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# ALROSA

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## Q3&9M 2019 IFRS RESULTS

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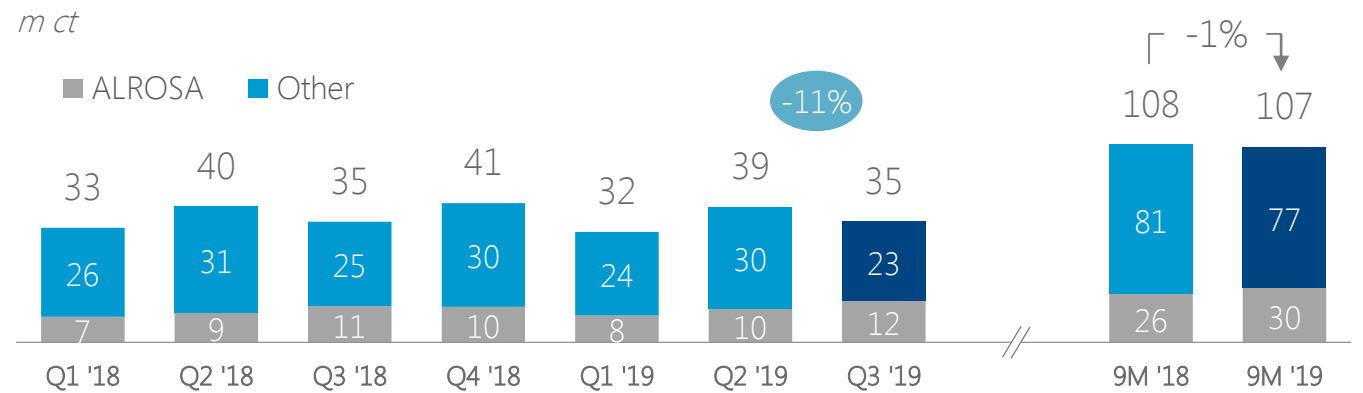
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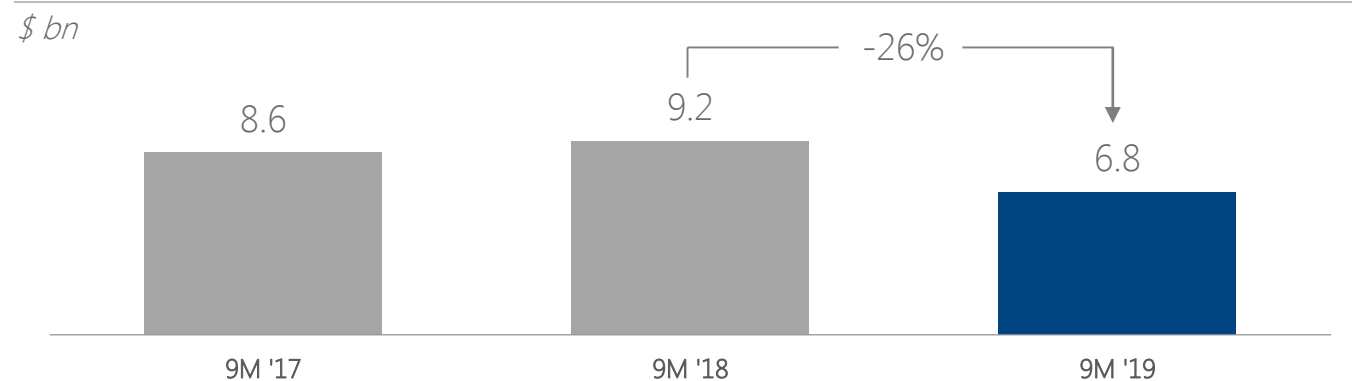
# DIAMOND MARKET OVERVIEW

- 9M '19 global output down 1% yoy, driven by DeBeers and Rio Tinto
- Stocks of polished diamonds at mid-stream began to decline as supply of rough decreased faster than demand for polished
- 9M '19 industry-wide diamond sales were -26% yoy as mid-stream and retail was actively destocking

## Decrease in global diamond output<sup>1</sup>



## 9M'19 miners<sup>2</sup> diamond sales were 26% down



Source: Company data and analysis.

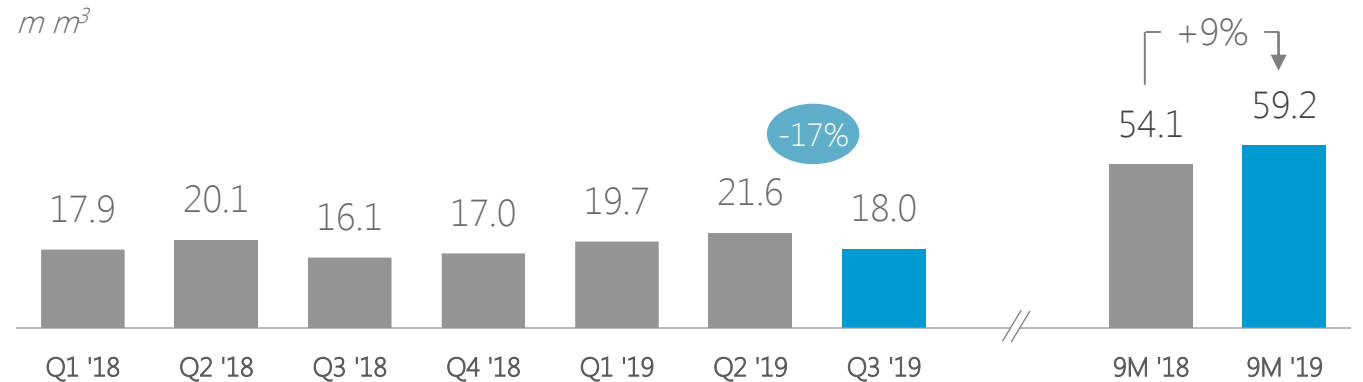
1. Data based on results of ALROSA and other diamond producers with a market share totalling c. 75% in 9M 2019

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

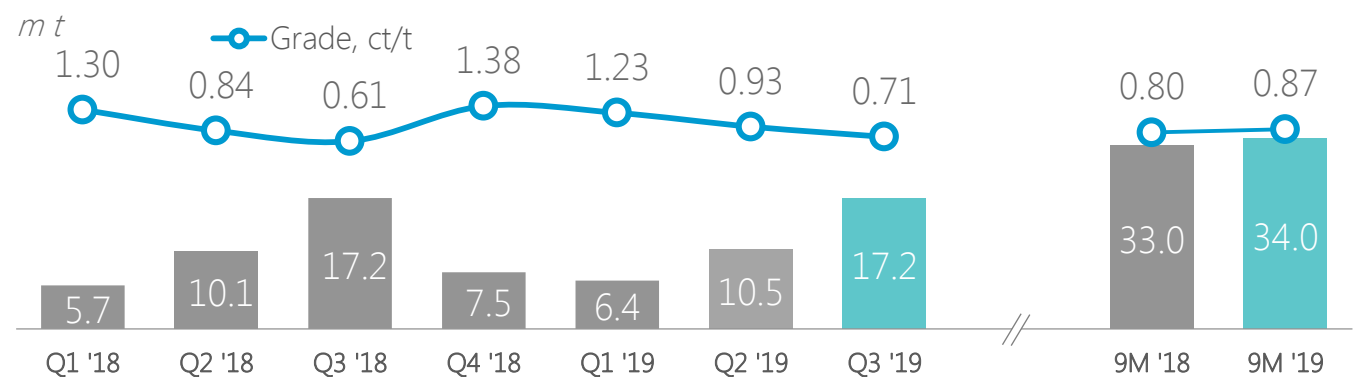
# ALROSA PRODUCTION (1/2)

- Q3'19 ROM<sup>1</sup> ore seasonally down by 17% qoq; +12% yoy was due to the launch of production at the V.Munskoye deposit and implementation of design solutions at the Arkhangelskaya pipe (Severalmaz) (cutback for pit deepening).
- 9M'19 ROM ore was 9% yoy up to 59.2 m m<sup>3</sup>, mostly due to V.Munskoye deposit launch (Oct'18)
- Q3'19 processed feedstock seasonally grew by 64% qoq (unchanged yoy).
- Ore and gravels processing in 9M '19 increased 3% yoy to 34.0 mt on ramp-up of production at V.Munskoye deposit and increased productivity at Nyurba Division and Udachny's processing plants.
- Q3 '19 average grade was 16% up yoy on better grades at Botuobinskaya pipe. A qoq decrease of 24% was due to seasonality.

Q3 run-of-mine ore was up by 12% yoy



Ore and sands processing goes up 64% qoq



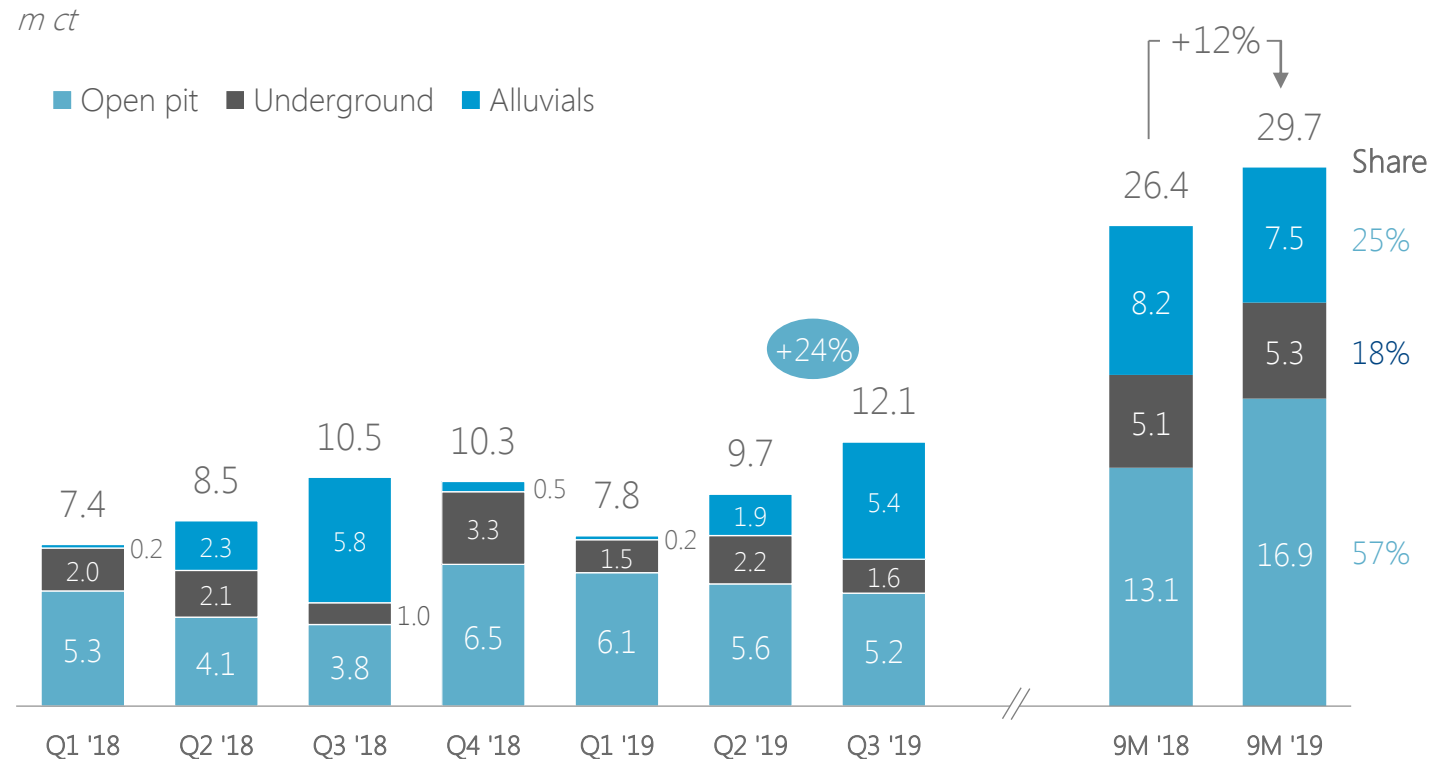
Source: Company data and analysis.

1. ROM – run of mine

# ALROSA PRODUCTION (2/2)

- Q3 '19 diamond output grew 24% qoq to 12.1 m cts, mostly due to seasonal activity at alluvial deposits.
- Q3 '19 output was up 15% yoy driven by:
  - launch of production at the V.Munskoye deposit
  - increase in higher-grade ore processing at the Botuobinskaya pipe (Nyurba Division)
- 9M '19 diamond output grew 12% yoy driven by:
  - +3.4 m cts - increase in ore processing at the Botuobinskaya pipe and productivity gains
  - +1.2 m cts - launch of production at V.Munskoye deposit
  - +0.7 m cts – growth from the Udachnaya underground mine as a result of a scheduled ramp-up to design capacity.

## Diamond production was up by 24% qoq



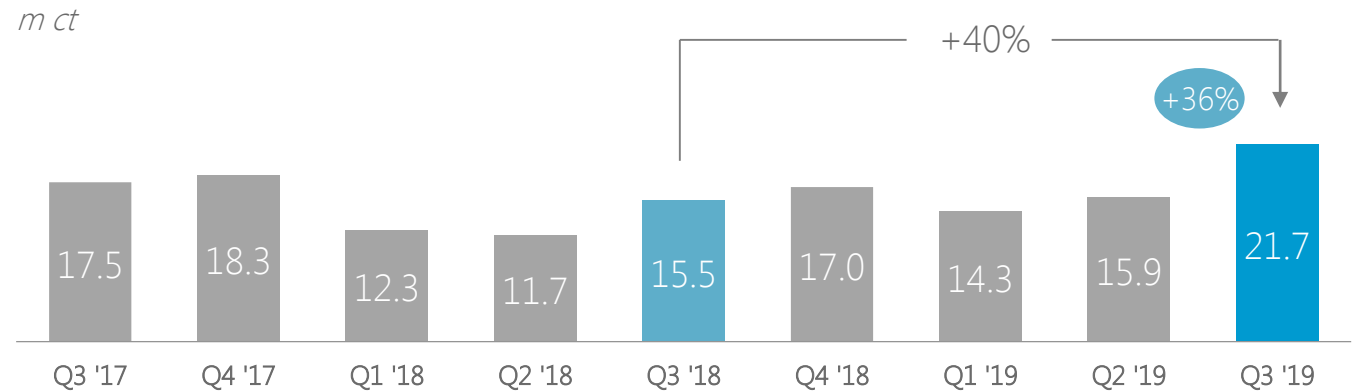
# INVENTORIES

- Q3 '19 diamond inventories grew by 5.7 m cts (+36% qoq) to 21.7 m cts as output was seasonally up (+24% qoq), while sales were down (-24% qoq) on lower demand
- 40% yoy growth in Q3 inventories (+6.2 m cts) driven by lower sales (-37% yoy) caused by softer demand, while output increased (+15% yoy) attributed to the launch of production at the V.Munskoye deposit in Q4 '18 and the growth of diamond production at the Botuobinskaya pipe on the back of both the increased higher-grade ore processing and the roll-out of the operational efficiency improvement programme.

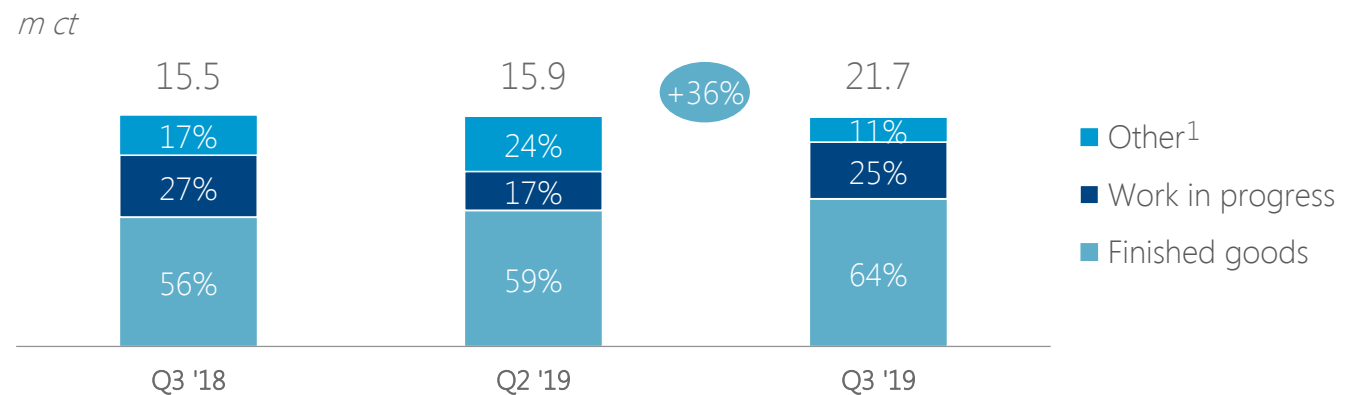
Source: Company data and analysis.

1. Diamond inventories at mining and processing divisions

## ALROSA's diamond inventories were up 36% qoq



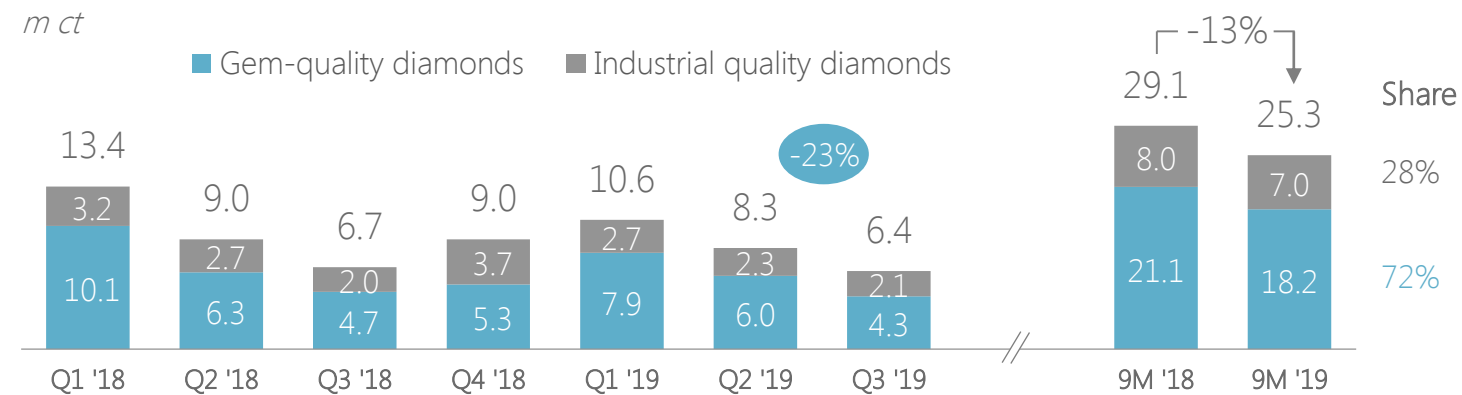
## ALROSA's diamond inventories structure



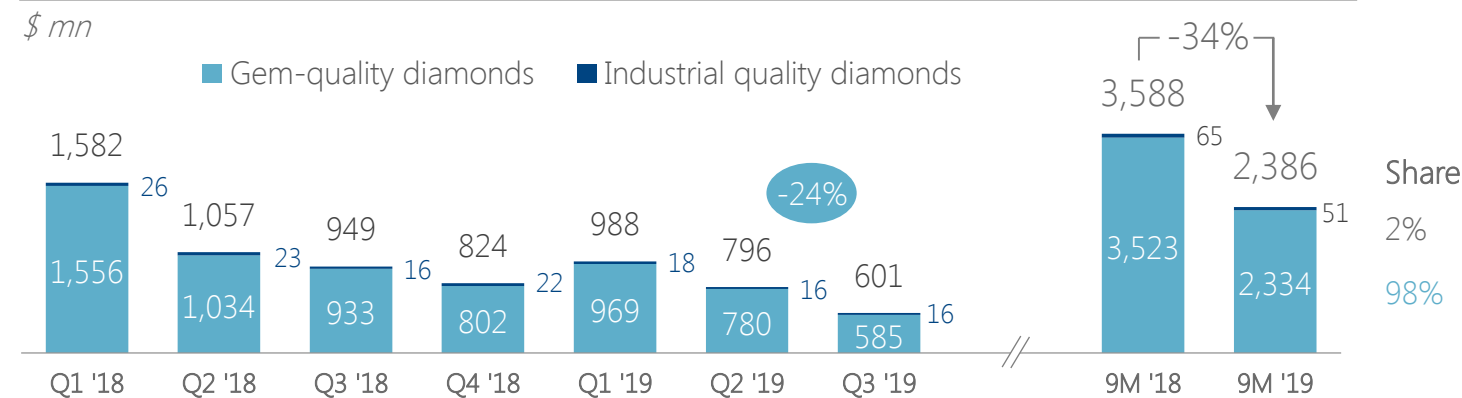
# ALROSA ROUGH DIAMOND SALES

- Q3 '19 sales down by 23% qoq (-5% yoy) to 6.4 m cts, as customers were destocking (qoq decline was also due to seasonally lower buying activity)
- Q3 '19 sales in USD decreased by 24% qoq (\$601 m) due to 23% qoq sales decline in carats partially offset by higher average realized price (see next slide)
- Q3 '19 sales declined 37% yoy on lower average realized price (incl. like-for-like impact) and lower sales volumes (-5%)
- 9M'19 sales in USD were \$2.4 bn on lower sales volumes (-13%) and prices (both due to mix and like-for-like factors)

## Q3 diamond sales went down by 23% qoq (-5% yoy)



## Q3 diamond sales by value were down by 24% qoq

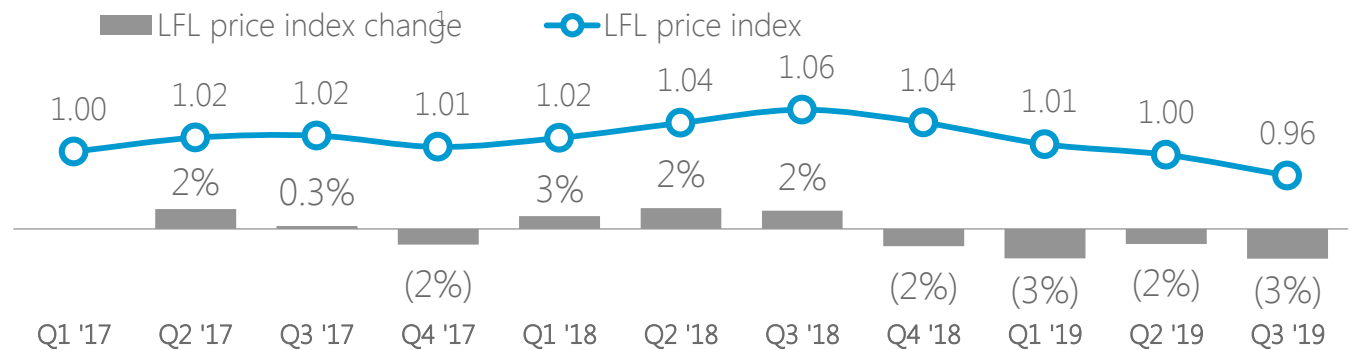


Source: Company data and analysis.

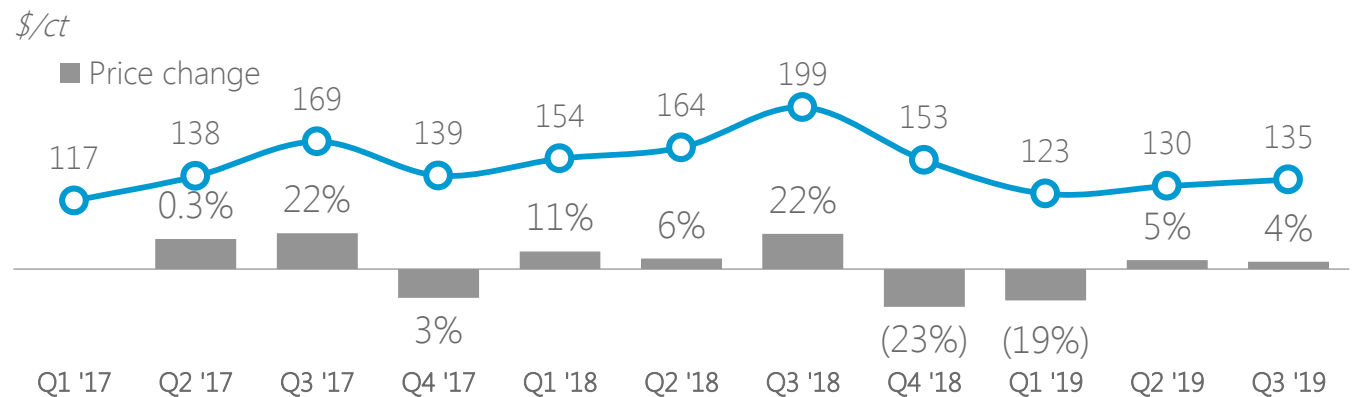
# PRICE DYNAMICS

- Q3'19 like-for-like price index (LFL PI) was -3.1% qoq,
- 9M LFL PI was down ~7.5% due to lower demand from mid-stream and limited access to affordable financing for mid-stream in India
- Q3'19 average realized prices (ARP) for gem-quality diamonds rose 5% qoq to \$135/ct due to a lower share of small-size diamonds
- Q3'19 ARP for GEMs was 32% yoy down due to:
  - LFL PI decrease of 9.2% yoy (9M'19: -7.5%)
  - Mix effect as in Q3'19 share of small-size stones in sales dropped from 83% to 76%

## Price index for gem-quality diamonds was down by 3% qoq



## Average realized price<sup>2</sup> 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 realized prices (sales revenue divided by sales volumes in carat terms) are also impacted by changes in the product mix throughout the reported period.

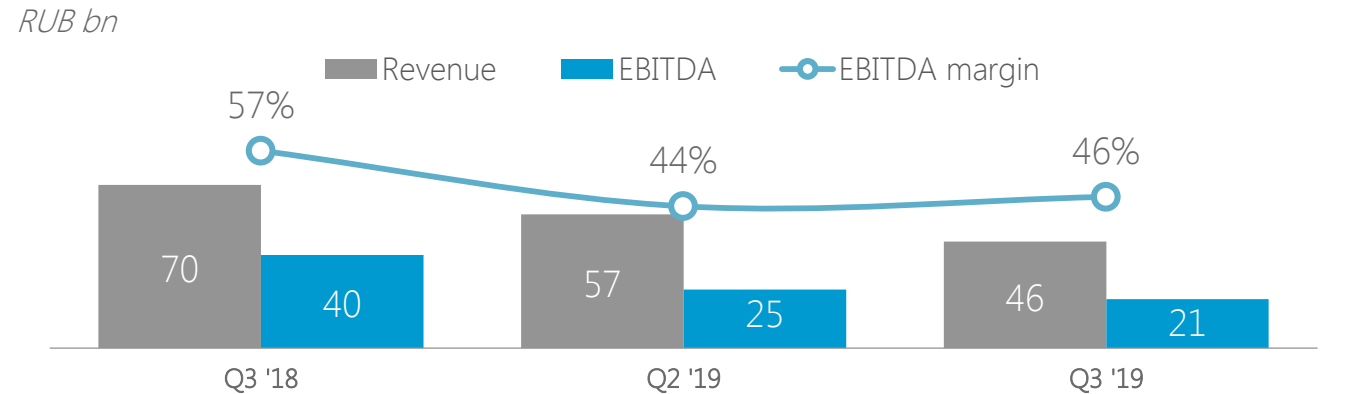


# FINANCIAL HIGHLIGHTS

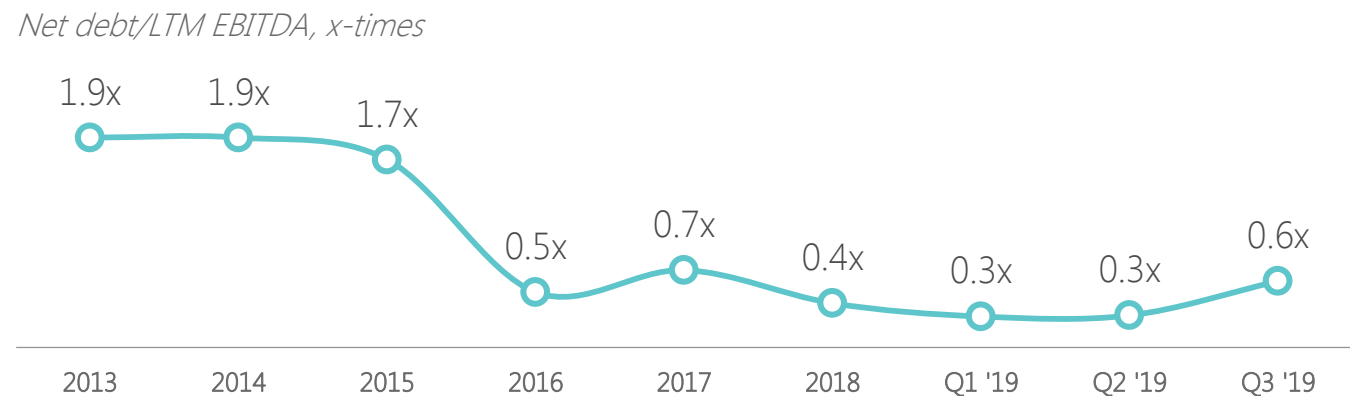
- Q3 '19 revenue came at RUB 46 bn (-20% qoq) due to a 23% decline in diamond sales in carats. 35% yoy decrease due to decrease in both sales volumes and like-for-like prices.
- Q3 '19 EBITDA was RUB 21 bn (-16% qoq and -47% yoy) largely due to top line decrease.
- Q3 '19 EBITDA margin was up to 46% (+2 p.p. qoq, -11% p.p. yoy)
- Q3 '19 net income was up by 1% qoq to RUB 14 bn (-56% yoy)
- Q3 '19 FCF amounted to RUB 2.5 bn
- Net debt / LTM EBITDA was up to 0.6x

Source: Company data and analysis

## Q3 EBITDA margin amounted to 46%



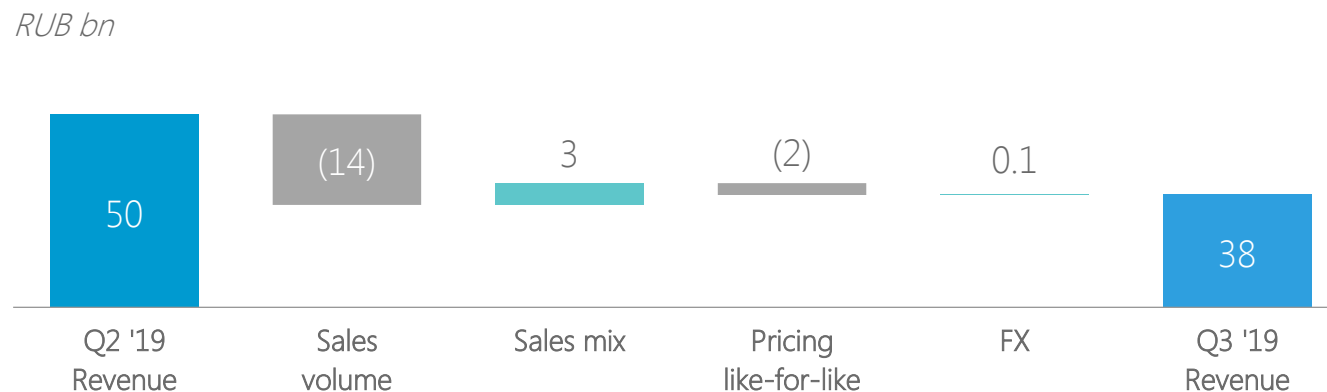
## Leverage remains low



# GEM-QUALITY DIAMONDS REVENUE DRIVERS

- Q3 '19 gem-diamond sales were down by 25% qoq to RUB 38 bn driven by:
  - (-) 28% decrease in sales volumes (in carats)
  - (+) normalized product mix
  - (-) softer like-for-like prices (av. index change – -3.1%)
  - (+) positive FX rate impact as RUB weakened
- 39% yoy decrease driven by:
  - (-) 8% reduction in sales volumes (in carats)
  - (-) weaker product mix
  - (-) softer like-for-like prices (av. index change – -9.2%)
  - (-) FX rate impact on stronger RUB

## Q3 gem-quality rough diamond revenue bridge (qoq)



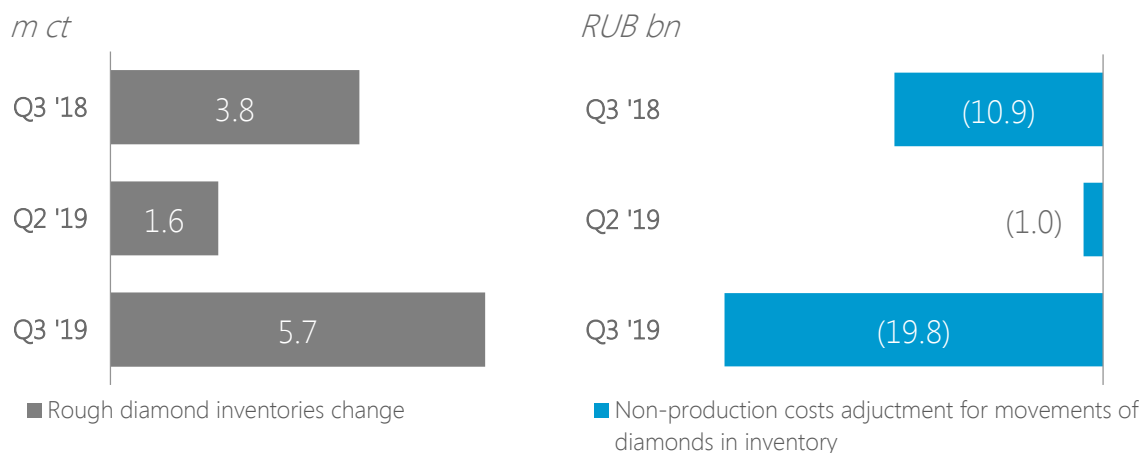
## Q3 gem-quality rough diamond revenue bridge (yoy)



# COSTS DYNAMICS AND BREAKDOWN

- Q3 '19 total costs were down by 23% qoq to RUB 24.7 bn mostly due to decrease of sales in carats by 23%
- Q3 '19 total costs were down by 18% yoy mostly due to decrease of sales in carats by 5%

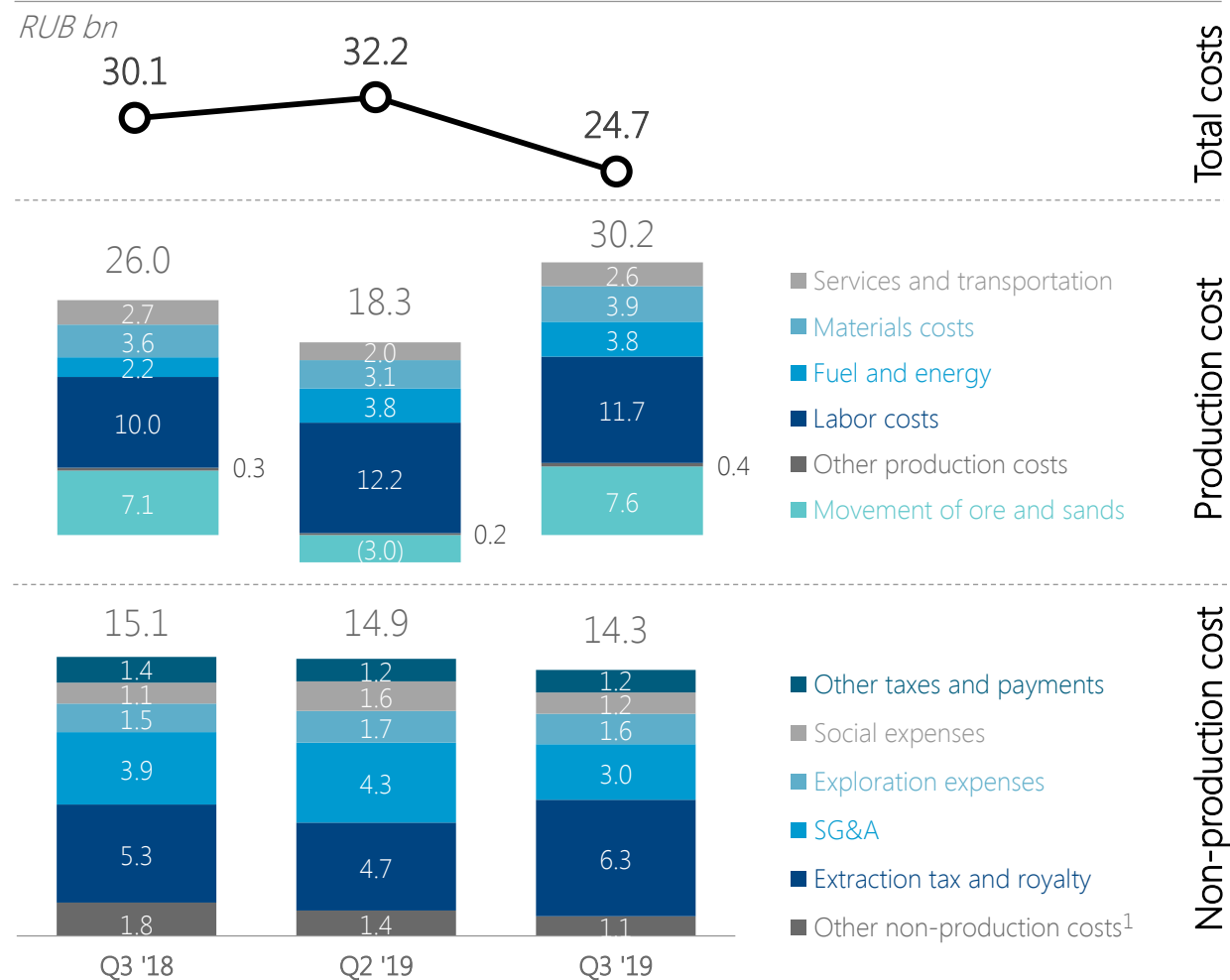
## Non-production cost adjustment for diamonds stocks change



Source: Company data and analysis.

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

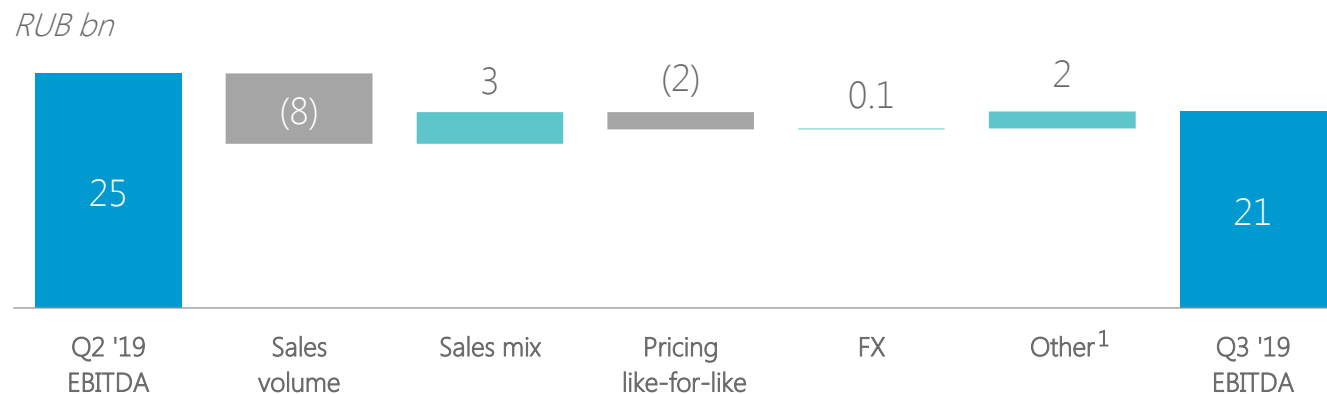
## Total costs down by 23% qoq



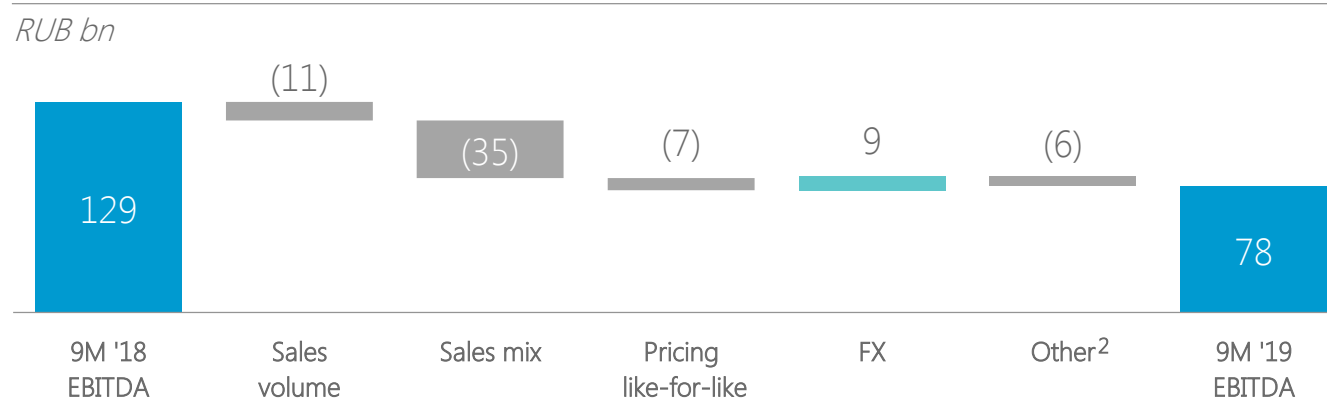
# PROFITABILITY ANALYSIS

- Q3 '19 EBITDA was down by 16% qoq driven by:
  - (-) 23% decrease in volumes: net impact -RUB 8 bn (revenue decline: -RUB 14 bn, COGS reduction: +RUB 6 bn)
  - (+) sales mix +RUB 3 bn
  - (-) like-for-like prices: -RUB 2 bn
  - (+) FX rate: +RUB 0.1 bn
  - (+) other factors: net impact +RUB 2 bn
- 9M '19 EBITDA was down by 40% yoy driven by:
  - (-) 13% reduction in carat sales: net impact -RUB 11 bn (revenue decline: -RUB 32 bn, COGS reduction: +RUB 20 bn)
  - (-) sales mix: -RUB 35 bn
  - (-) like-for-like prices: -RUB 7 bn
  - (+) FX rate: +RUB 9 bn
  - (+) other factors: net impact -RUB 6 bn

## Q3 EBITDA – key drivers (qoq)



## 9M EBITDA – key drivers (yoy)



Source: Company data and analysis.

1. Mainly includes G&A expenses decrease due to reduction of wages, salaries and other staff costs

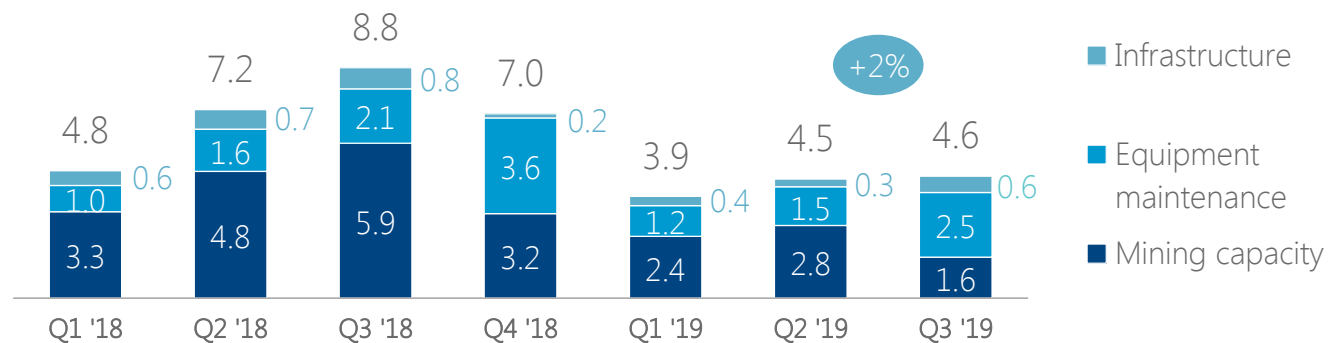
2. Mainly includes impact of inflation (-RUB 3,7 bn)

# CAPEX

- Q3'19 capex was up by 2% qoq to RUB 4.6 bn
- -47% yoy (down by RUB 4.1 bn) mainly due to lower capex in V.Munskoye deposit by 92% yoy (down by RUB 4.0 bn)
- 2019 capex outlook was reduced to RUB 23.0 bn

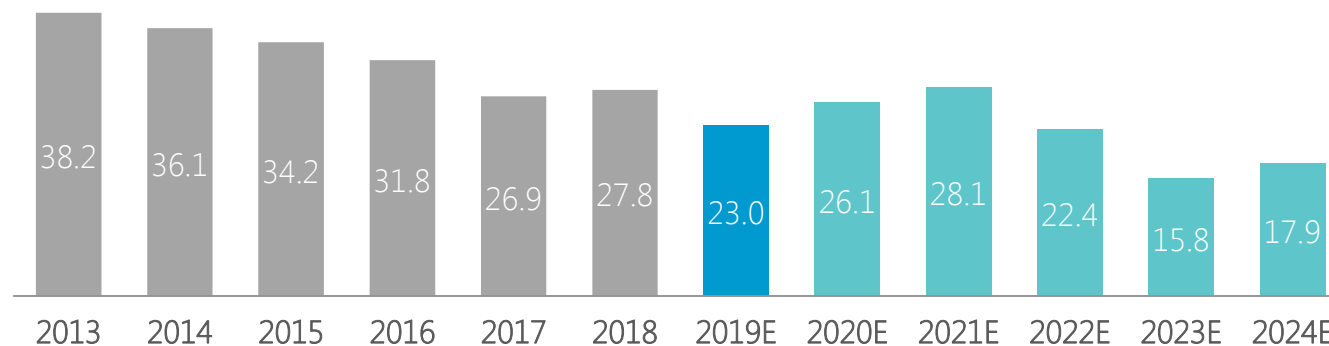
## Q3 capex remains flat qoq

RUB bn



## Annual capex dynamics

RUB bn



Source: Company data and analysis.

# DEBT POSITION

- Total debt in Q3 increased by 15% qoq or by \$0.2 bn to **\$1.6 bn**
- Q3 '19 liquidity down by 24% qoq to **\$0.7 bn** due to cash payment of H2'18 dividends of **\$0.5 bn**<sup>4</sup>
- Net debt up by \$0.4 bn to **\$978 m** (+74% qoq)
- Net debt/LTM EBITDA up to **0.6x** on lower LTM EBITDA and Net debt growth
- In Q3 '19 a 2Y \$200 m bank loan raised

## Weighted average debt maturity decreased



Source: Company data and analysis.

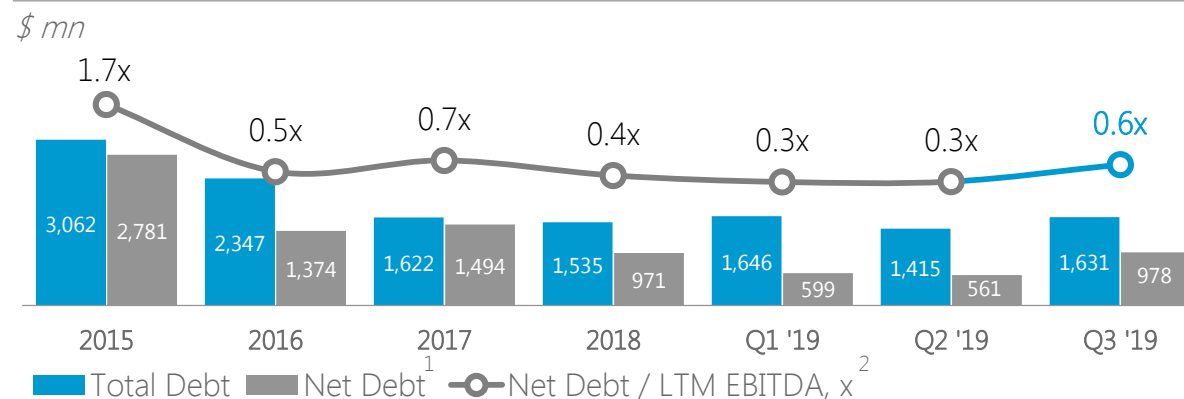
1. Including operating lease obligation (RUB 5.0 bn) starting from 2019Y

2. Based on EBITDA and Net Debt denominated in rubles

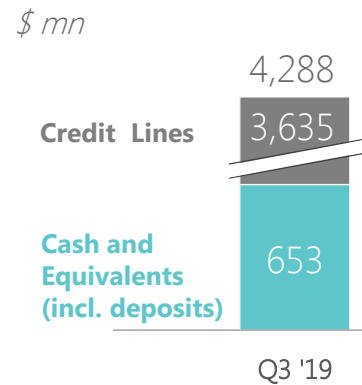
3. Excluding operating lease obligation (RUB 5.0 bn) and amortization of discount

4. Or RUB 29.8 bn based on USD/RUB FX rate of 62.5 RUB/USD

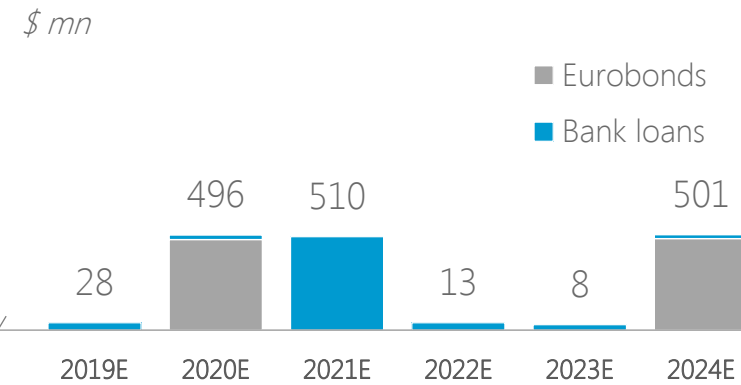
## Sound financial profile



## Liquidity position



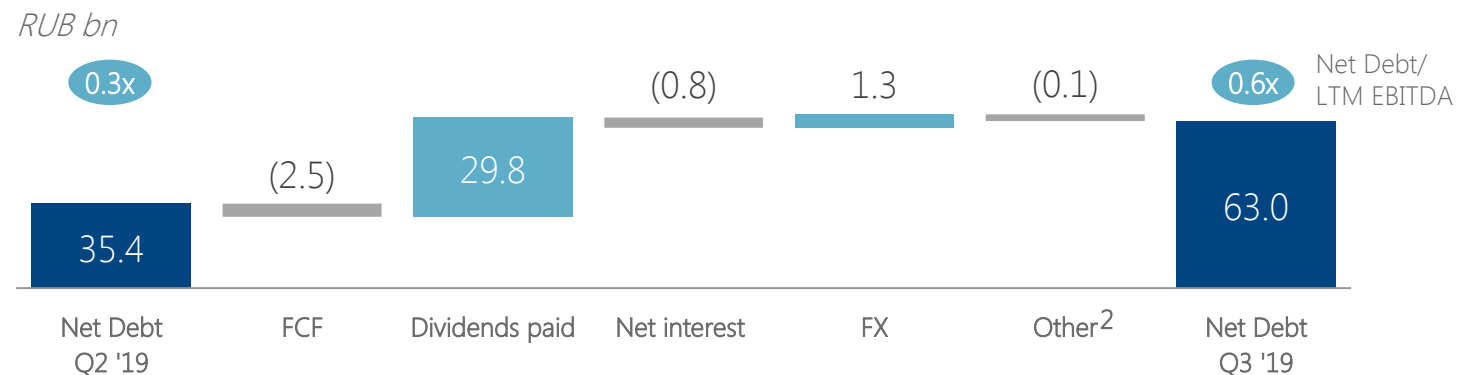
## Debt<sup>3</sup> repayment schedule



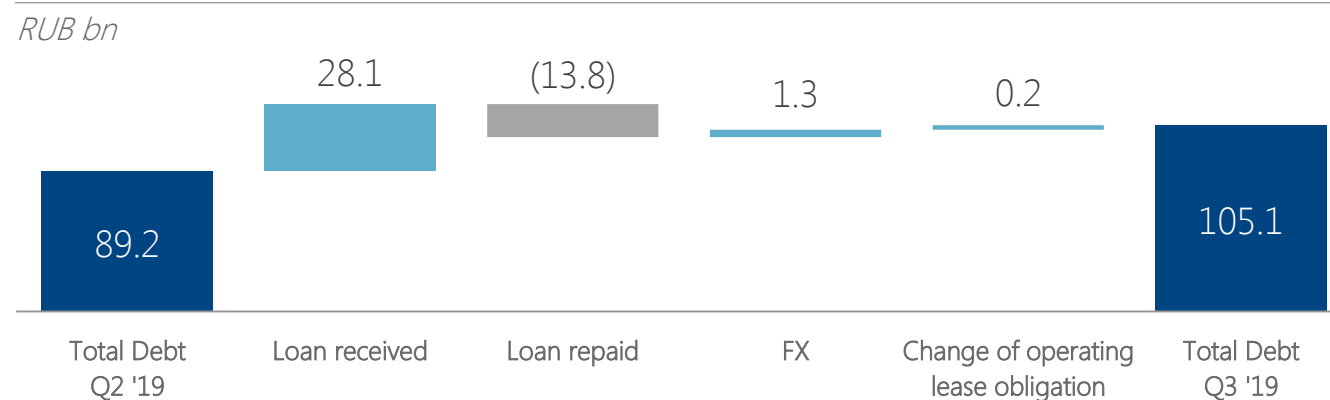
# DEBT ANALYSIS

- In Q3 '19 net debt in RUB was down by 74% qoq to RUB 63.0 bn due to:
  - (-) free cash flow (-RUB 2.5 bn)
  - (+) dividends paid (+RUB 29.8 bn)
  - (-) net interest expense (-RUB 0.8 bn)
  - (+) FX rate (+RUB 1.3 bn)
  - (-) other factors (-RUB 0.1 bn)
- In Q3 '19 total debt in RUB increased by 18% qoq to RUB 105.1 bn due to:
  - (+) 2Y \$200 m bank loan and bank overdraft of RUB 14.8 bn received
  - (-) bank overdraft of RUB 13.8 bn repaid
  - (+) FX rate (+RUB 1.3 bn)
  - (+) change of operating lease obligation

## Q3 Net Debt<sup>1</sup> bridge



## Q2 Total Debt<sup>1</sup> bridge



Source: Company data and analysis.

1. Including finance lease liabilities

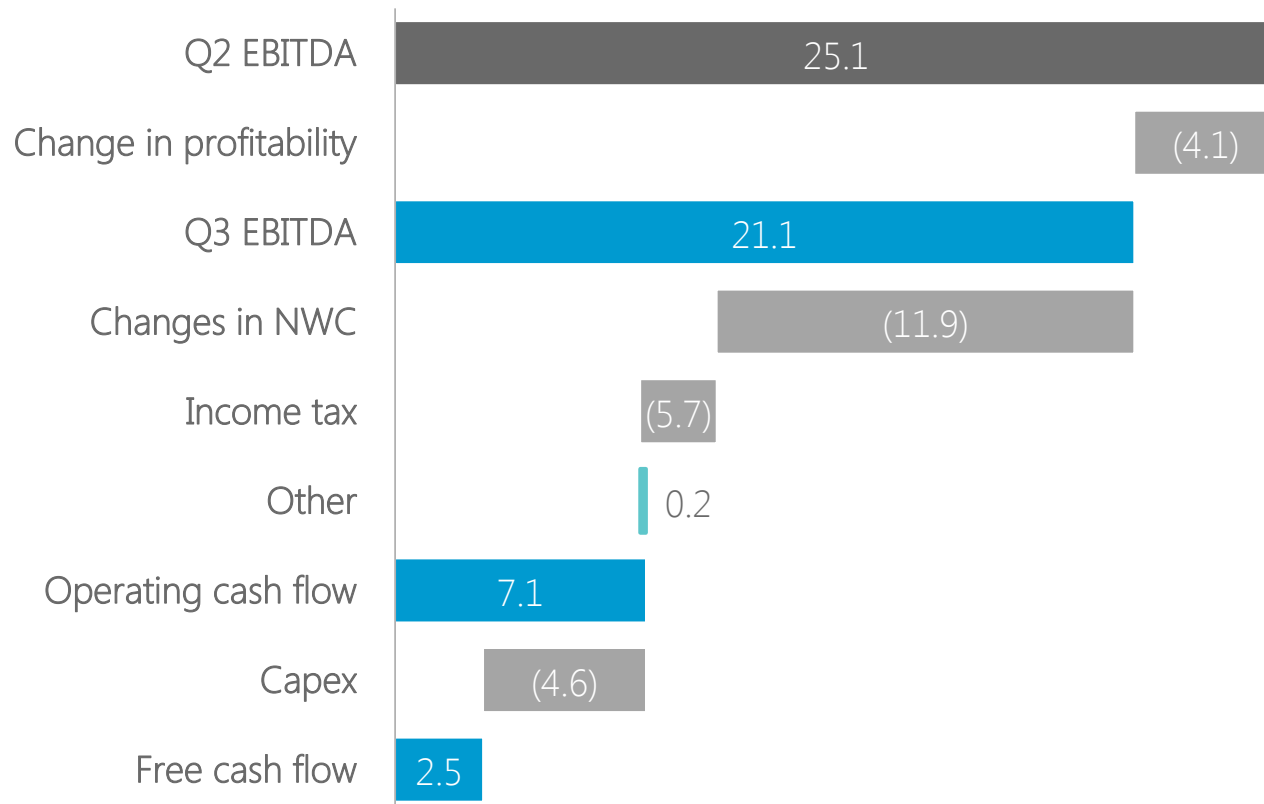
2. Mainly includes income from grants, operating lease obligation change, etc.

# FREE CASH FLOW

- Q3 '19 FCF increased to RUB 2.5 bn (vs. RUB 2.4 bn in Q2) mainly due to:
  - Profitability decline by 16% qoq (-47% yoy)
  - Working capital growth by RUB 11.9 bn or +13% qoq (+21% yoy) mainly due to:
    - (+) increase of diamond inventories by RUB 19.2 bn due to excess production over sales volumes
    - (-) seasonal decrease of ores and sands inventories by RUB 7.6 bn primarily on alluvial deposits
    - (+) seasonal growth of mining and construction materials by RUB 4.4 bn due to the navigation period
    - (-) decrease of trade and other receivables by RUB 4.0 bn due to lower domestic diamond sales and seasonal decrease of other receivables

## EBITDA to Free cash flow bridge

RUB bn



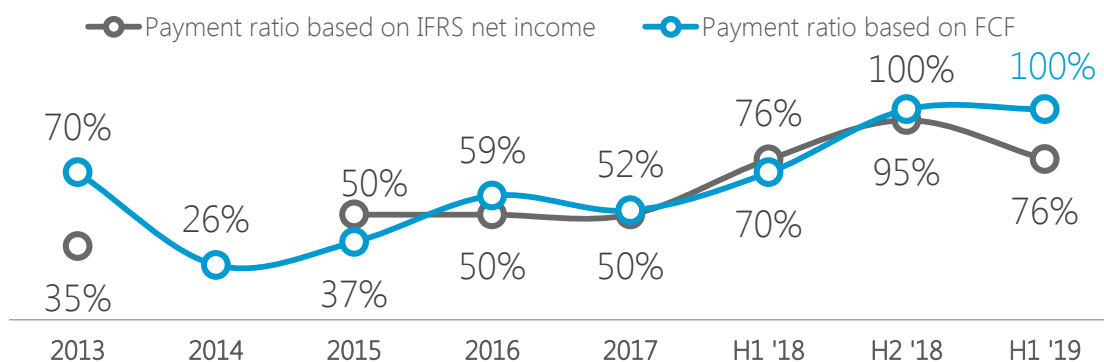
Source: Company data and analysis.



# DIVIDENDS

- On 26 June the AGM approved H2'18 dividends - 100% of FCF (RUB 30.3 bn or RUB 4.11 per share)
- On 30 September the EGM approved H1'19 dividends - 100% of FCF (RUB 28.3 bn or RUB 3.84 per share)
- ALROSA's dividend policy adopted in 2018: FCF-linked with the payout ratios depending on the level of Net debt/LTM EBITDA ratio

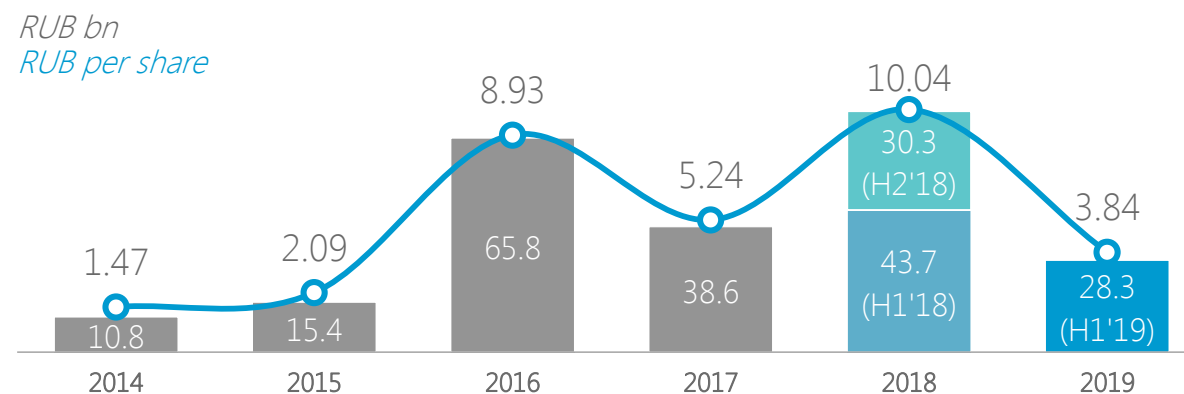
## Dividend payout ratios



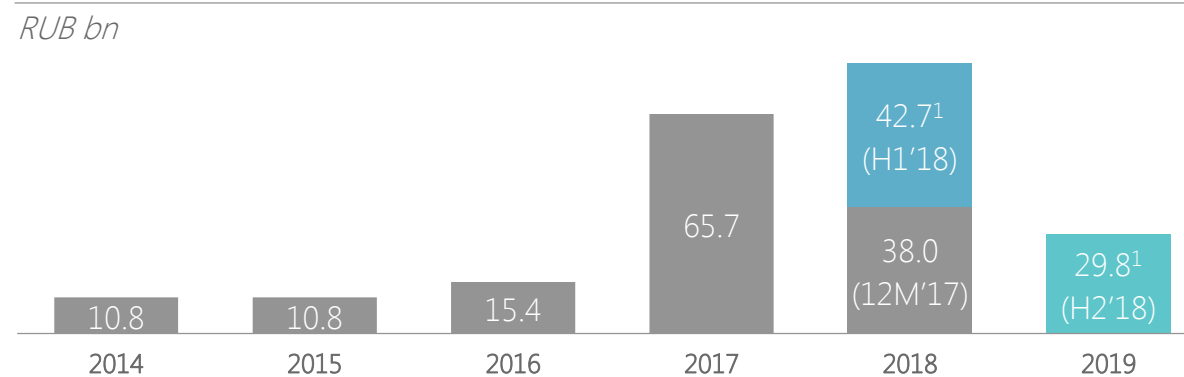
Source: Company data and analysis.

1. Dividends paid less than dividends accrued 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 2017 levels (down from all-time record high of 2018)
- Market started to gradually restore supply and demand balance in H2'19 – supply of rough diamonds was quickly adjusted, while polished stocks at mid-stream are expected to decrease as season approaches
- Long-term fundamentals for the jewelry demand growth remain strong in both Developed and Emerging markets

## Company performance

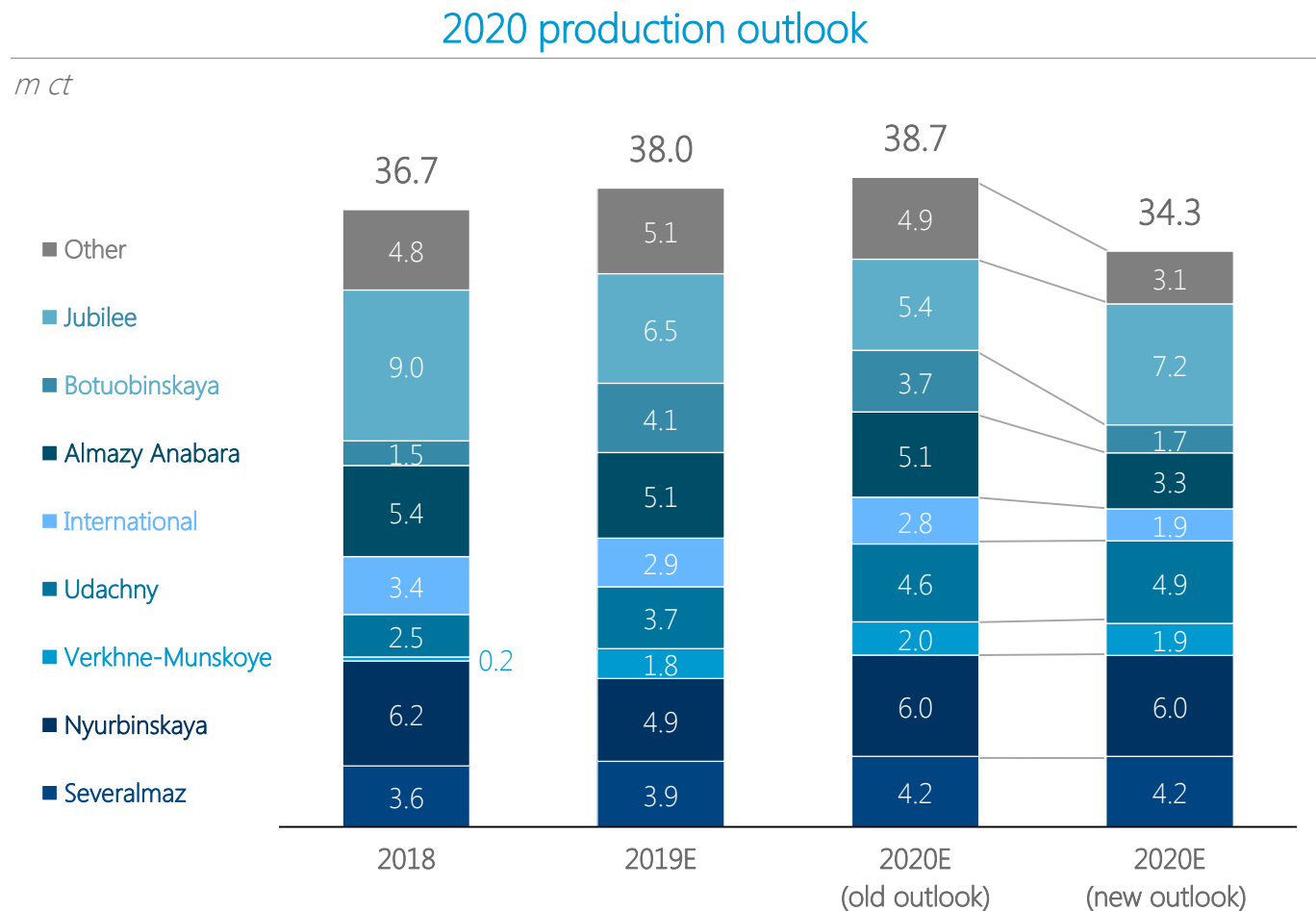
- 2019 capex outlook revised down from RUB 28 to 23 bn with no effect on operational performance
- 2019 production outlook is expected to slightly exceed our previous guidance of 38 to ~38.5 m ct driven by efficiency gains
- 2020 production outlook is expected to decrease to 34.3 m ct (see p. 20)
- 2019 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



# APPENDIX

# UPDATED 2020 PRODUCTION OUTLOOK

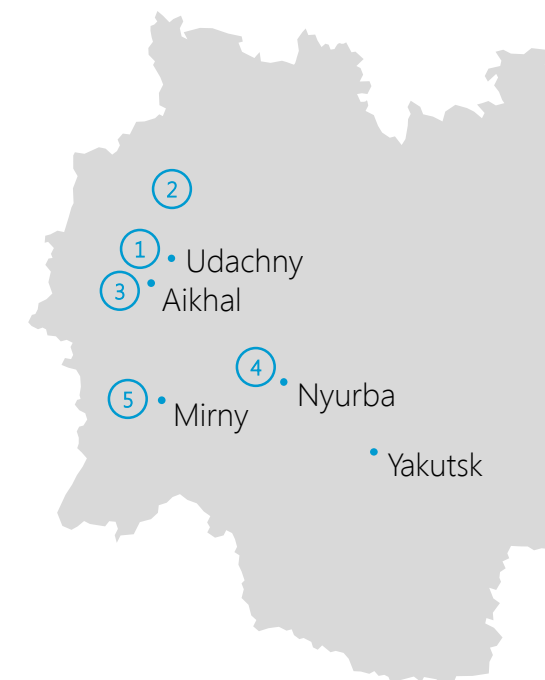
- 2020 diamond production outlook was decreased by 11% (-4.4 m ct) to 34.3 m ct mostly due to:
  - processing of kimberlites with a lower grade at the Botuobinskaya pipe
  - conservation of several alluvial deposits at Almazy Anabara and reduction of sands processing on the other deposits of this asset, as well as reduction of ore processing at the Aikhal underground mine on the back of cost control
  - challenging mining and geological conditions at the International underground mine



Source: Company data and analysis.

# KEY INVESTMENTS PROJECTS

	① Udachny UG mine	② VM <sup>1</sup> deposit	③ Zaria pipe	④ Maiskaya pipe	⑤ VG <sup>2</sup> deposit
Type of mining	Underground	Open-pit	Open-pit	Open-pit	Alluvials
Production start	2014	2018	2020	2025	2024
Ramp-up	2021	2020	2021	2027	2025
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>82%</i>	<i>94%</i>	<i>4%</i>	<i>0%</i>
Resource base <sup>3</sup> , m ct	207.6	40.4	7.1	12.7	4.7



Source: Company data

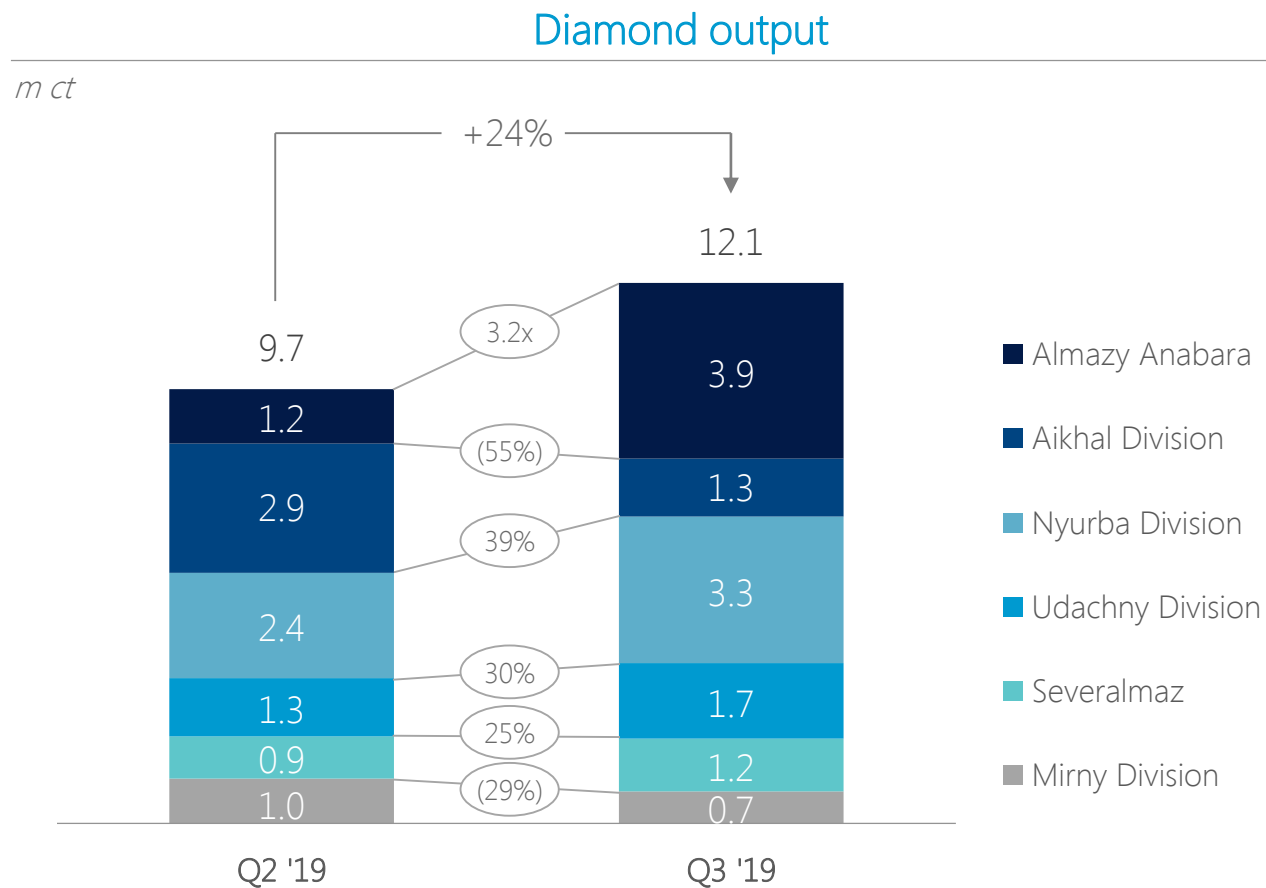
1. Verkhne-Munskoye deposit

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 Q3 '19 (+24% qoq) mainly due to seasonal return to production at alluvial deposits
- Drivers affecting Q3 '19 performance:
  - Almazy Anabara - seasonal return to production
  - Nyurba Division – output was up by 39% due to higher share of high-grade Botuobinskaya ore treated at processing plant No. 16 and operational efficiency improvement programme rolled out across all process stages, as well as rise of sands processing at alluvials on the back of higher capacity and longer operation of processing plant No. 15

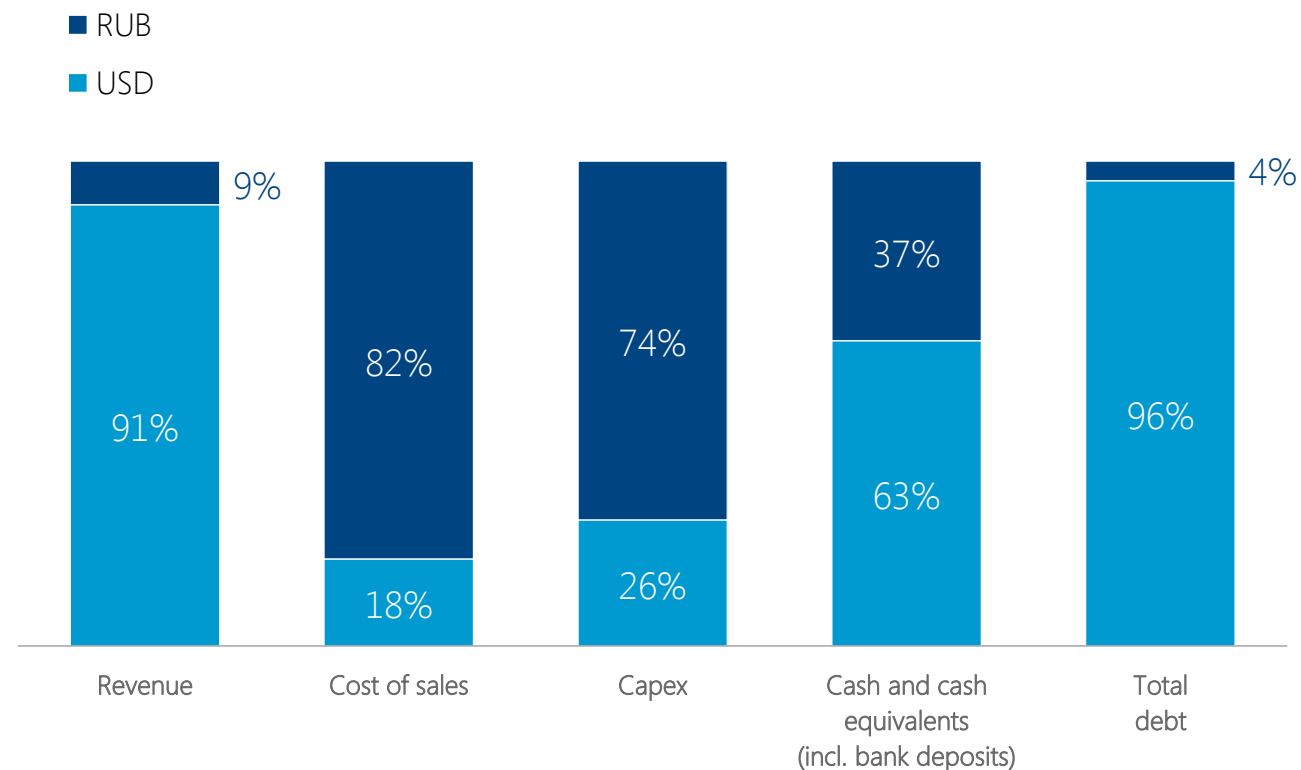


# FX RATE

- ALROSA is an exporter with 91% of revenue denominated in USD
- Major portion (74%) of costs and capex is denominated in RUB, 96% 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 – +/-1.39%
  - cost of sales – +/-0.28%
  - EBITDA – +/-2.80%
  - capex – +/-0.39%

## Financial metrics breakdown by currency

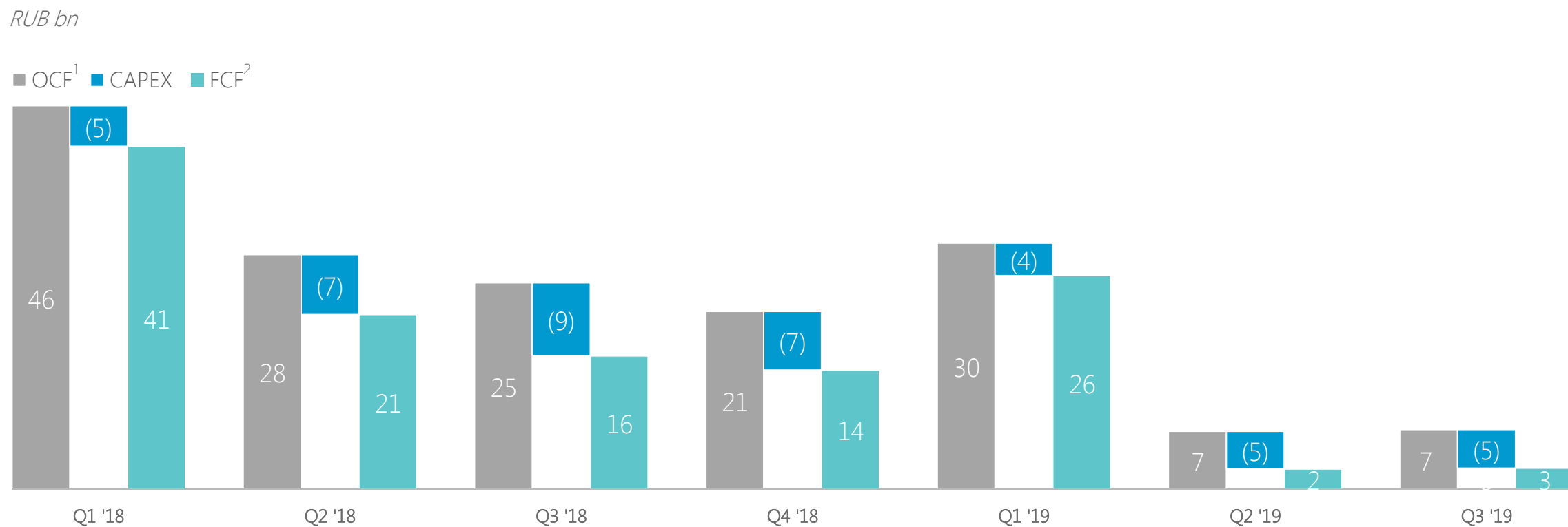
*% of metric's total*



*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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