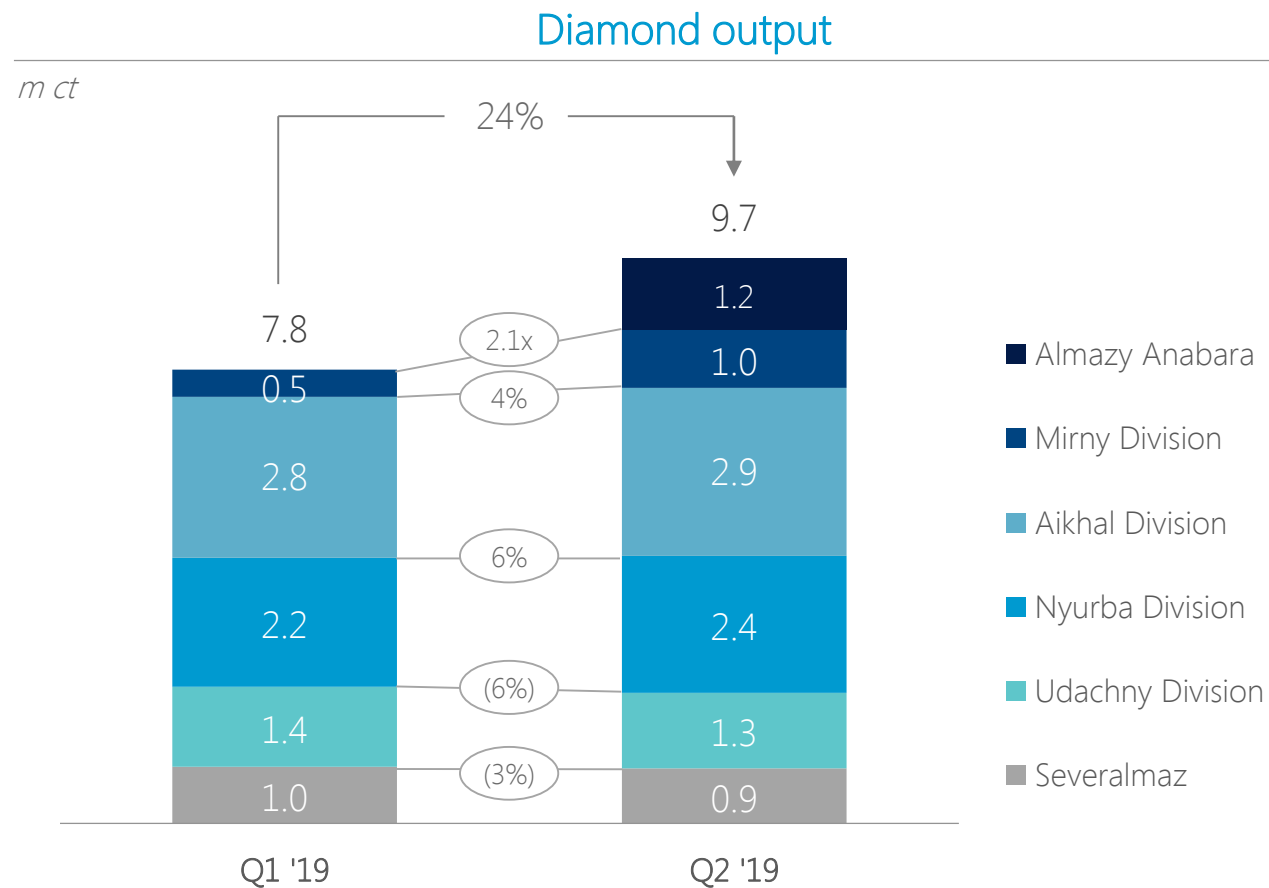
1. Verkhne-Munskoye deposit

2. Vodorazdelnye Galechniki deposit

3. Diamond mineral resources in accordance with the JORC Code as at 1 July 2018

DIAMOND PRODUCTION BY ASSETS

- Key drivers of diamond production increase in Q2 '19 (+24% qoq) mainly due to seasonal return to production at alluvial deposits
- Drivers affecting Q2 '19 performance:
 - Almazy Anabara - seasonal return to production
 - Mirny Division – output was up 2.1 times due to a 2.2 times increase in ore processing at the International pipe, as in Q1 2019 ore was processed in February only due to complications caused by gas-dynamic phenomena

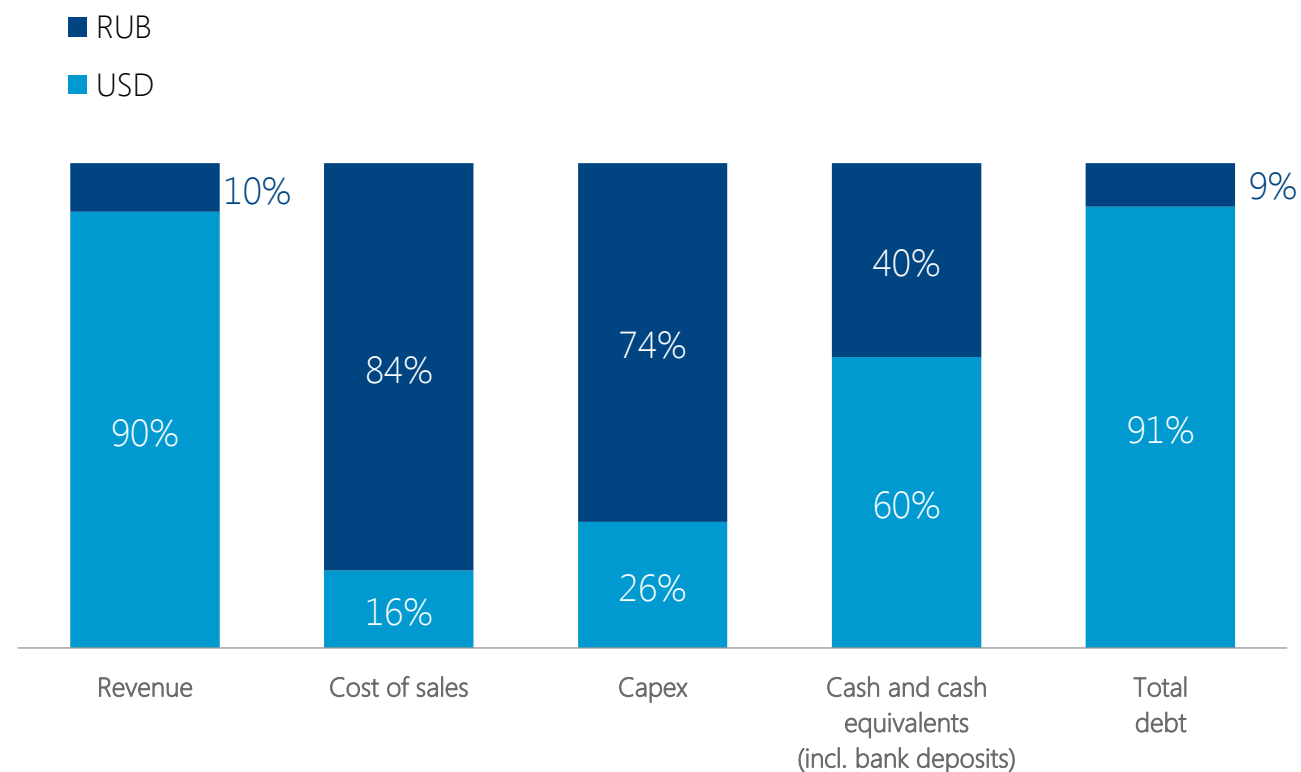


FX RATE

- ALROSA is an exporter with 94% of revenue denominated in USD
- Major portion (74%) of costs and capex is denominated in RUB 95% of the Company's debt portfolio is denominated in USD to create a natural hedge against FX risks
- ALROSA's financial sensitivity analysis shows that a change in the USD exchange rate by +/- 1 RUB/USD leads to the following change in metrics:
 - revenue – +/-1.40%
 - cost of sales – +/-0.24%
 - EBITDA – +/-2.92%
 - capex – +/-0.40%

Financial metrics breakdown by currency

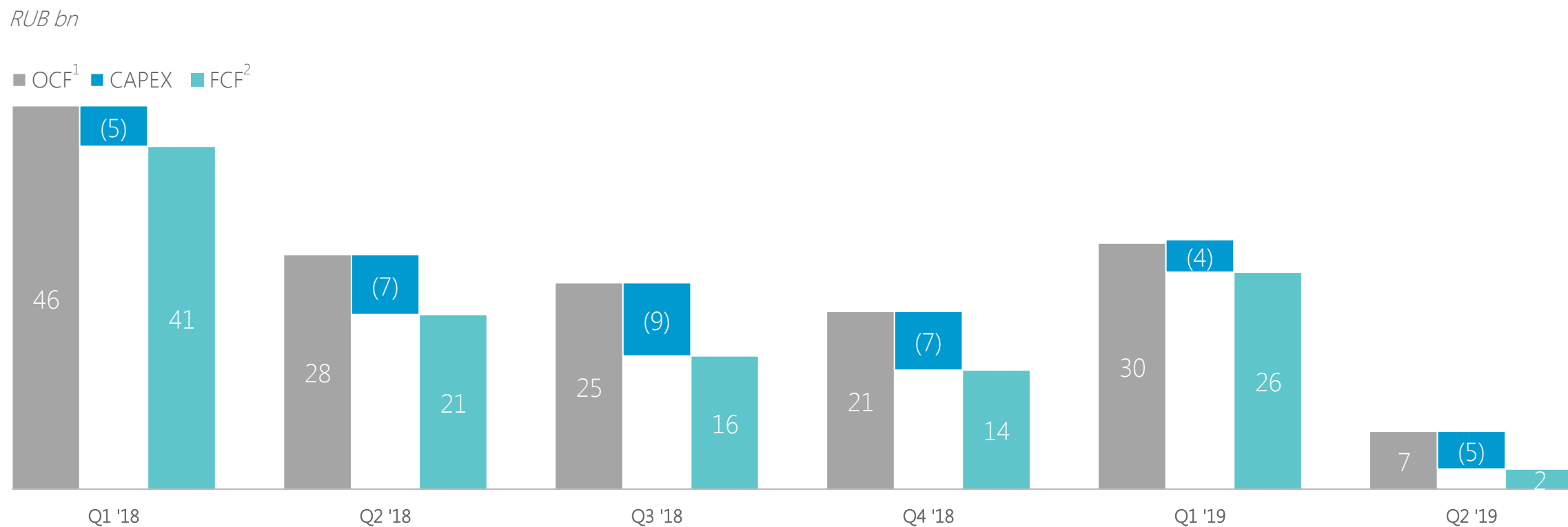
% of metric's total



Source: Company data and analysis.

OPERATING CASH FLOW AND CAPEX

Operating cash flow and capex dynamics



Source: Company data and analysis.

1. OCF – operating cash flow

2. FCF – free cash flow is defined as OCF net of capex in the core business

THANK YOU!

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