# ALROSA

## Q2&6M 2021 IFRS RESULTS

MOSCOW, 13 AUGUST 2021

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# ESG UPDATE

## 2021 Key Sustainable Highlights

**February** — Strategy and Sustainability Board Committee to oversee ESG Strategy execution. An ESG task force with international experts formed.

**June** — 2021-25 Sustainability Program adopted – a comprehensive roadmap to deliver long term lasting change

ALROSA published 2020 Sustainability Report

**July** — 3 year Action Plan adopted with measurable results

**August** — ESG Databook published to offer in easy to use and comprehensive set of historical data covering all ESG aspects

## Our next steps

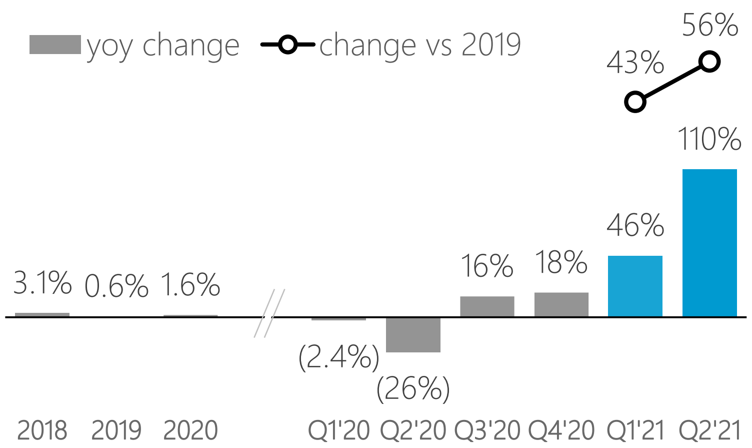
1. Adaption of **Climate & Environmental** strategies by 2022
2. Further **improvement of corporate regulatory framework**
3. **Joining international sustainability initiatives** such as ICMM, EITI, TCFD, PACI, UN CEO Water Mandate etc.
4. **Inclusion of sustainability risks into corporate risk matrix**
5. Improving positions in the key **ESG ratings**
6. **Respecting the call of minority stakeholders** on importance of sustainability issues

*Source: Company data.*

# DIAMOND MARKET OVERVIEW

## Jewelry demand growth

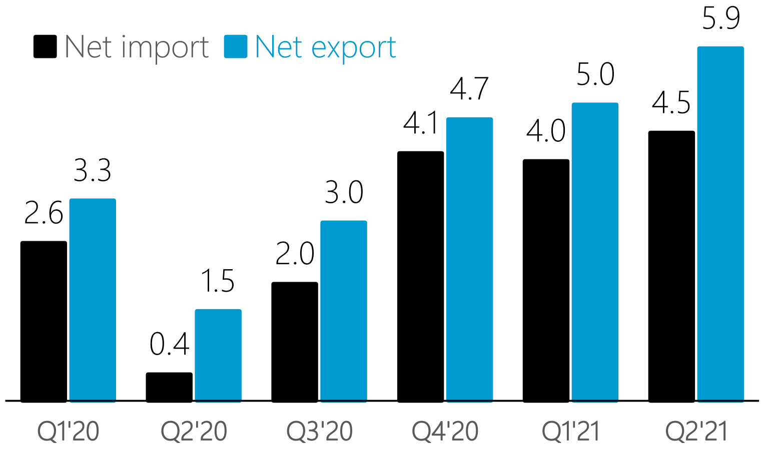
*U.S. PCE on jewelry*




- After a strong start in Jan'20 pandemic led to stores closures in Feb-May'20, retailers relied on their existing stocks
- From Q3'20 retail sales started to increase showing robust yoy gain, e.g. USA jewelry demand fully recovered in 2020 and continued to grow in 2021

## Polishers: catching up with demand

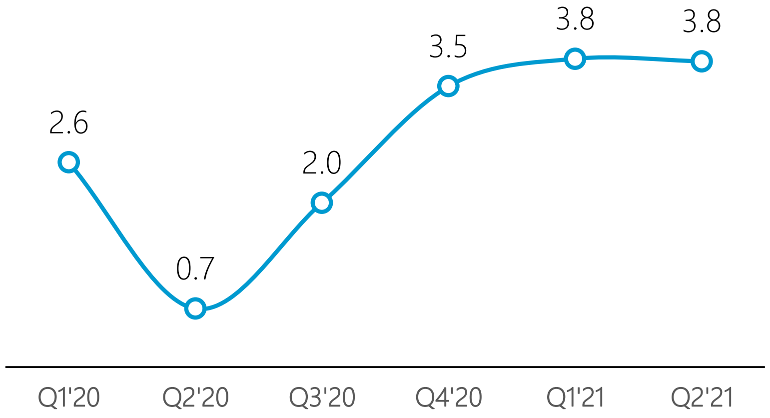
*$ bn, Indian Trade statistics*




- Strong order book for polished diamonds driven by end-user demand growth
- Mid-stream continues to demonstrate positive trade balance leading to (1) limited stocks (2) wider margins

## Global diamonds' supply strong recovery*

*$ bn*



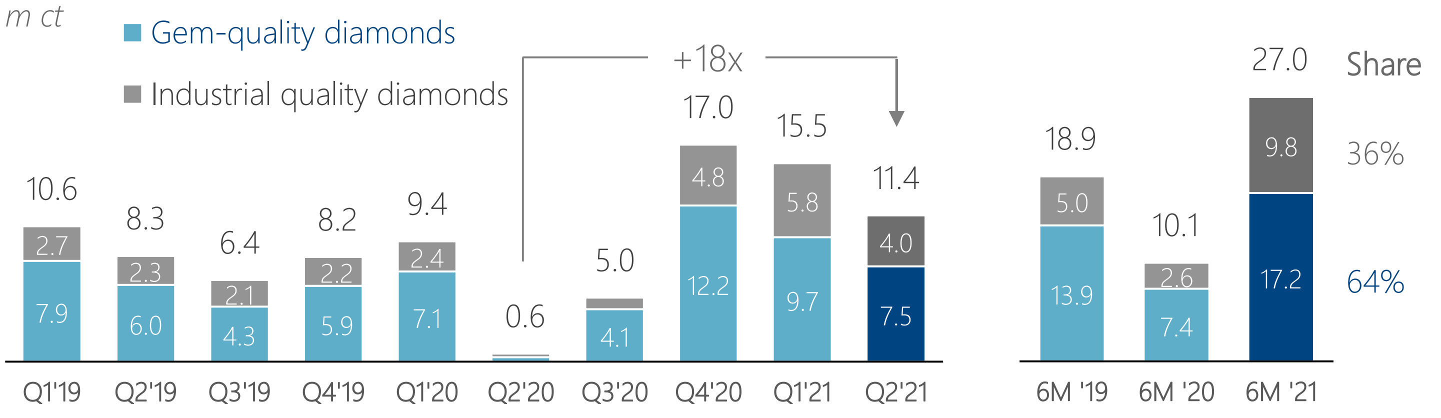

- Sales in USD are driven by a strong end-users demand on higher volumes (in cts) and LFL price recovery
- "Majors satisfy only real demand to prevent stock-piling at mid-stream
- July'21 diamond stocks at miners are minimal
- Limited (if any) supply response risk
- Prices recovered to pre-crisis levels, but still below early 2010 levels

*Source: Company data and analysis, GJEPC, Bureau of Economic Analysis*
** Internal estimates.*

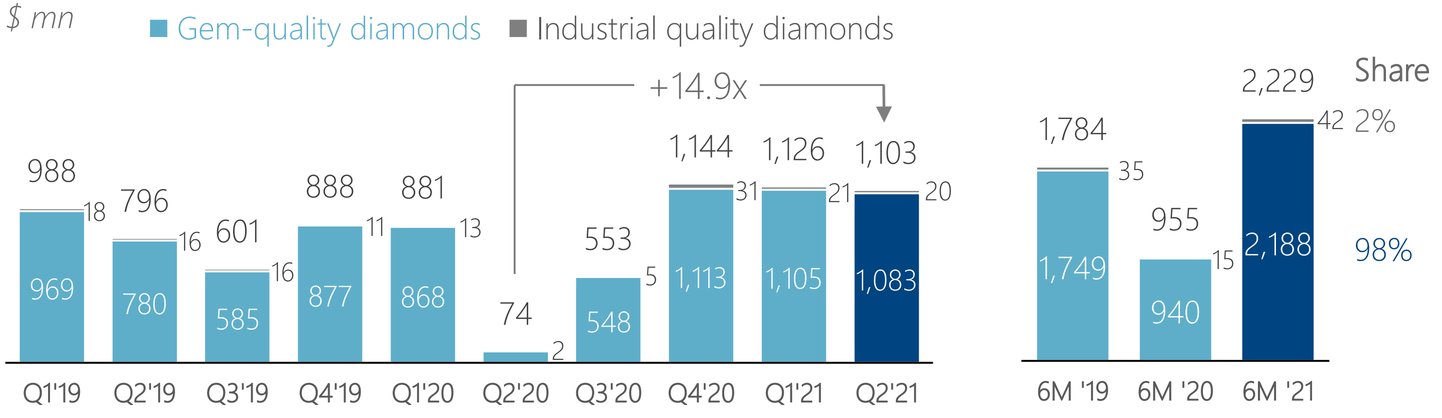
# ALROSA SALES

- **Q2’21 rough diamond sales** continued to exceed production reaching **11.4 m ct** (-26% qoq and +18x yoy),
  - incl. 7.5 m ct of gem-quality diamonds.
  - Industrial diamond sales amounted to 4.0 m ct
- **Q2’21 sales exceeded historical average levels by 25% on strong demand**
- **Sales from stocks continue to decrease as diamond stock levels dropped to historical lows**
- **Rough diamond sales** in Q2’21 delivered **$1.1 bn** (-2% qoq and +14.9x yoy), with mix and prices partially compensating a 26% qoq decrease in sales
- **Product mix in H2’21 sales** will reflect production mix (skewed to higher end products)

## Q2’21 diamond sales were 11.4 m ct (up 18x yoy)




## Q2’21 rough diamond sales in $ increased to $ 1.1 bn




*Source: Company data and analysis.*

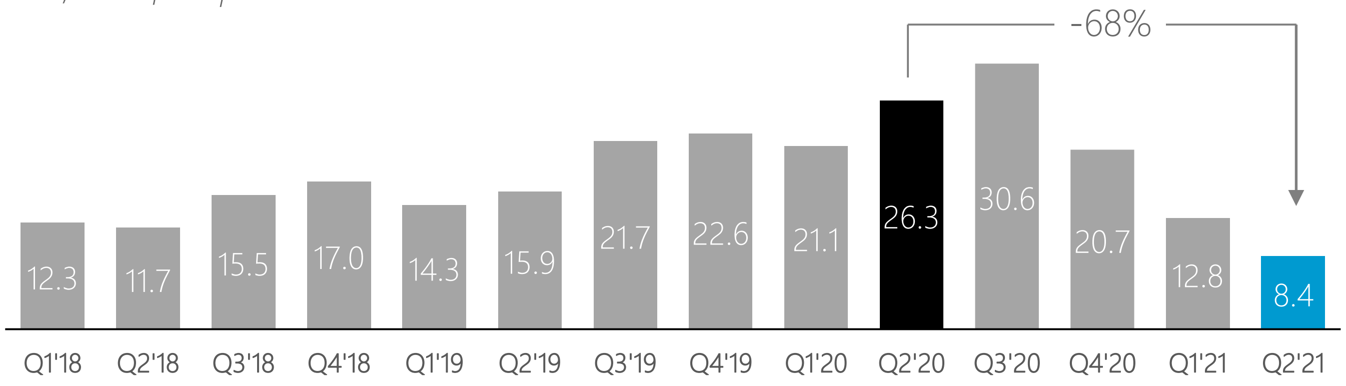
# ALROSA DIAMOND STOCKS

Q2’21

- **Diamond stocks** were down by 34% qoq (-68% YoY) to **8.4 m ct** as sales volumes (11.4 m ct) exceeded production (7.0 m ct in Q2) on continued strong off-take from H2’20
- **Ores & sands stocks** were up 5% qoq (-11% YoY) to **14.4 m t** (excl. off-balance ore and sands inventories in the amount of 15.6 m t) **due to**
  - as processing units were stopped in Q2 for planned maintenance
  - this effect is expected to reverse in H2’21 as processing restarts

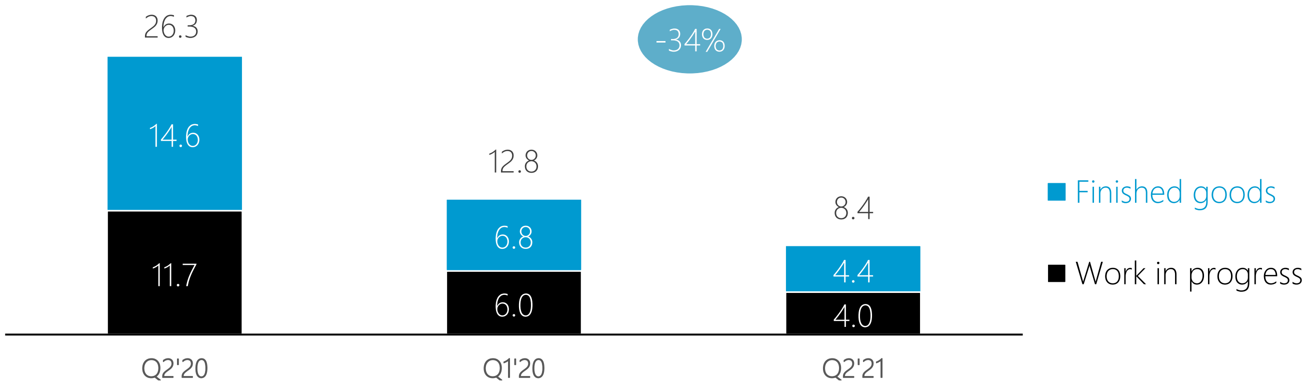
Q2 ALROSA's diamond stocks decreased by 34% qoq

*m ct, end of the period*




ALROSA's diamond stocks (gem & tech.) split

*m ct, end of the period*



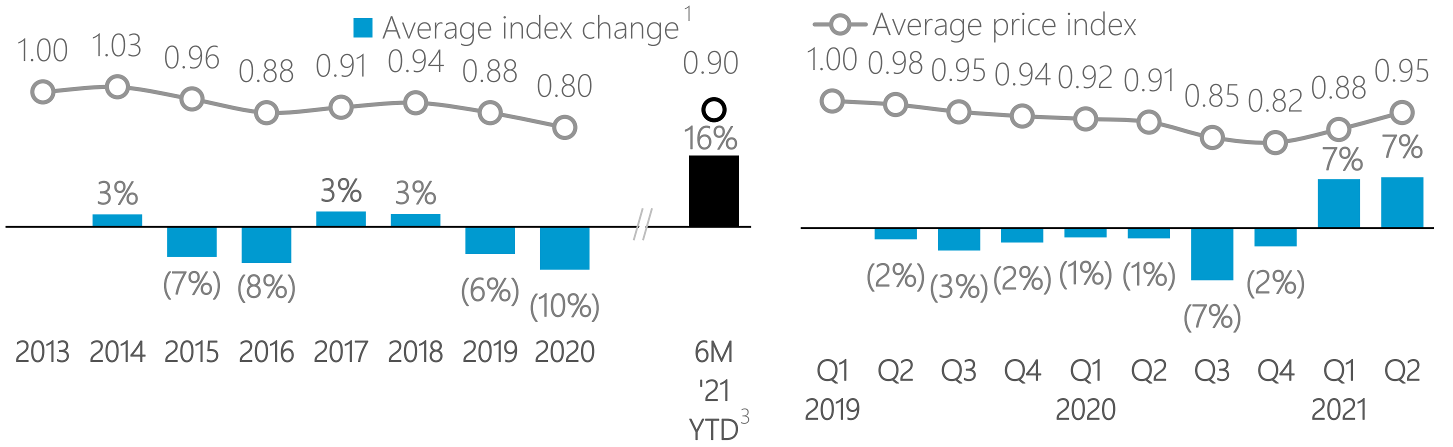

*Source: Company data and analysis.*

# DIAMOND PRICES

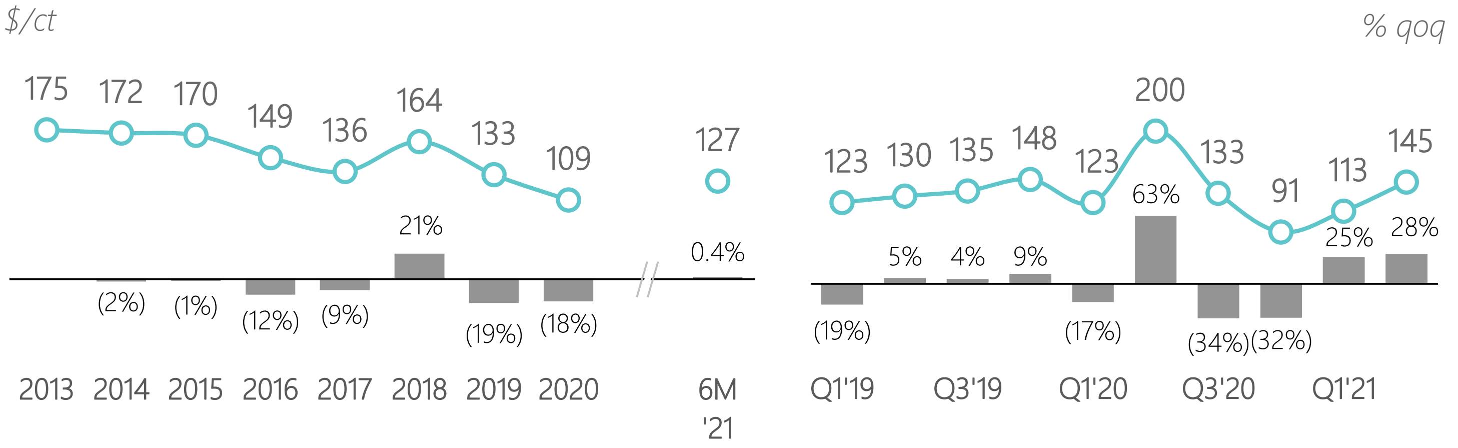
## Highlights

- **Q2'21 average price index[1] gained 7% qoq (+3% yoy)**, rising 16% YTD and exceeded the pre-COVID-19 levels of early 2020 by 4%.
- **Average realized prices (ARP) for gem diamonds[2] in Q2'21 grew to $145/ct,** up 28% qoq on the back of a higher price index and normalization of the sales mix
- **ARP decrease of 27% yoy** was due to considerable share of large-size diamonds in the Q2'20 sales mix, with total sales standing at 0.6 m ct

## ALROSA price index for like-for-like gem-quality diamonds mix




## ALROSA average realized price (ARP)[2] for gem-quality diamonds



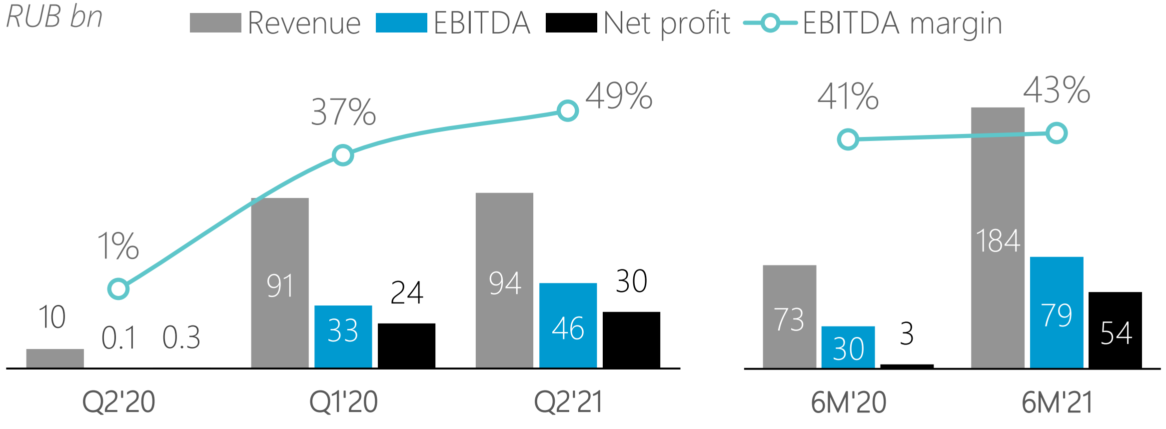

*Source: Company data and analysis.*

1. *Average index change of like-for-like diamonds prices (excl. +10.8 carats).*
2. *ARP (Average Realized Prices) are also impacted by changes in the product mix throughout the reported period, resulting from total sales revenue divided by total sales volumes in carats.*
3. *December 2013 = 1.00.*

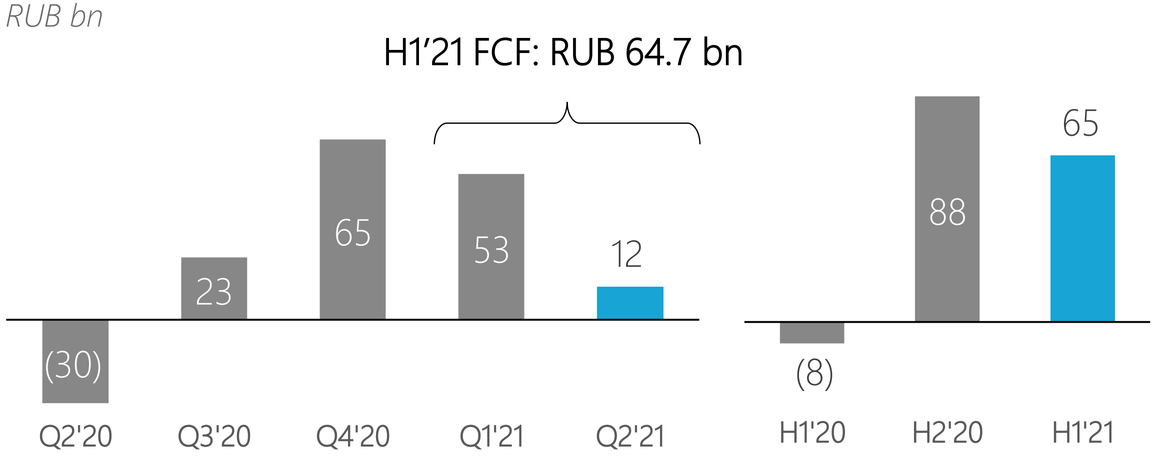
# FINANCIAL HIGHLIGHTS

- Q2'21:
  - **Revenue:** RUB 93.5 bn (+3% qoq, +9x yoy)
  - **EBITDA:** RUB 45.5 bn (+36% qoq)
  - **Profitability** amounted to 49% (+12 p.p. qoq)
  - **Net income** RUB 30.2 bn (+26% qoq)
  - **FCF** totalled RUB 12.0 bn (-77% qoq)
  - **Net debt / LTM EBITDA** was at -0.2x
- 6M'21:
  - **Revenue:** RUB 184.4 bn (+2.5x)
  - **EBITDA:** RUB 79 bn (+2.6x)
  - **Profitability:** 43% (+2 p.p.)
  - **Net income:** RUB 54.2 bn (6M'20: RUB 3.3 bn)
  - **FCF:** RUB 64.7 bn

## Strong financials on the back of sales recovery




## Free Cash Flow recovered yoy on strong sales




*Source: Company data and analysis.*

# GEM-QUALITY DIAMOND REVENUE DRIVERS

- **Q2'21 gem-quality diamond revenue** decreased by 1% qoq to **RUB 81 bn** driven by:
  - (-) lower sales volumes: -RUB 17 bn
  - (+) better product mix with effect of +RUB 13 bn
  - (+) RUB 4 bn on higher LFL prices (+7% qoq)
  - (+) FX rate impact on weaker RUB: +RUB 1 bn
- **6M'21 gem-quality diamond revenue** increased by 2.7x to **RUB 162 bn** driven by:
  - (+) rebounded sales volumes: +RUB 80 bn
  - (+) change in sales mix with effect of +RUB 5 bn
  - (-) decreased pricing with effect of -RUB 4 bn
  - (+) FX impact gave additional RUB 21 bn

Q1'21 to Q2'21 gem-quality rough diamond revenue bridge


6M'20 to 6M'21 gem-quality rough diamond revenue bridge

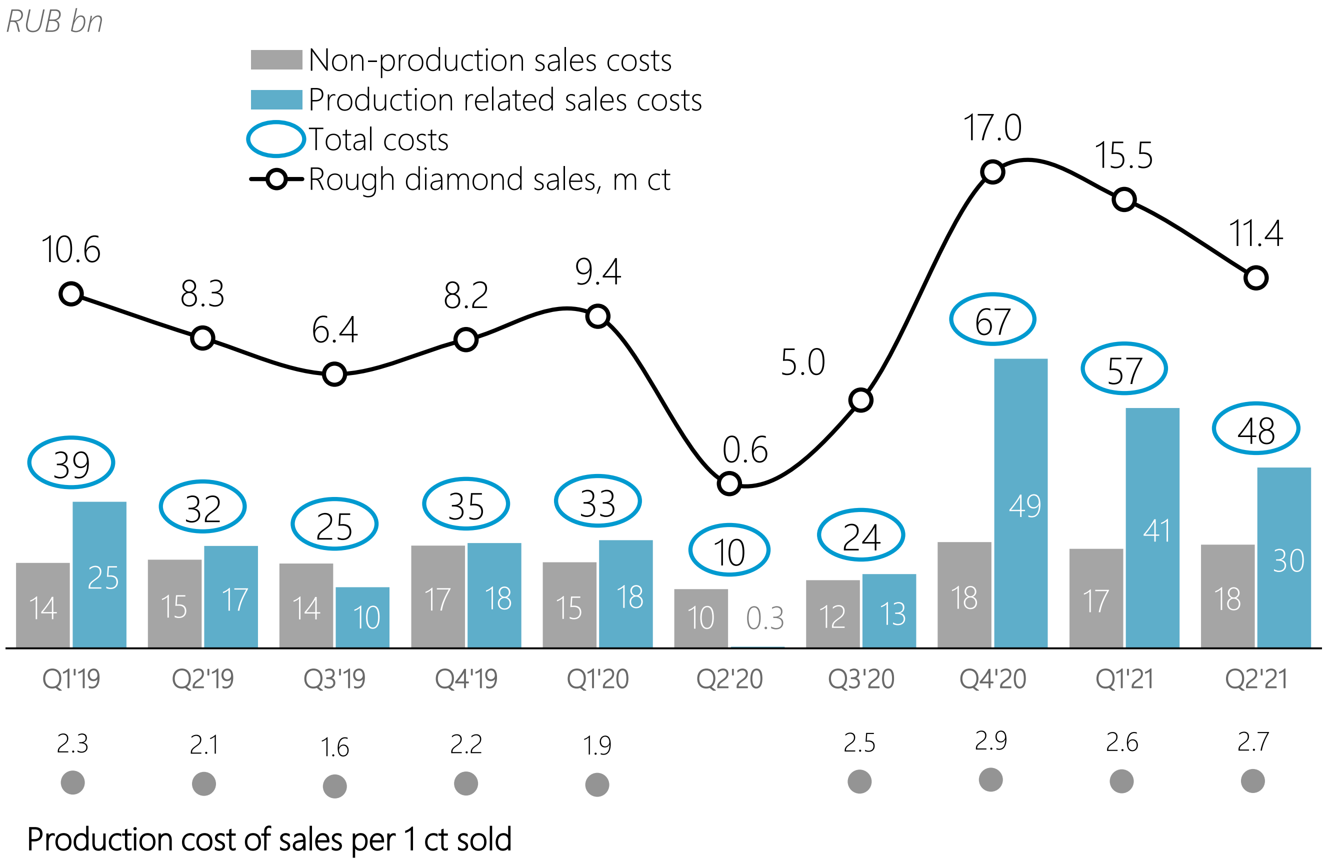

*Source: Company data and analysis.*

1. *Note that index price change factor could be impacted by a delayed recognition of sales.*

# COSTS DYNAMICS

- Q2'21 total costs of products sold were down by 16% qoq to RUB 48 bn due to:
  - Production-related sales costs down by 25% qoq to RUB 30 bn on lower sales volumes -26%, 11.4 m ct (see p. 19)
  - Non-production costs up by 4% qoq to RUB 18 bn mostly driven by higher SG&A and social expenses (see p. 20)
- 4.7x yoy increase driven by:
  - Production-related sales costs up to RUB 30 bn from RUB 0.3 bn in Q2'20 on higher sales volumes - 11.4 m ct vs 0.6 m ct in Q2'20 (see p. 19)
  - Non-production costs up by 75% yoy mostly driven by higher MET on higher sorting volumes and higher SG&A expenses (see p. 20)

## Q2 total cost of sales declined by 16% qoq as sales volumes were 26% down




*Source: Company data and analysis.*

# PROFITABILITY ANALYSIS

- Q2’21 EBITDA: RUB 46 bn, up by 36% qoq due to:

  (+) increase in revenue: +RUB 3 bn on better prices/mix, polished and other revenue (see p. 9)

  (+) decrease in cost of goods sold: +RUB 11 bn on 26% sales volumes decline

  (-) increase in SG&A of -RUB 0.2 bn

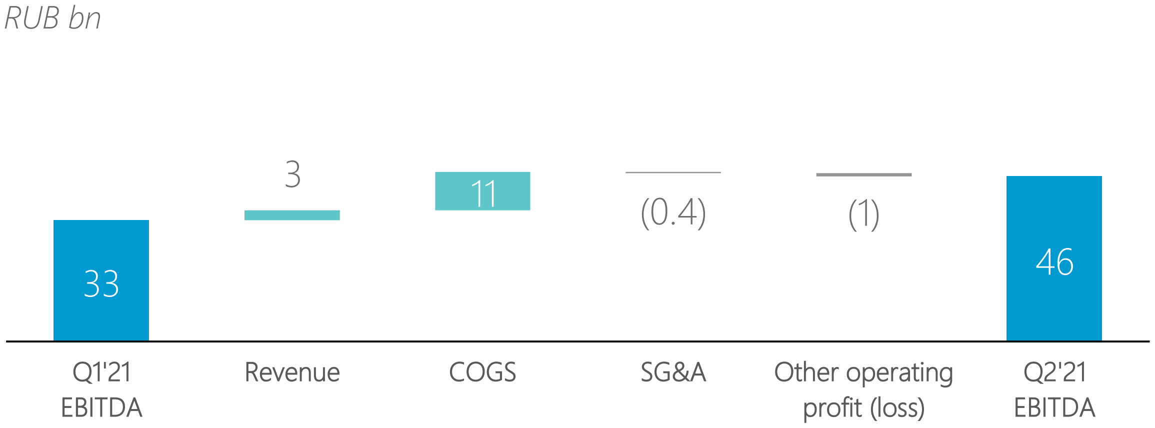
- 6M’21 EBITDA: RUB 79 bn, up by 2.6x driven by:

  (+) revenue increase: +RUB 111 bn due to higher sales volumes (+2.7x) and positive FX impact (see p. 9)

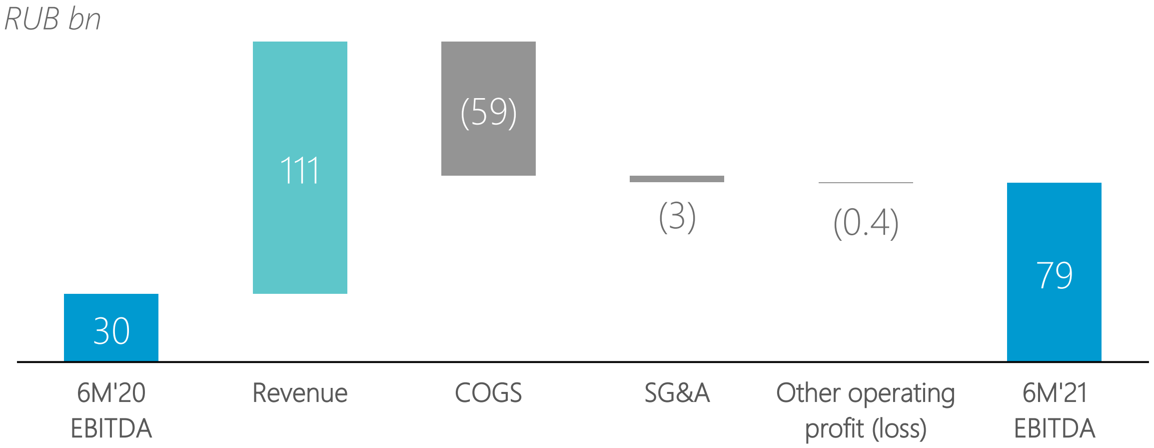
  (-) increase of COGS: -RUB 59 bn due to a 2.7x increase in sales volumes

  (-) SG&A expenses up: -RUB 3 bn

## Q1’21 to Q2’21 EBITDA bridge




## 6M’20 to 6M’21 EBITDA bridge

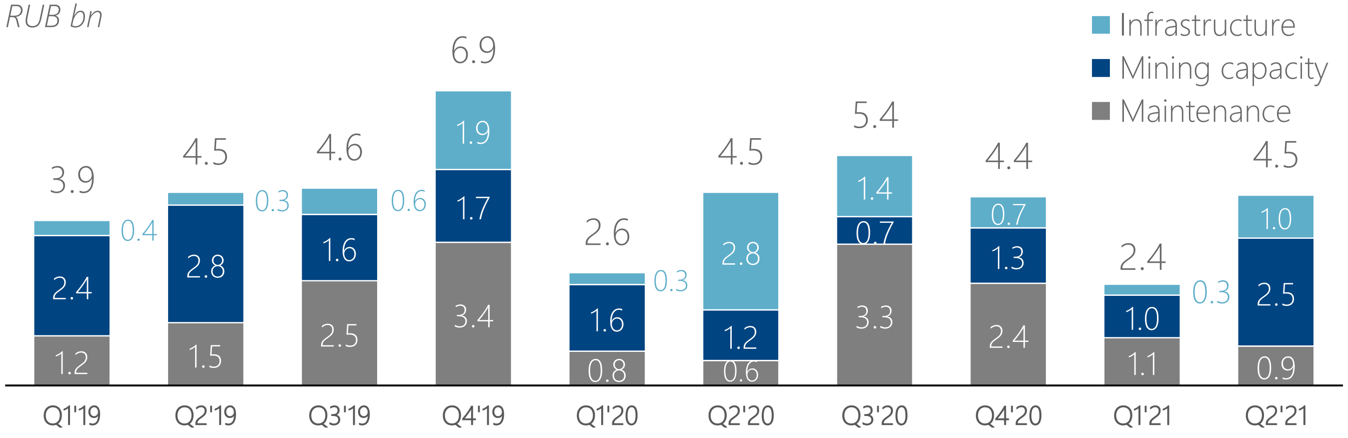



*Source: Company data and analysis.*

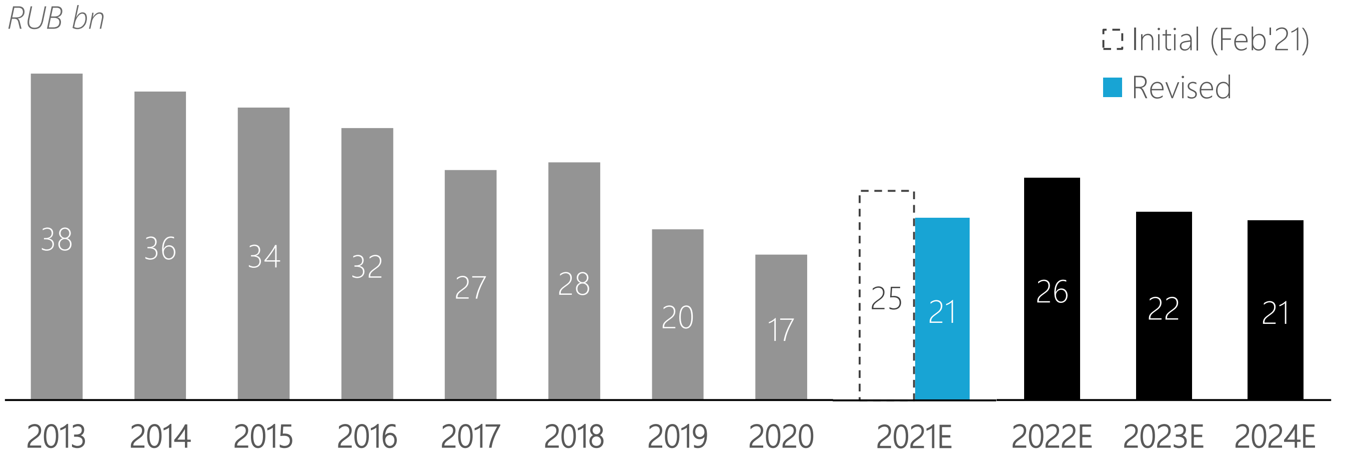
# CAPEX

- Q2’21 capex seasonally up by 88% qoq to RUB 4.5 bn mainly driven by increase of investments in:
  - mining capacity by RUB 1.5 bn (+2.5x qoq) due to increase of investments in VM deposit, Udachny UG mine and International UG mine;
  - infrastructure by RUB 0.8 bn (+4.0x qoq).
- Q2’21 capex is flat yoy (~ -1%) due to:
  - decrease of infrastructure capex (-RUB 1.8 bn) due to high base of Q2’20 (RUB 2.5 bn payment for the new building for sales & sorting unit)
  - increase of mining capacity capex (+RUB 1.3 bn) due to increase of investments in VM deposit, Udachny UG mine and International UG mine.

Q2 capex flat vs 2020 and 2019 levels




Annual capex outlook

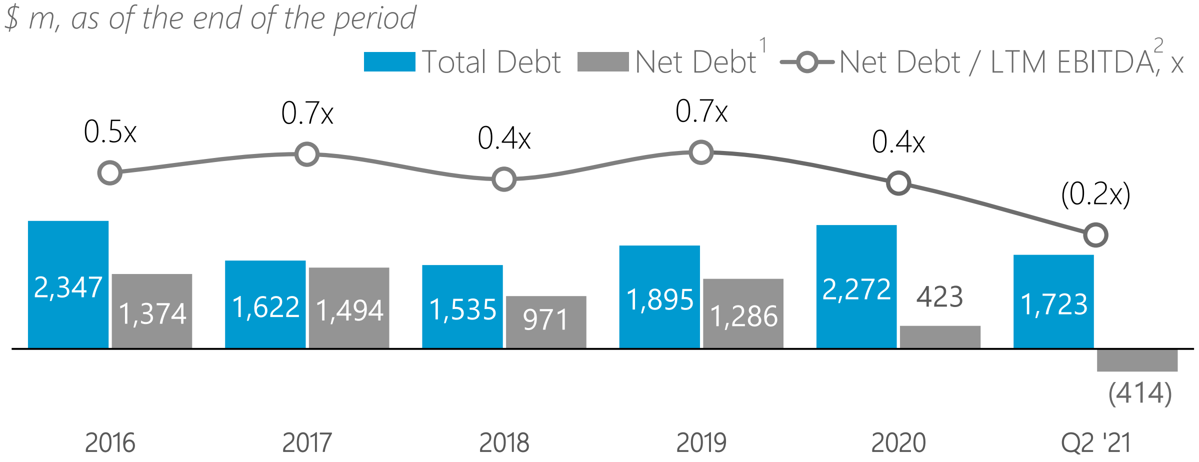



*Source: Company data and analysis.*

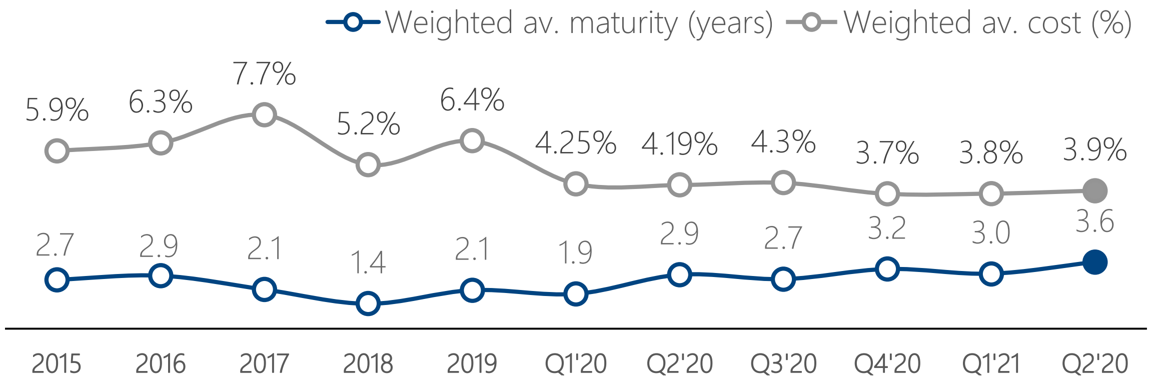
# DEBT POSITION

- **Q2'21 Net debt** was **-$0.4 bn** on strong FCF
- **Net debt/LTM EBITDA** amounted to **-0.2x**
- **Liquidity position** amounted to **$ 2.1 bn**
- Investment grade status
  - Fitch upgraded to BBB Stable, the only mining company in Russia
  - S&P raised standalone rating (SACP) to BBB above Russia's sovereign
  - Moody's – Baa2, RAEX – ruAAA

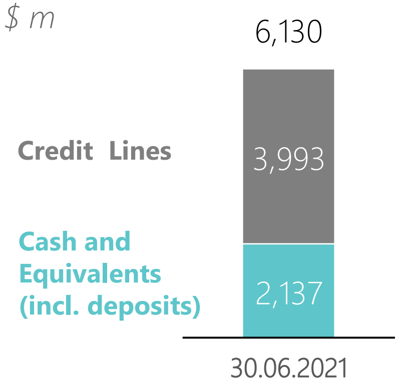
## Sound financial profile



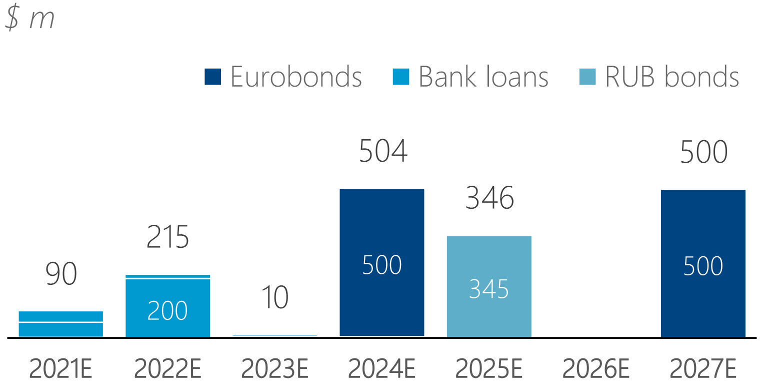

## Extended maturity and lowered cost of debt




## Liquidity position




## Debt[3] repayment schedule

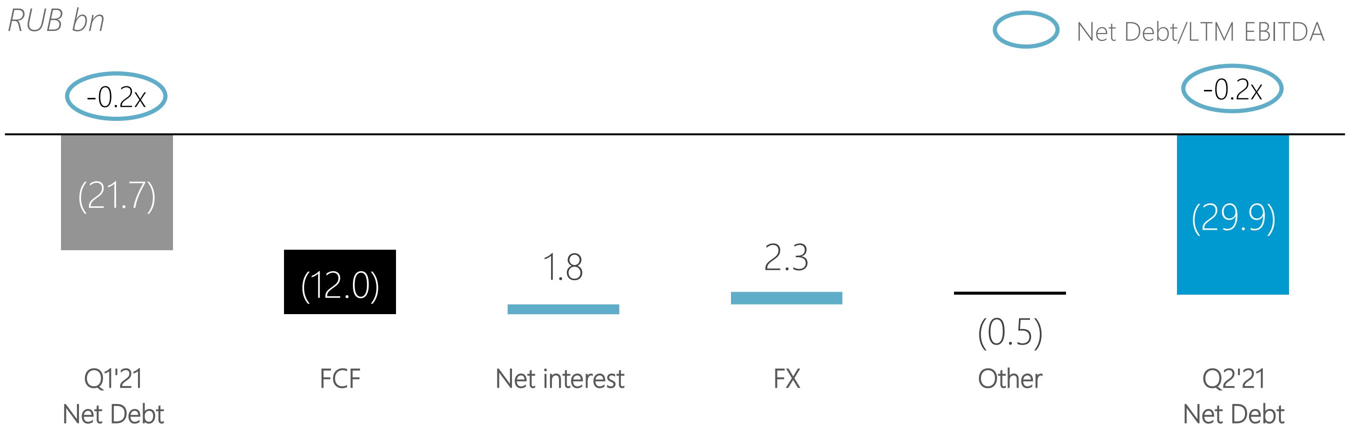



*Source: Company data and analysis.*
1. *Including lease obligation (the equivalent of USD 63 m).*
2. *Based on EBITDA and Net Debt denominated in rubles.*
3. *Excluding lease obligation and amortization of discount.*

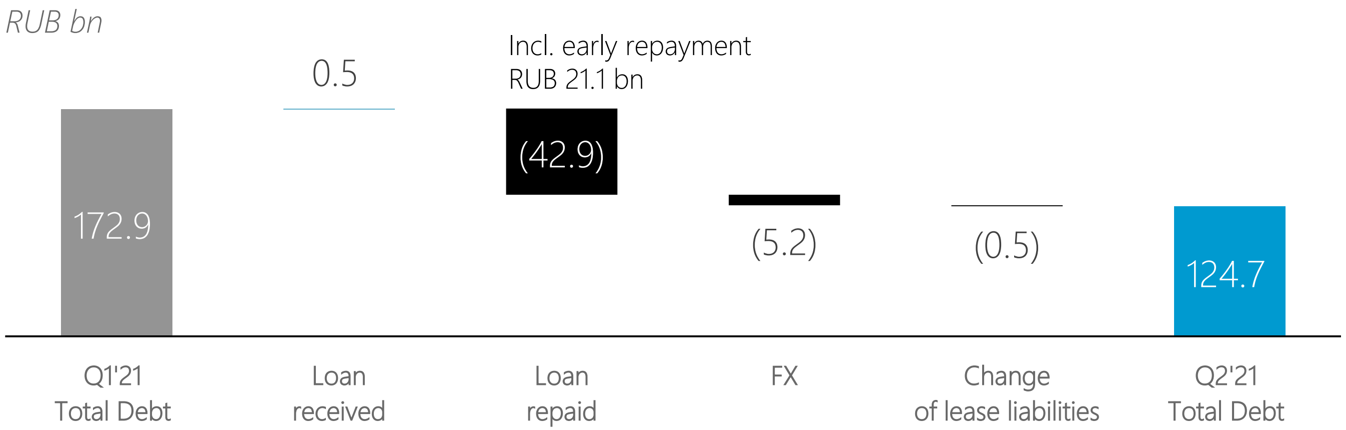
# DEBT ANALYSIS

- **Q2’21 net debt amounted to -RUB 29 bn** mostly driven by:
  - (+) positive FCF (-RUB 12.0 bn)
  - (-) net interest (+RUB 1.8 bn)
  - (-) FX rate impact on weaker RUB (+RUB 2.3 bn) as 75% of debt is in USD
  - (+) other (-RUB 0.5 bn)
- **Q2’21 total debt decreased by 28% qoq to RUB 125 bn** due to:
  - (+) repayment of bank loans (-RUB 42.9 bn): early repayment of $150 m, RUB 6 bn and $50 m bank loans in Apr-May’21 and scheduled repayment of $300 m bank loan in Jun’21.
  - (-) FX rate impact (-RUB 5.2 bn) as 75% of debt is in USD

Q1’21 to Q2’21 Net Debt bridge




Q1’21 to Q2’21 Total Debt bridge

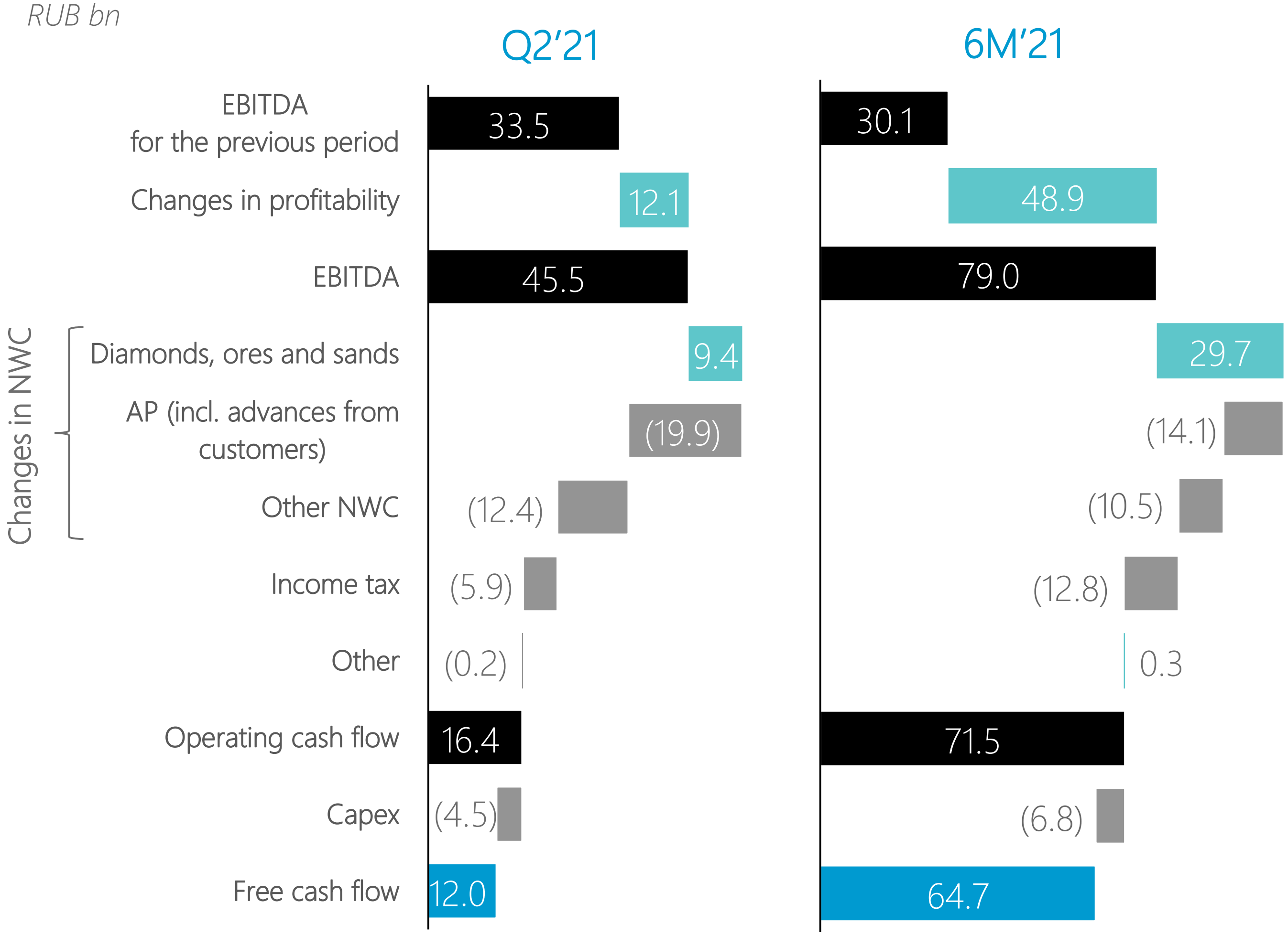



*Source: Company data and analysis.*

# FREE CASH FLOW

- **Q2'21 FCF of RUB 12.0 bn** (Q1'21: RUB 33.5 bn):
  - **(+) Profitability up by RUB 12.1 bn** on +7% index growth & better mix
  - **(-) W/C build-up of RUB 23.0 bn** driven by:
    - **+RUB 14.6 bn** – as 4.4 m cts of diamonds sales were from stocks
    - **-RUB 5.2 bn on ore & sands** stocks growth and structure change
    - **-RUB 3.3 bn on materials** seasonal growth & price inflation
    - **-RUB 19.9 bn** – **payables down as customers' advances returned to their historical levels** (sales volumes normalized as diamond stocks dropped to historically minimal levels)
    - **- RUB 2.4 bn AR** on VAT and advances to suppliers
    - **- RUB 6.7 bn** other incl. accruals for employees salaries and benefits (travel reimbursement, vacations) and change in short term liabilities
- **6M'21 FCF grew to RUB 64.7 bn** (6M'20: RUB 30.1 bn):
  - **(+) Profitability growth by RUB 48.9 bn** on sales growth
  - **(+) W/C release of RUB 5.1 bn** driven by:
    - **+RUB 34.6 bn** – decrease of diamond stocks in ct
    - **-RUB 4.9 bn** on ore & sands stocks growth (in m t)
    - **-RUB 3.6 bn – AR up** on growth in VAT recoverable and advances to suppliers
    - **-RUB 14.1 bn – AP down** as lower customers' advances
    - **-RUB 6.9 bn** other incl. materials, other taxes payable and change in long term liabilities

## EBITDA to Free cash flow bridge

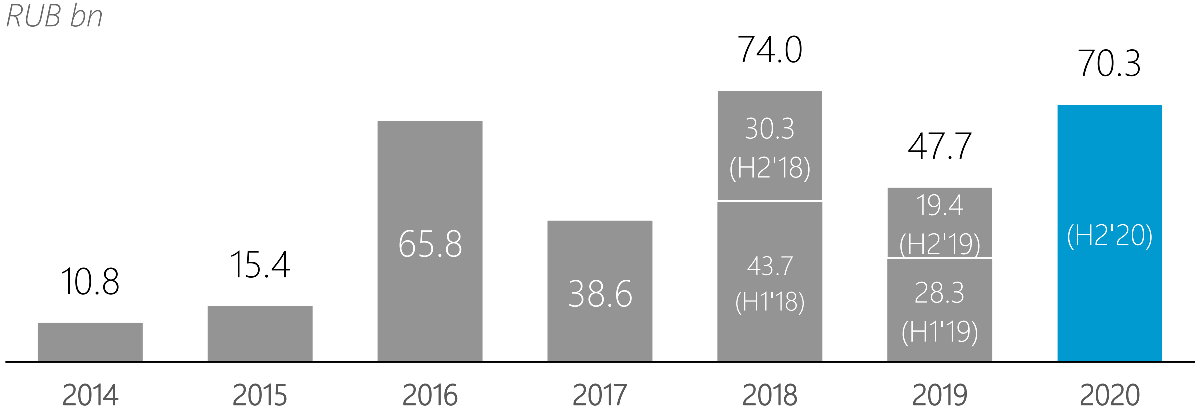



*Source: Company data and analysis.*

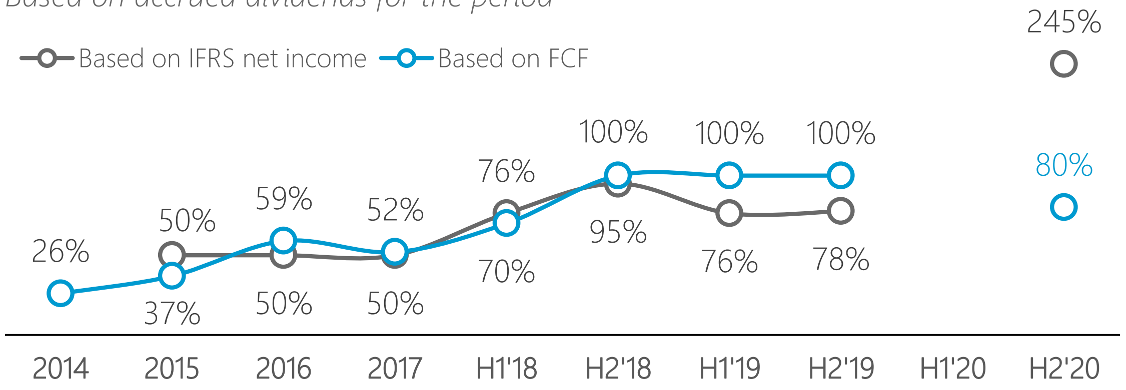
# DIVIDENDS

- The Board will recommend H1'21 dividends to the shareholders in August – to be approved by GM in September and paid in Oct-Nov
- On June 16, AGM approved allocating all-time high half-year dividends for H2'20 amounting to RUB 70.3 bn (RUB 9.54/sh), or 80% of H2'20 FCF
- Dividend policy
  - Semi-annual payments and FCF-linked
  - Payout ratio linked to Net debt/LTM EBITDA ratio
  - Minimum payment: 50% of IFRS annual net profit

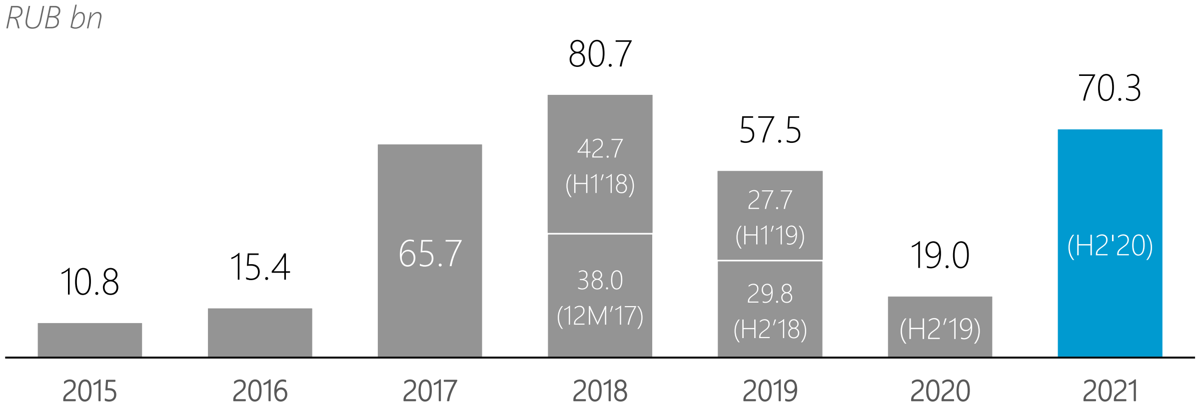
## Dividend accruals




## Dividend payout




## Dividend payments[1]




*Source: Company data and analysis.*

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

# OUTLOOK

## Market outlook

- Strong demand for diamond jewelry – across all geographies consumers line up for the jewelry sets leading to an all time high levels (annualized) jewelry sales. Drivers – consumer confidence, growth in disposable income and savings, rise of Chinese consumer
- Retailers reported strong sales in H1'21 with optimistic outlook for H2'21
- Cutters and polishers enjoy strong back log of orders and rise of profitability vs 2019/2020, face shortages of rough feedstock
- Diamonds suppliers learn to run with lowest ever stock piles, no visible supply response, 120 m ct a year supply (or 20% below pre-COVID-19) is the new normal in the mid-term
- Diamond prices are expected to return to pre-crisis averages, with upside risk on strong demand and lack of rough supply in H2'21 - 2022

## ALROSA performance

- 2021 production outlook could be marginally revised upwards:
  - 2021 production to recover up to ~31.5, with an optimistic scenario of an extra 5% growth
  - Sales volumes will depend on real market demand, as well as ability to bring additional output through debottlenecking
  - Prices are expected to increase on like-for-like price recovery, as well as mix normalization
  - Capex is revised down to RUB 21 bn (from initial RUB 25 bn) with no major projects being delayed
- Active cost cutting program being consistently pursued:
  - Growth in utilization rates to partially tame inflation pressure
  - Ongoing savings from operational efficiency programs and optimization initiatives

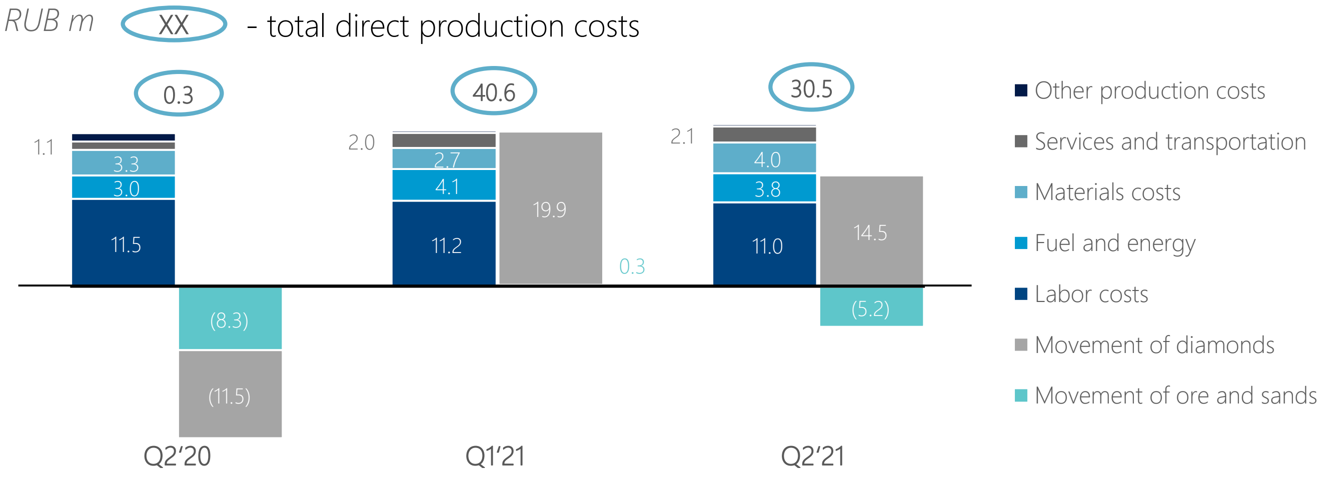
*Source: Company data.*

# APPENDIX

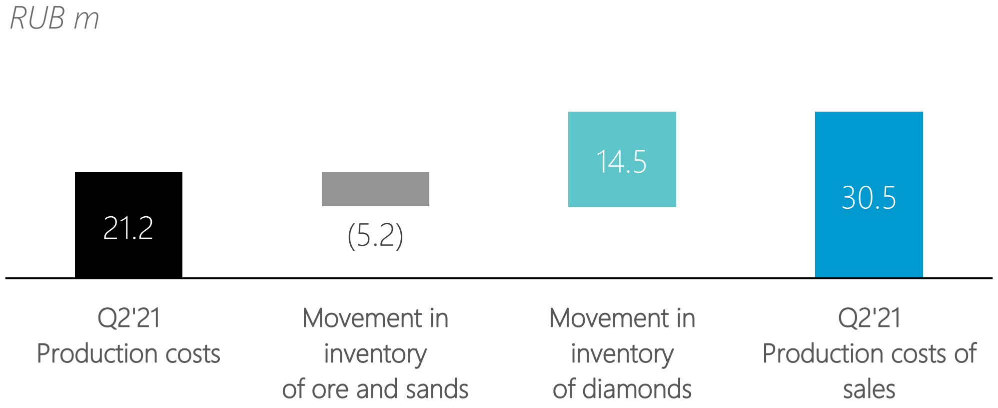
# PRODUCTION COSTS DYNAMICS AND BREAKDOWN

- Q2'21 production related cost of sales -25% qoq to RUB 30.5 bn driven by:
  - (+) movement in diamonds' stocks – as sales exceeded output by 4.5 m cts (-RUB 5.4 bn)
  - (+) movement in ores and sands' stocks – due to structure change (-RUB 5.5 bn)
  - (-) materials +47% (+RUB 1.3 bn) due to increase of repair expenses and growth of mining activity
- … and yoy growth (from RUB 0.3 bn in Q2'20) driven by:
  - (-) release of diamonds' stock (+RUB 25.9 bn)
  - (-) movement in ore & sands stock (+RUB 3.1 bn)
  - (-) increase of fuel & energy, materials and services & transportation expenses (+RUB 2.4 bn) mostly due to low base of Q2'20 (reduction of the costs due to revised production plan)

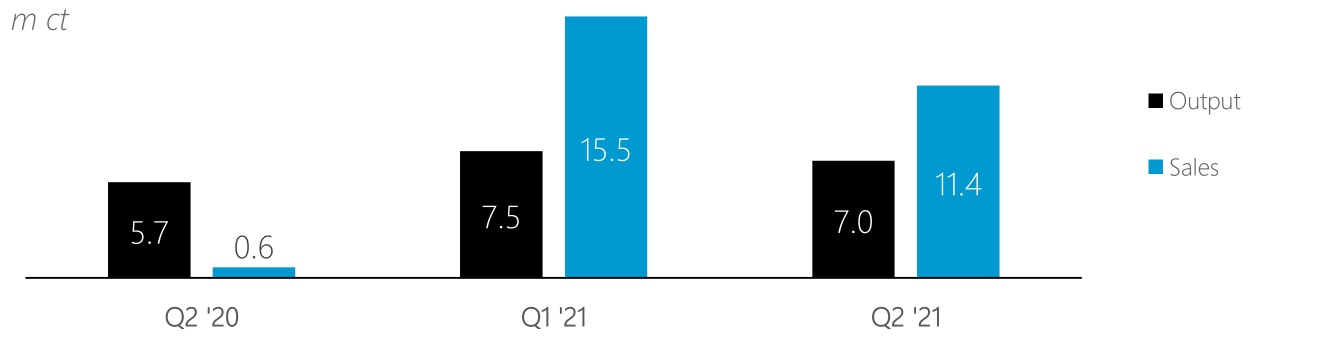
## Direct production costs down 25% qoq on sales volumes decrease




## Cost of goods sold




## Operating results: sales and production




*Source: Company data and analysis.*

# NON-PRODUCTION COSTS DYNAMICS AND BREAKDOWN

- Q2'21 non-production costs were up 4% qoq to RUB 17.5 bn mostly due to:

  (-) **social expenses +68%** (+RUB 0.6 bn) due to increase of charity expenses (growth of contributions to the administrations of the municipal districts (uluses))

  (-) **SG&A expenses +8%** (+RUB 0.4 bn) due to payment of the annual remuneration for 2020 and an increase in the provision for employee holidays and cost of travel

  (+) **MET decreased by 5%** on lower volumes

  (-) **other non-production costs** up by RUB 0.2 bn mostly due to increase of other operating expenses

- **Increase by 75% yoy** mostly due to:

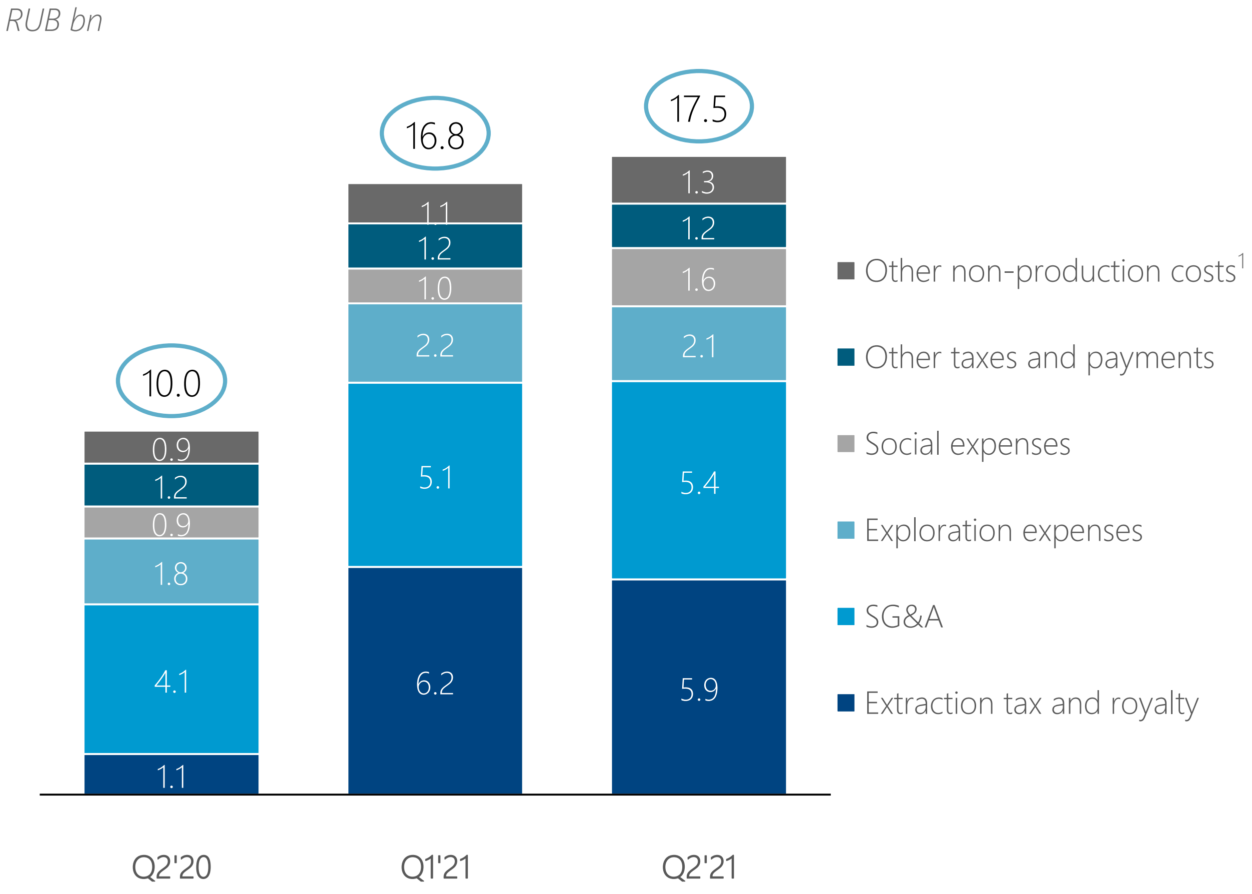
  (-) **MET increased by 5.3x** (+RUB 4.8 bn) on higher output volumes

  (-) **SG&A expenses +32%** (+RUB 1.3 bn) mostly due to change of revaluation of management option program

  (-) **social expenses +81%** (+RUB 0.7 bn) due to increase of charity expenses (growth of contributions to the administrations of the municipal districts (uluses))

  (-) **other non-production costs** up by RUB 0.4 bn due to increase of cost of diamonds for resale

Non-production costs were up by 4% qoq




*Source: Company data and analysis.*

1. *Mainly includes cost of diamonds for resale, NDC/DPA contribution and other non-production costs.*

# KEY INVESTMENTS PROJECTS

| | 1 Udachny UG mine | 2 VM[1] deposit | 3 Maiskaya pipe | 4 VG[2] deposit |
|---|---|---|---|---|
| Type of mining | Underground | Open-pit | Open-pit | Alluvials |
| Production start | 2015 | 2018 | 2025 | 2027 |
| Ramp-up | 2021 | 2019 | 2027 | 2029 |
| Target ore output pa, m t | 4.0 | 3.0 | 0.3 | 1.4 |
| Target production pa, m ct | 4.8 | 1.8 | 1.0 | 0.5 |
| Total CAPEX, RUB bn | 63.9 | 20.0 | 5.6 | 4.6 |
| *Invested share* | *89%* | *95%* | *13%* | *0%* |
| Resource base[3], m ct | 207.6 | 40.4 | 12.7 | 4.7 |


*Source: Company data*

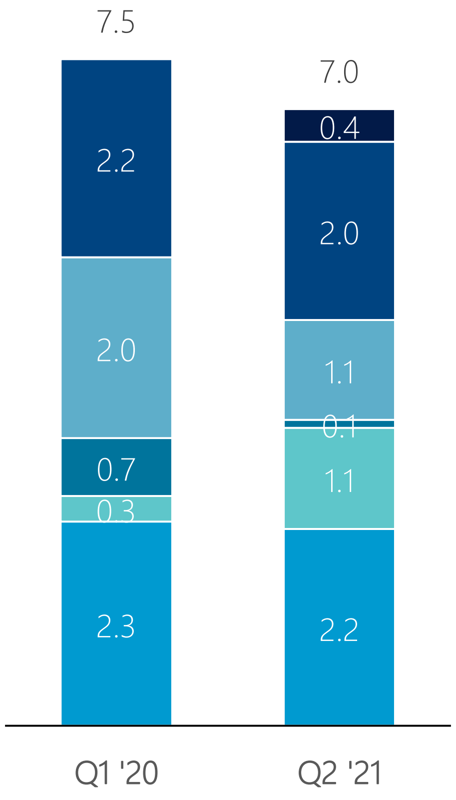
1. *Verkhne-Munskoye deposit*
2. *Vodorazdelnye Galechniki deposit*
3. *Diamond mineral resources in accordance with the JORC Code as at 1 July 2018*

# DIAMOND PRODUCTION BY ASSETS

- **Q2'21 diamond production went down by 8% qoq** mainly due to:
  - **Udachny Division – down by 45%** due to the scheduled shutdown of processing plant No. 12 for summer preventive maintenance.
  - **Mirny Division – down by 86%** due to the suspension of ore processing at the International pipe as a result of seasonally suspended operations at processing plant No. 3, as well as the processing of lower-grade gravels.
- For more details please see [Q2'21 Trading update]
- **2021 production** to recover up to ~31.5, with an optimistic scenario of an extra 5% growth

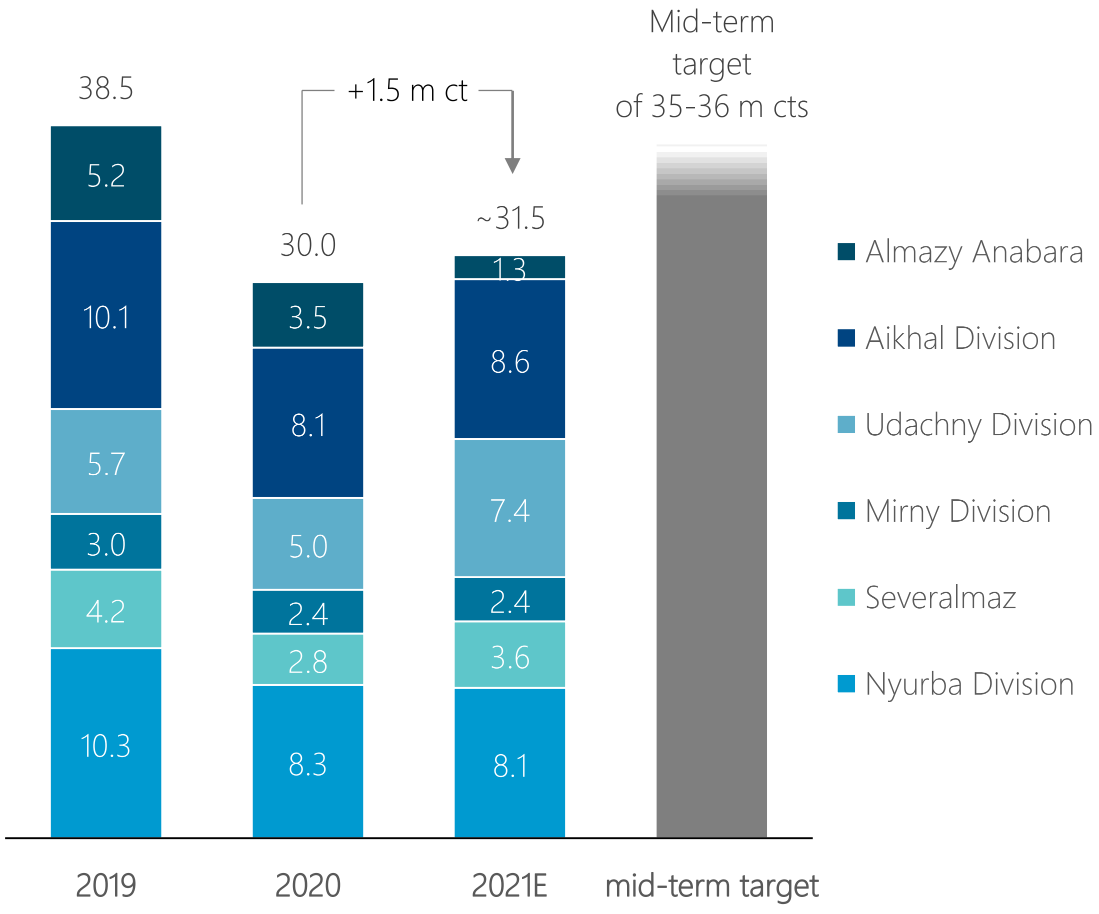
## Q2'21 production by assets

*m ct*




## Production outlook

*m ct*



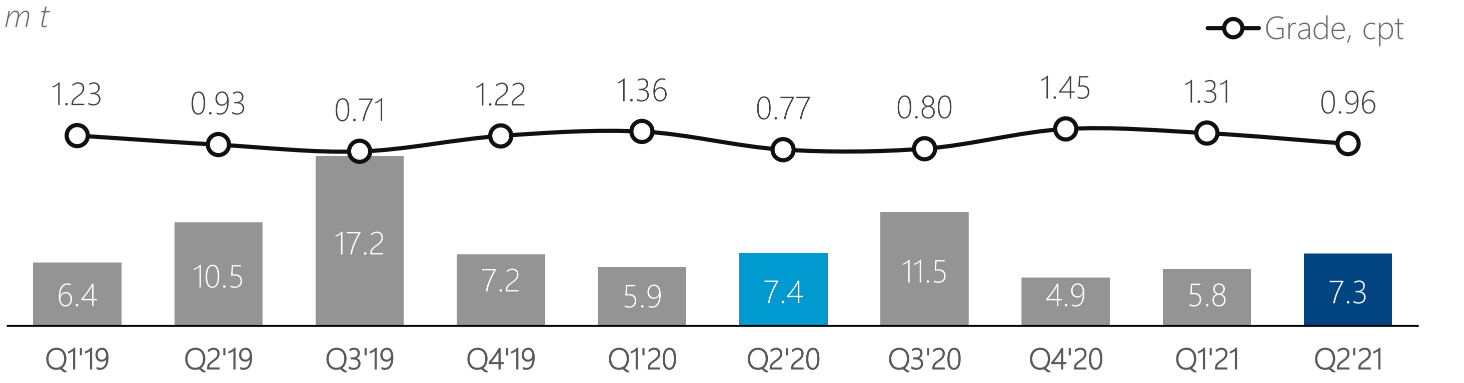

*Source: Company data and analysis.*

# ALROSA PRODUCTION

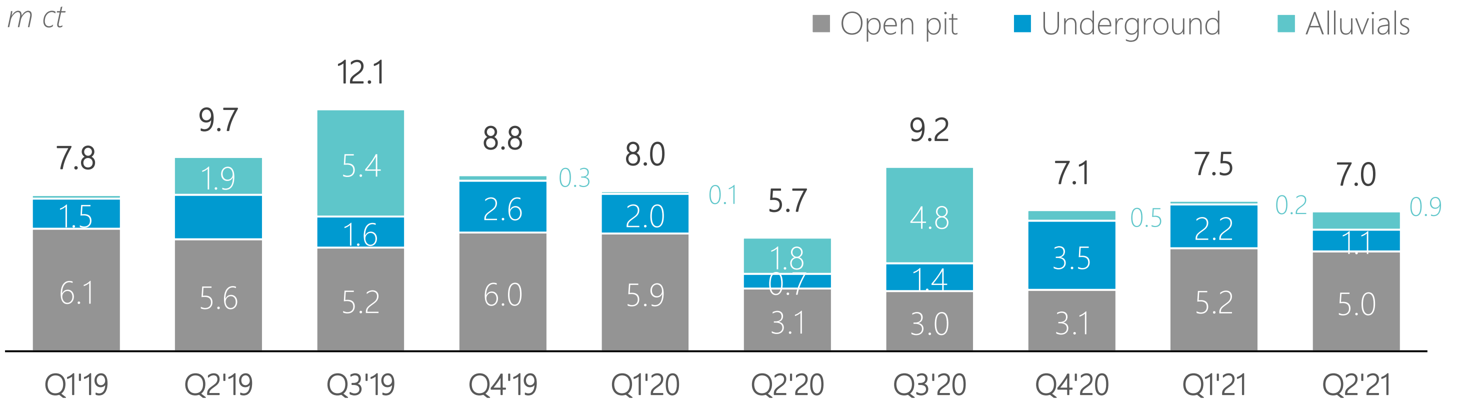
## Highlights

- **Ore and gravels processing** increased 26% qoq (down 1% yoy) to 7.3 mt, predominantly as a result of a seasonal growth in the processing of gravels from Almazy Anabara alluvial deposits coupled with increased ore processing at Severalmaz following the reopening of the processing plant on 1 March 2021.
- **Q2'21 production** went down by 8% qoq to **7.0 m ct**, mainly due to scheduled preventive maintenance at processing plant No. 12 of the Udachny Division and processing plant No. 14 of the Aikhal Division, the scheduled seasonal suspension of processing plant No. 3 of the Mirny Division and seasonal drop in average diamond grade, attributable to higher production from alluvial deposits.
- **Q2 av. grade** decreased by 27% qoq (up 24% yoy) to 0.96 cpt mainly due to an increase in the share of lower-grade Almazy Anabara gravels in processing

## Ore and sands processing




## Diamond production



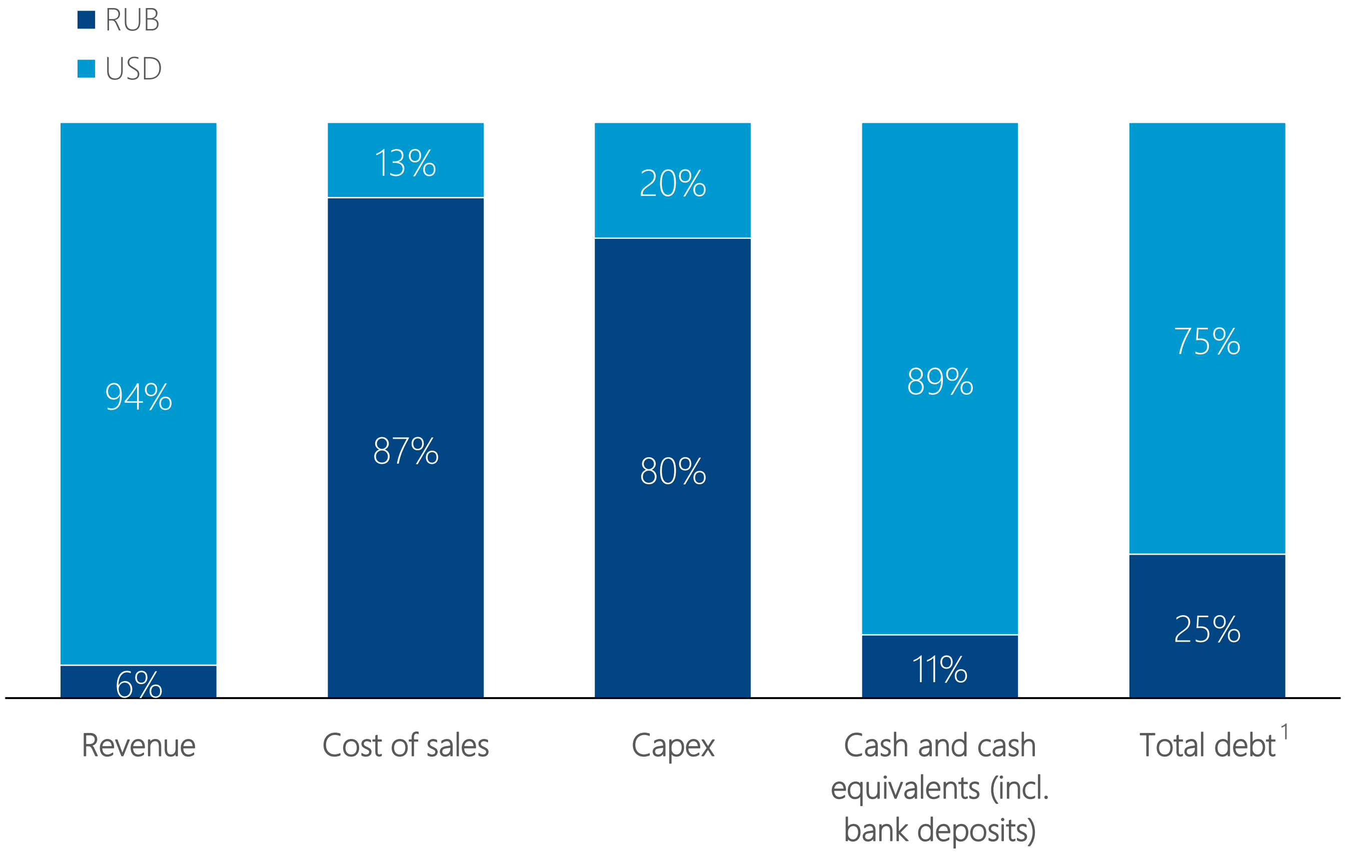

*Source: Company data and analysis.*

# FX RATE

- ALROSA is an exporter with ca. 94% of revenue denominated in USD
- Major portion of costs and capex is denominated in RUB, 75% of the Company's debt portfolio[1] 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 – +/-1.26%
  - cost of sales – +/-0.18%
  - EBITDA – +/-2.43%
  - capex – +/-0.27%

## Financial metrics breakdown by currency

*% of metric's total, Q2'21*



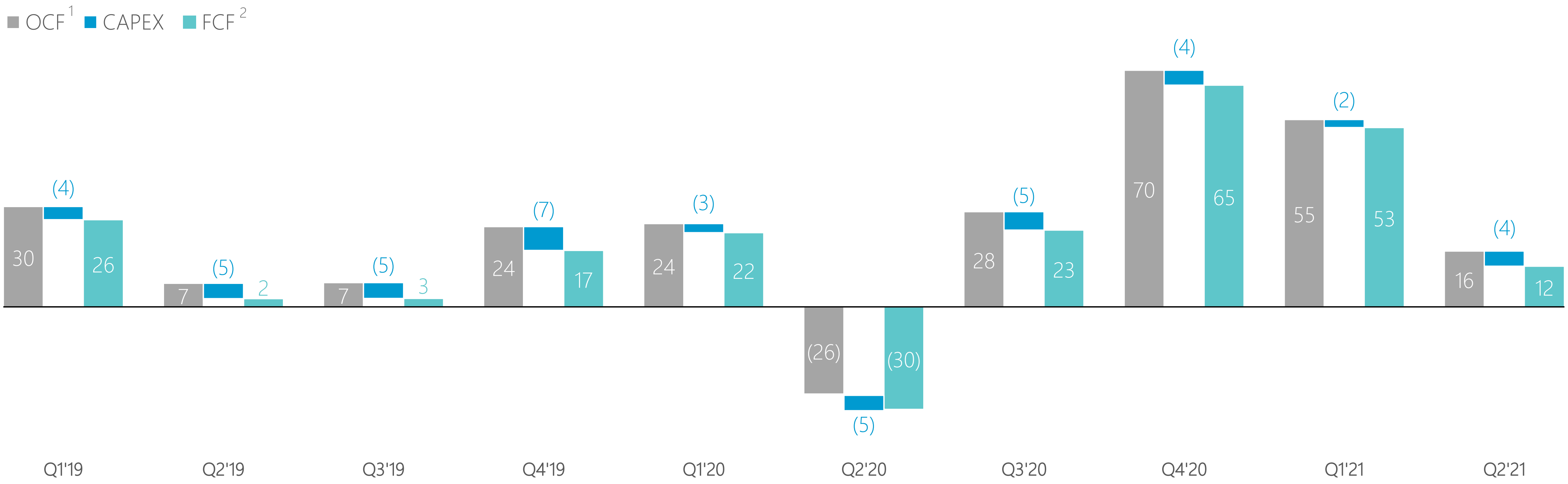

*Source: Company data and analysis.*

1. *Excluding lease obligation (the equivalent of USD 63 m)*

# OPERATING CASH FLOW AND CAPEX

## Operating cash flow and capex dynamics

*RUB bn*




*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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