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# CAPITAL MARKETS DAY

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## SPEAKERS:

**Maria Gordon**, Independent Director

**Sergey Ivanov**, Chief Executive Officer

**Alexey Philippovskiy**, Chief Financial Officer

LONDON, 18 MARCH 2019

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For notes:

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# Today's Speakers



**Maria Gordon**  
Independent Director



**Sergey Ivanov**  
Chief Executive Officer



**Alexey Philippovskiy**  
Chief Financial Officer

# Table of Content

<b>01.</b> Corporate governance development	p.5
<b>02.</b> Message from CEO	p.9
<b>03.</b> Market fundamentals and key trends	p.15
<b>04.</b> Executing to strengthen our business	p.25
<b>05.</b> Financial performance update	p.43
<b>06.</b> Closing remarks from CEO	



# Corporate governance development

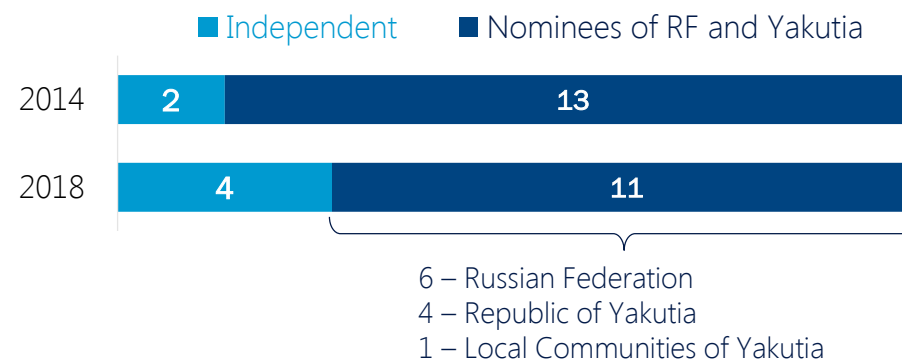
- 1 Commitment to Improving Standards of Corporate Governance
- 2 Initiatives to Improve Alignment of Shareholder Interests
- 3 Board Agenda for 2019-2020

# Commitment to Improving Standards of Corporate Governance

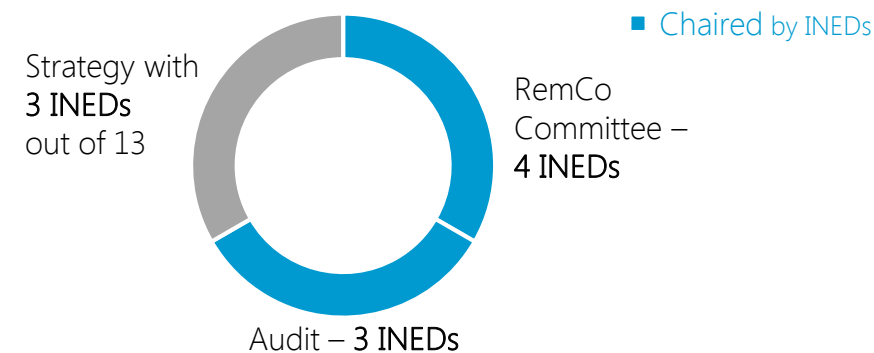
- Increased number of INEDs on the board level
- Audit and RemCo Board committees include 100% NED membership and are chaired by INEDs
- Maria Gordon, INED, serves as the Senior Independent Director since 2016 and helps steer board committee's agenda
- Board members meet regularly to discuss strategic issues and maintain direct dialogue with all stakeholders
- INEDs commissioned SRK to conduct an independent study into the reasons behind the accident at Mir mine in August of 2017
- In 2018, ALROSA's CEO was named "Best CEO in the Metals and Mining sector (Europe)" due to its raised commitment to regular and transparent dialogue
- Continued effort to increase board effectiveness by instituting the Boards Evaluation Review in 2018 by Odgers and API

## Increased share of INEDs in the Board of Directors

Number of Members



## INEDs represent 100% in Audit and RemCo committees



# Current Board has Supported Initiatives to Improve Alignment of Shareholder Interests



## New management team

New senior management team with tenured professionals committed to increase shareholders return and modernise ALROSA's corporate structure and operations.



## New clear financial and dividend policy

Financial policy to ensure an appropriate balance between capital structure and liquidity at hand. New clearly articulated semi-annual dividend policy based on FCF and target leverage.



## Transparency and disclosure

Commitment to regular and transparent disclosure of operational and financial results and publishing of social and environmental report.



## HSE strategy

Approval of new HSE policy, aimed to promote a culture of safety.



## Long-term incentive plan

Introduction of a long-term incentive plan linked to a set of financial, operational and total shareholder return (TSR) targets to align management and shareholder interests

# Board Agenda for 2019-2020

- 1** Focus on continuous business transformation to ensure long-term competitiveness and sustainable production

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- 2** Emphasis on developing risk management culture within the company

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- 3** Highlight long-term strategic issues in marketing

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- 4** Reform of HR and pay structure

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- 5** Active engagement with all stakeholders



02

# Message from CEO

- 1 HSE is Our Top Priority
- 2 What Was Achieved Since IPO
- 3 Superior TSR Compared to Global Peers
- 4 Journey Ahead

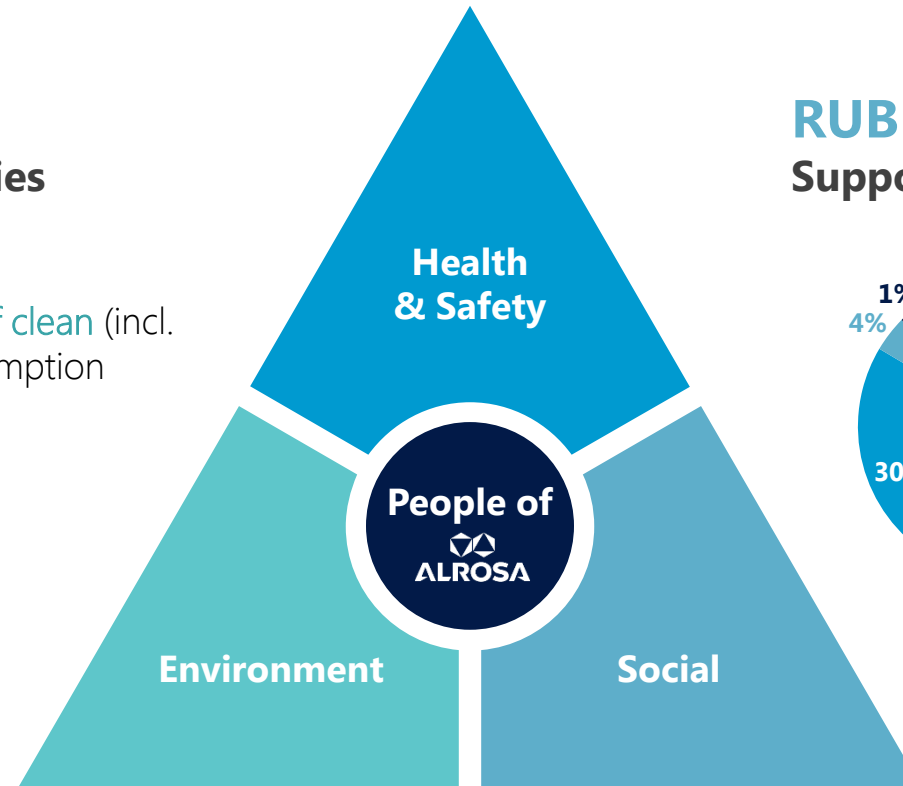
# Focus on Responsible Mining

- Improving industrial safety with **focus on prevention**
- Structural reform **promoting a culture of safety**
- Diagnostic and treatment services aimed to **promote disclosure** and **reduce illnesses**

## RUB 5.2 bn<sup>1</sup>:

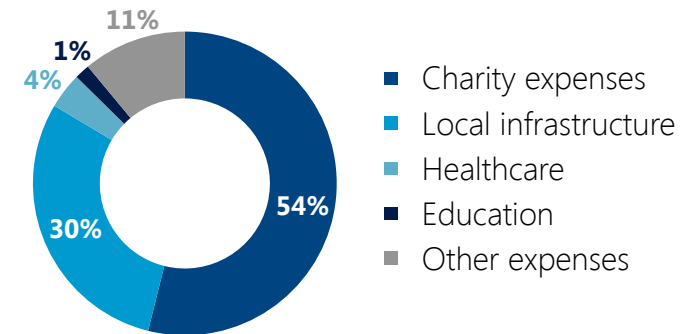
### Capex on Environmental Activities

- Reduce CO<sub>2</sub> emissions
- Maintain high share – at least **86% - of clean** (incl. renewables) electricity and heat consumption



## RUB 6 bn<sup>1</sup>:

### Support to Local Communities



- Corporate pension fund
- Indigenous people traditions
- Culture & sports

Source: Company data and analysis.

1. Based on 2018 figures, excl. sponsorship and social infrastructure maintenance.

# Employee Safety is Our Top Priority

## Strong Commitment to Promote a Culture of Safety and Reduce the Number of Accidents



Structural changes

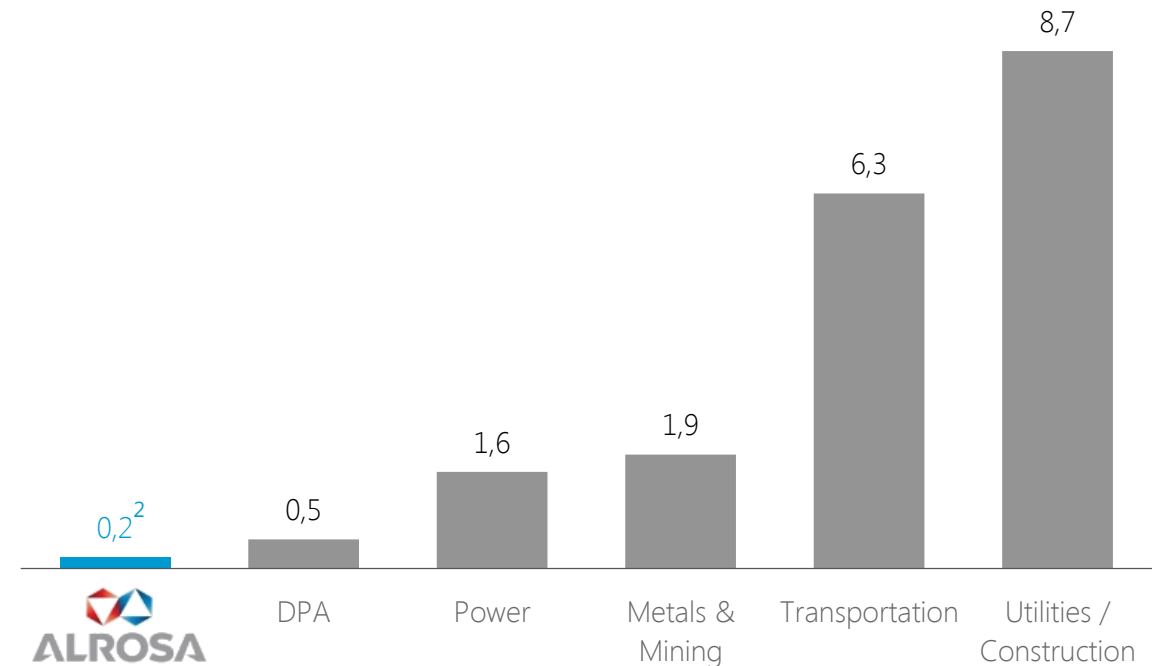


Procedures

- ✓ **HSE committees** at all management levels
- ✓ **Tailored reporting system** to ensure prompt detection and response to incidents
- ✓ **HSE supervision** at each stage of production chain
- ✓ **Revised HSE Policy**
- ✓ **New approach to control** the flow of production
- ✓ **Regular HSE education and training** sessions

One of the lowest LTIFR compared to the diamond industry and other sectors<sup>1</sup>

*Lost Time Injury Frequency Rate per 200,000 hours*



Source: Company data and analysis.

1. Based on S&P Global: "The Diamond Producers Association Final Results Workshop".

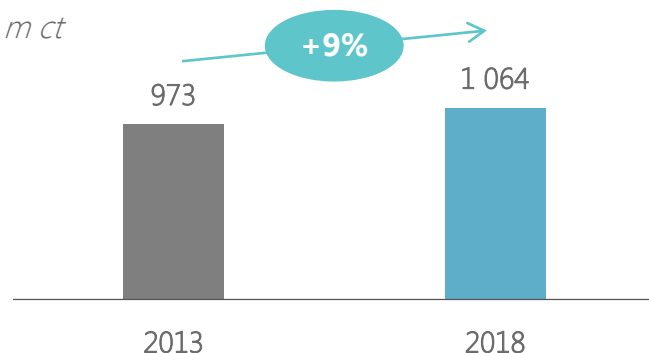
2. ALROSA's LTIFR as of 2018, peers' LTIFR as of 2016.

# Strong Operating and Financial Performance Since IPO

## Maintained Resource Base

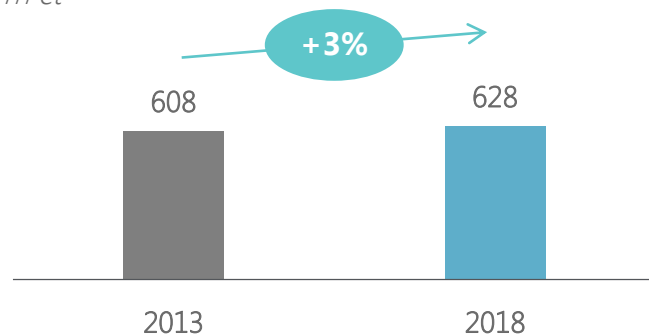
### Resources<sup>1</sup>

m ct



### Reserves<sup>1</sup>

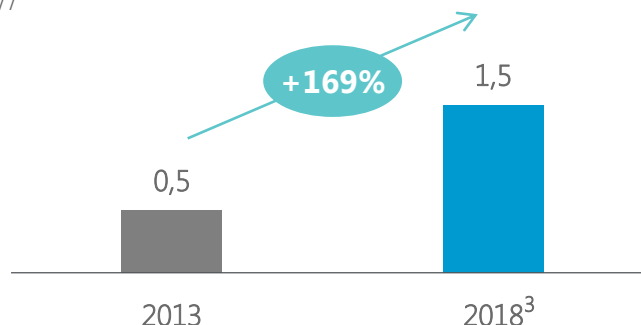
m ct



## Increased FCF & Profitability

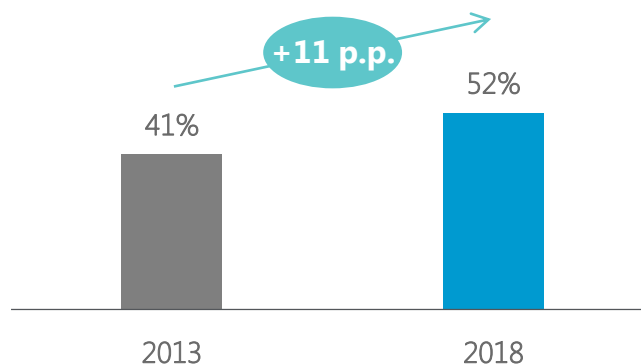
### Free Cash Flow

\$ bn



### EBITDA Margin

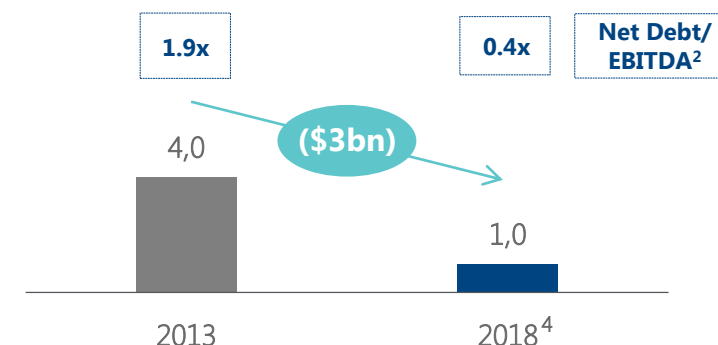
%



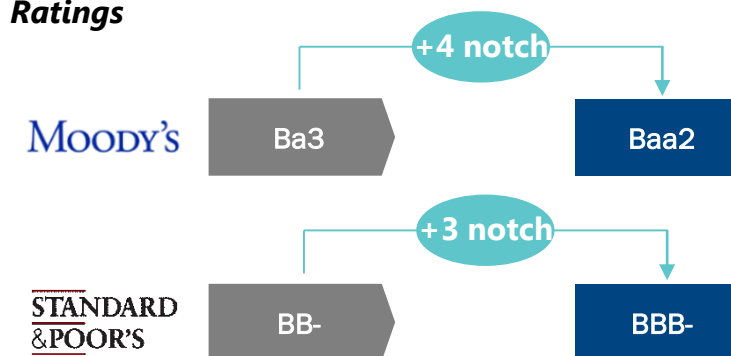
## Strengthened Balance Sheet

### Net Debt

\$ bn



### Ratings



Source: Company data and analysis.

1. As of 1 July 2013 and 1 July 2018 and based on the JORC code assessment carried out by Micon independent experts.

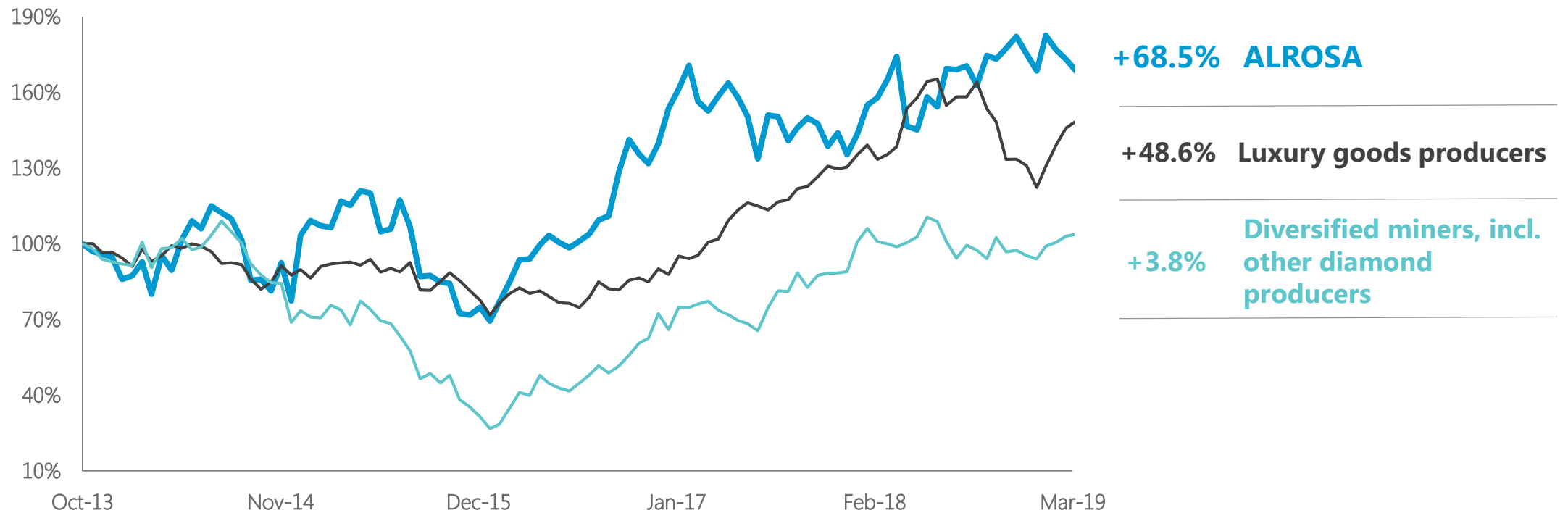
2. Based on EBITDA and Net Debt denominated in rubles.

3. Based on USD to RUB exchange rate of 62.54.

4. Based on USD to RUB exchange rate of 69.47.

# Superior TSR Compared to Global Peers

Cumulative total USD TSR since ALROSA IPO in October 2013, %



Source: Bloomberg as of 12-Mar-19.

Note: Luxury Goods Producers index includes LVMH, Hermes, Richemont, Kering, Swatch, Prada, Tiffany, Tapestry, Burberry, Ralph Lauren, Capri, Moncler and Tod's; Diversified Miners, incl. other diamond producers, index includes Anglo American, Rio Tinto, BHP, Glencore, Vale, Gem Diamonds, Petra Diamonds, Lucara Diamond Corp., Firestone Diamonds, Mountain Province Diamonds and Stornoway Diamond Corp. All indices are weighted by market cap on a daily basis.

# Journey Ahead

## Developing Efficient Organisation...



**Focus on Core Business and Efficiency**



**Prudent Capital Allocation**



**Conservative Financial Policy**



## ...and Taking Advantage of Strong Market Fundamentals...



**Unique Product**



**Growing Demand**



**Declining Supply**



**...to Maximise Free Cash Flow and Shareholder Returns**

# Market fundamentals and key trends

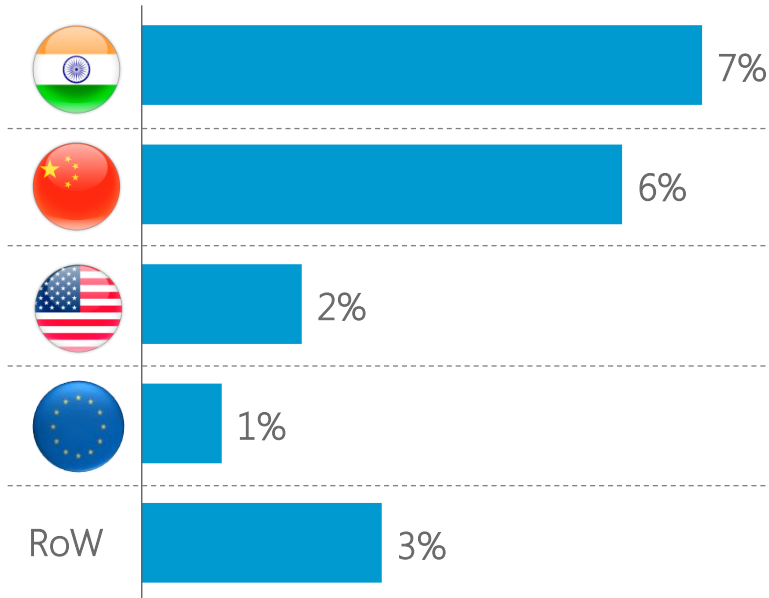
- 1 Strong Long Term Demand Outlook
- 2 Constrained Supply Outlook
- 3 Favorable Supply / Demand fundamentals
- 4 Diamond is a Unique Product

# Strong Long Term Demand Outlook

...driven by disposable income growth and middle class expansion

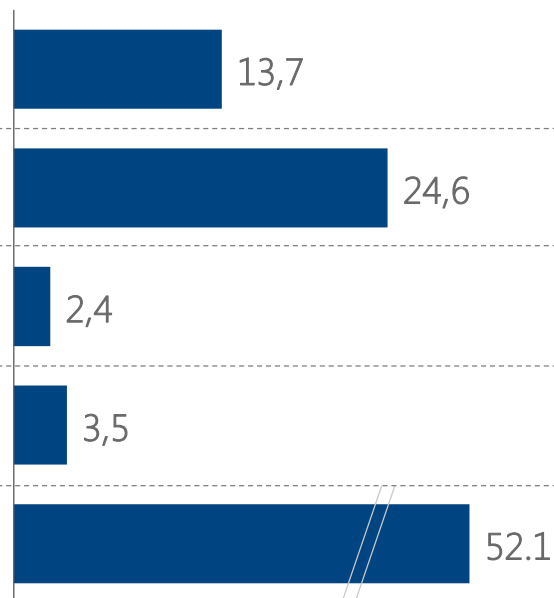
## Real disposable income growth

CAGR 2016-2030F



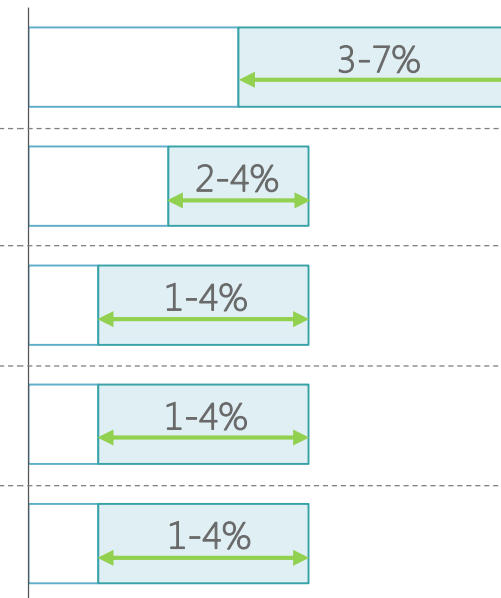
## Middle class growth

m people over 2016-2030F



## Diamond jewellery demand growth forecast

By region, CAGR range 2016-2030F



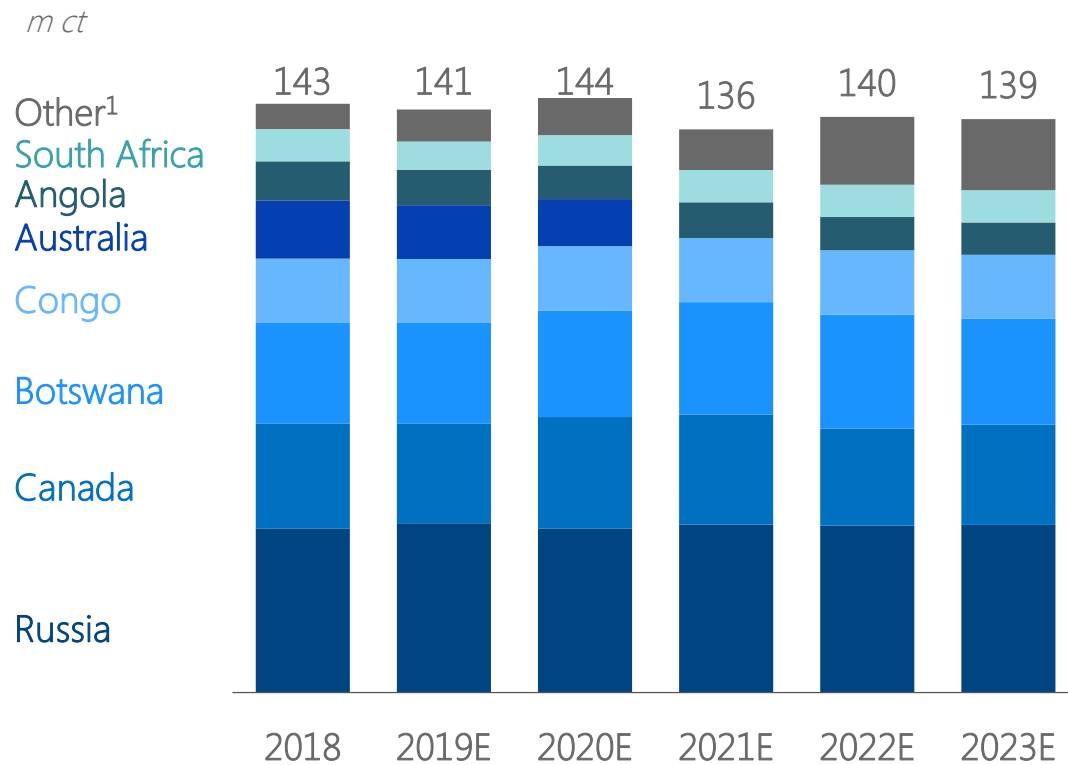
Lower point refers to base case scenario; upper point to optimistic scenario



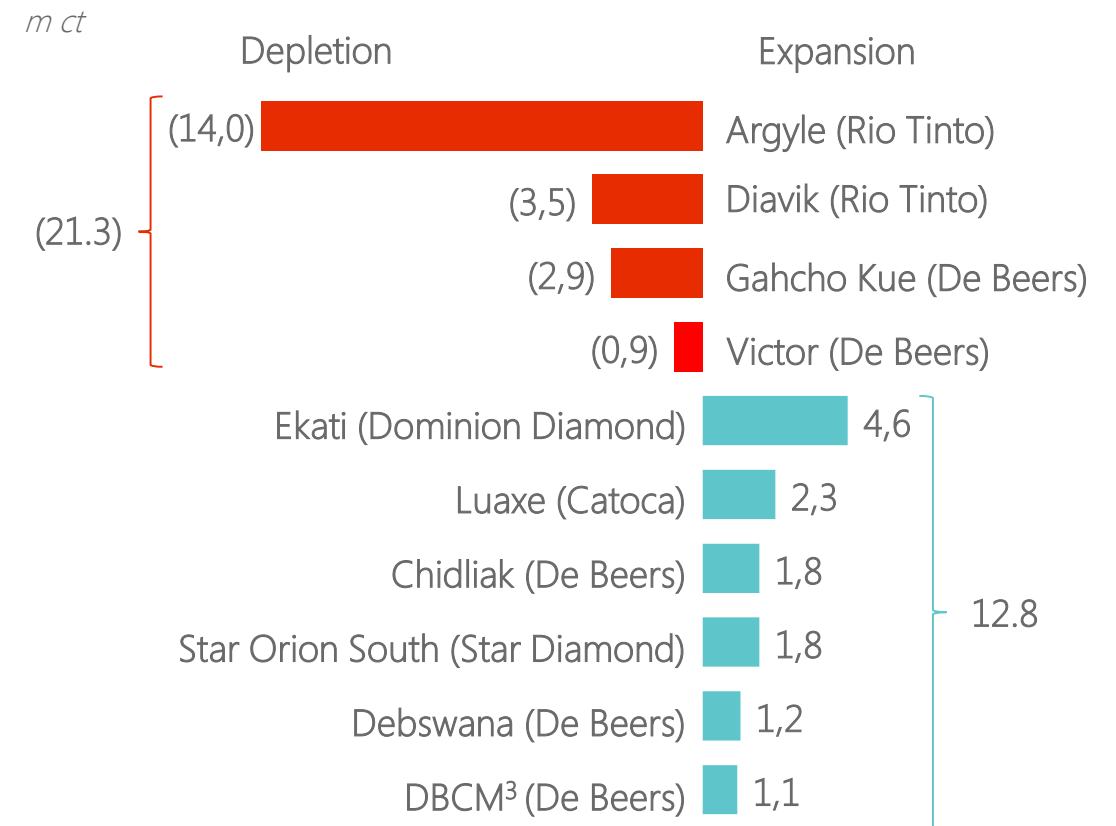
# Constrained Supply Outlook

Depletion of deposits will result in diamond production declines in the coming years

2018 to 2023 supply forecast – 4 m ct down



2019 to 2023 major project capacity changes<sup>2</sup>



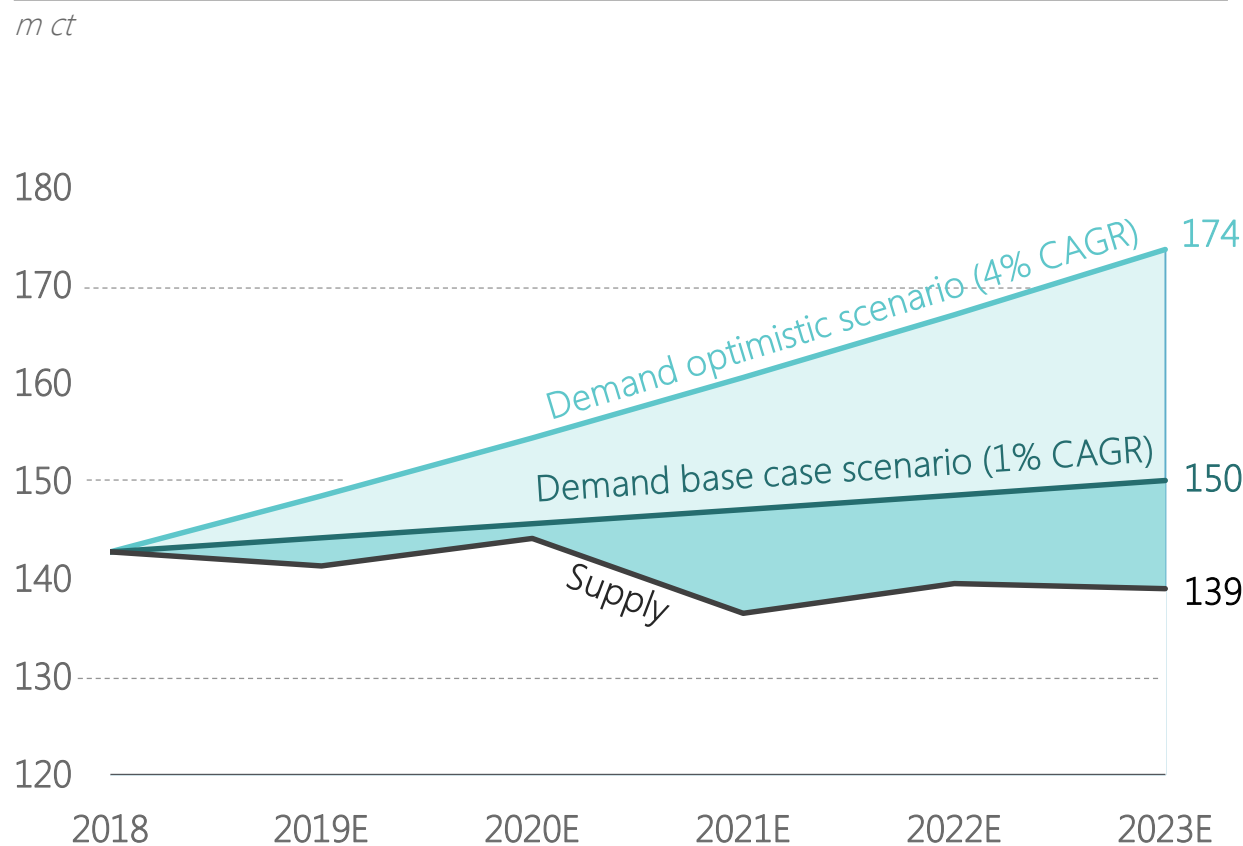
Source: Company data and analysis, brokers' reports.

1. Other includes Zimbabwe and Namibia. 2. Not including ALROSA assets. 3. Stands for De Beers Consolidated Mines, includes Venetia and Voorspoed mines.

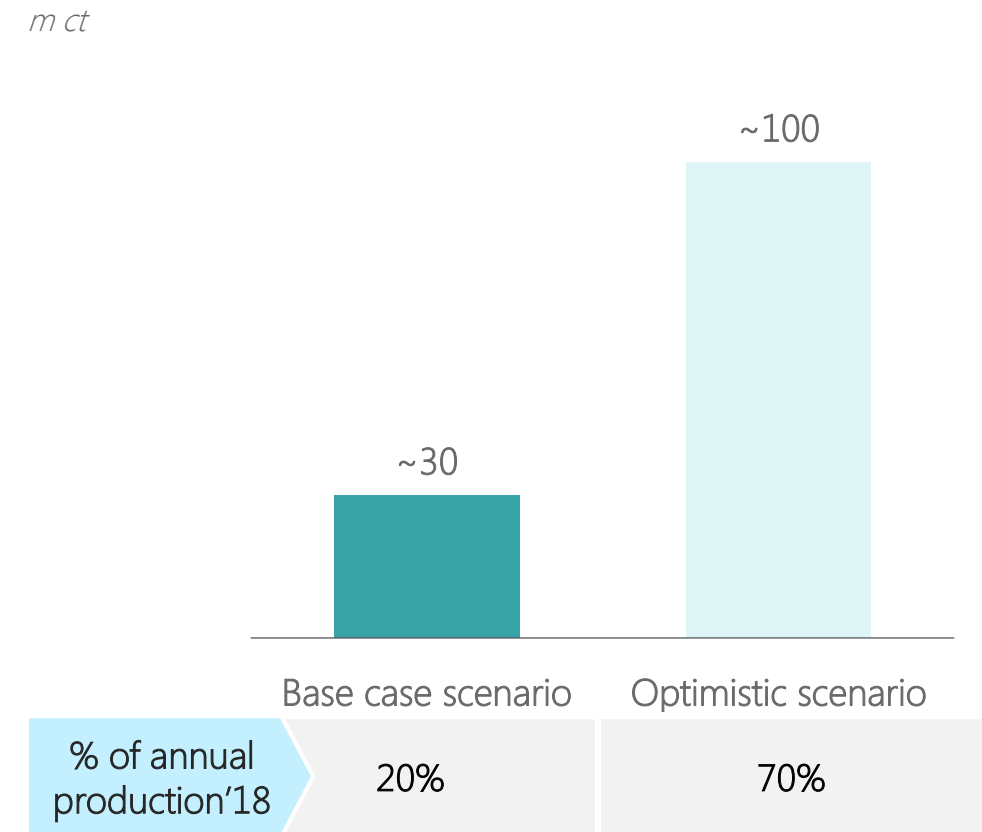
# Favorable Supply/Demand Fundamentals

... will drive the market into a deficit and support positive diamond price pressure

Global Supply / Demand balance outlook



Accumulated diamond deficit in 2019-2023

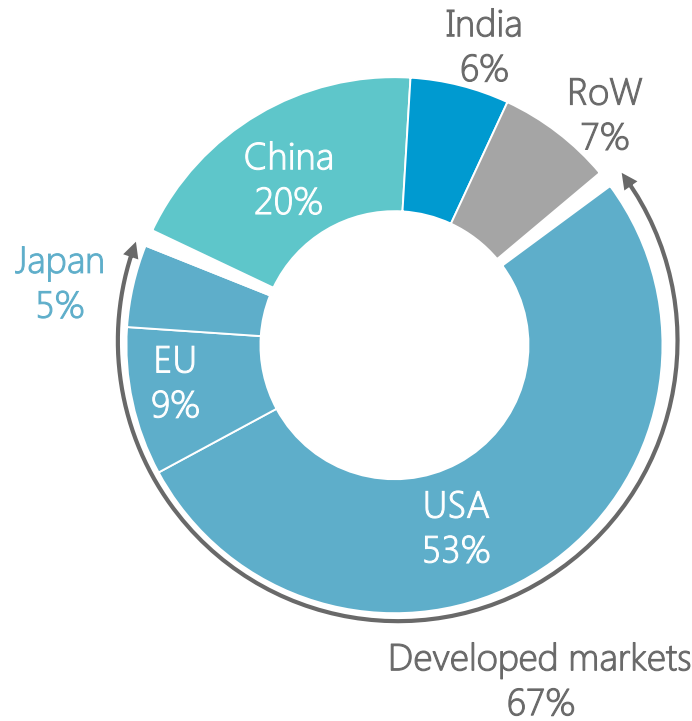


# Diamonds are Different from Commodities

## Mature demand and supply discipline result in low price volatility

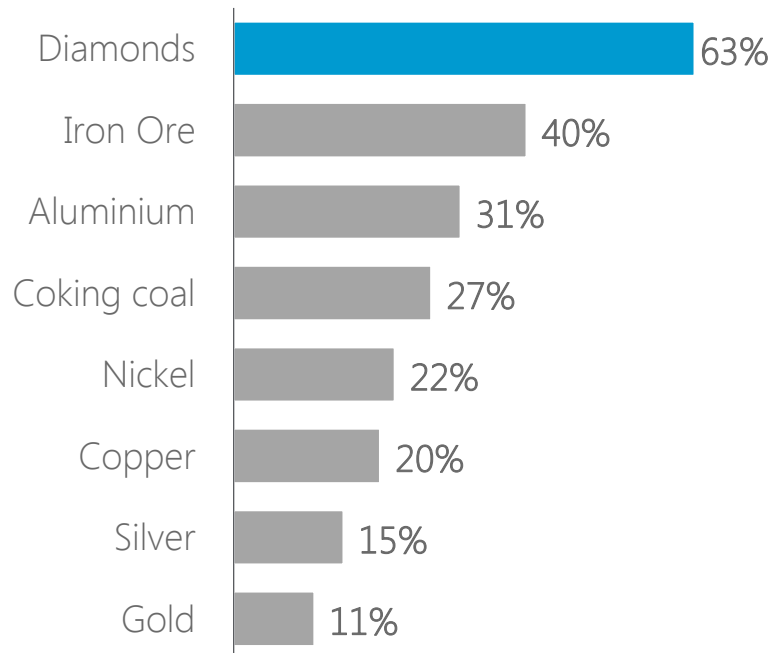
Mature and stable consumer-driven demand concentrated in developed markets

*Diamond jewellery retail sales, \$, 2017*

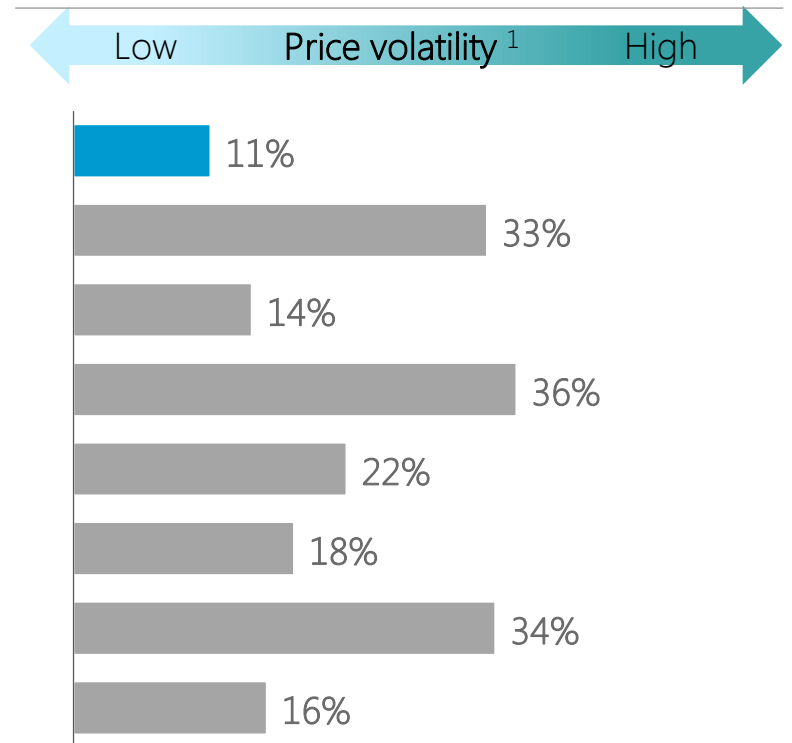


Consolidated production, supporting supply discipline

*Top-3 producers market share, 2018*



Low price volatility compared to commodities



Source: Company data and analysis, AME Research, GFMS, Thomson Reuters, Wood Mackenzie, Bloomberg.

1. Calculated as ratio of standard deviation of daily prices to 10 year average price.

# Demystifying LGDs

## LGD myth #1:

- ✗ **Myth:** LGD and diamonds are identical
- ✓ **Truth:** LGD has the same physical and chemical characteristics as diamonds, but they are not identical, and they are **easily detected** using widely available identification equipment

## LGD myth #2:

- ✗ **Myth:** FTC ruling stated that LGDs and diamonds are the same
- ✓ **Truth:** For LGDs, FTC guides require businesses to “**disclose clearly and conspicuously** that the product is not a mined diamond”. In fact, in all key markets LGDs have to be identified as manmade

## LGD myth #3:

- ✗ **Myth:** Launch of LGD brand by a major natural diamond producer endorses LGD as a valid substitute to natural diamonds
- ✓ **Truth:** Differentiated market positioning clearly illustrates the **differences between** diamonds and LGD and will serve as a baseline for LGD **perception by customers** and industry players

## LGD myth #4:

- ✗ **Myth:** LGDs is an eco-friendly and ethical alternative to diamonds
- ✓ **Truth:** Most LGDs are produced in China and India with coal-generated electricity, leaving up to a **40% heavier carbon footprint per polished LGD carat**. Over 99% of supplied natural diamonds are conflict free; proceeds from sales support local communities and employment

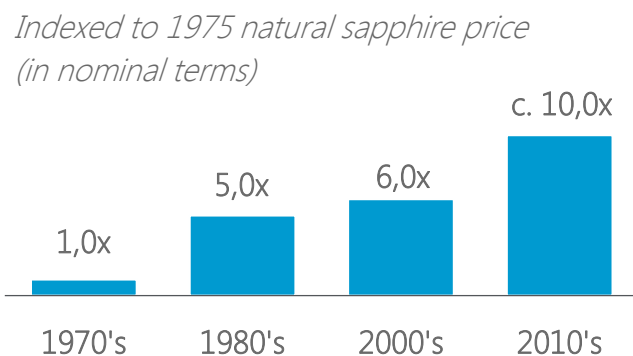
## Case study: LGD positioning by a major player

- **Fixed price**
  - At ~20% of diamond price for 1 ct stone
- **Linear pricing**
  - ¼ ct stone price is ¼ of 1 ct stone price
- **Standard, commodity-like** colour, size and quality
- **No specifications** other than size and colour
- **No grading reports** or certification

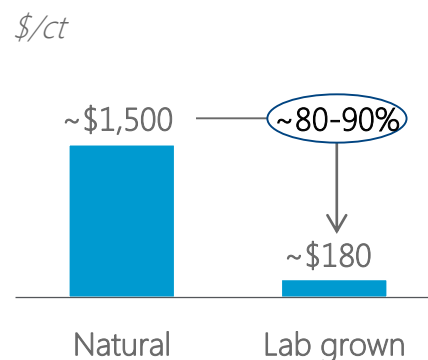
# LGD: the Future is History

## Similar scenario has already realised on the market for lab grown sapphires

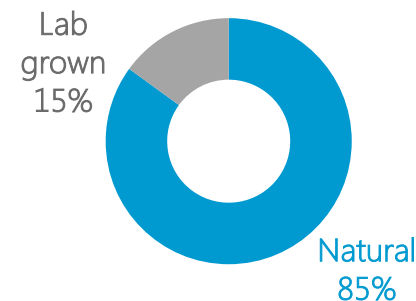
Indexed price per carat of natural sapphire<sup>1</sup>



Price per carat discount (2017)<sup>2</sup>



Lab grown stones production share (2017)



- Gem quality lab grown sapphires first appeared in 1970s and started commercial production in 1990s
- Market share of lab grown sapphires stabilised in 2000's at 15% production share
- End-users clearly marked the difference which is reflected in price-tag for 1 carat



Synthetic production development does not adversely affect the market for natural stones

### Expert quotes

"We need to convince people that lab-grown gemstones are not fake stones. We operate on **market that is separate from natural gemstones**"

President,  
Leading lab-grown gemstones company

"**Rarity is a very important factor** for consumers, but lab-grown gemstones completely miss it"

Head of Business Development,  
Leading gemstone mining company

"Lab-grown gemstones **do not affect natural market**. Easy to distinguish them as they are of perfect quality: too well cut, no inclusions"

President,  
Gemstone trading company

"Focus of lab-grown gemstones is **cheaper low-end jewellery**"

Head of Business Development,  
Gemstone trading company

Source: Company data and analysis, Bain data and analysis, Preciousgemstones.com.

1. Sapphire of the highest grade: clarity – LI, colour – 2.5/75 (blue), rough.

2. Price per 1 ct stones of comparable quality (fine-quality).

# Synthetic Stones: Key Marketing Messages

Key marketing messages of lab grown sapphires producers are similar to the ones used now by LGD producers

Key marketing messages of lab-grown coloured gemstones (incl. sapphires) producers in 1960-2000s

A word cloud representing marketing messages from the 1960-2000s. The words are arranged in a circular pattern. The most prominent words are 'High quality' in large teal letters at the top, 'Affordable' in large dark blue letters in the center, and 'Identical' in large blue letters at the bottom. Other visible words include 'Value', 'Created in America', 'Own design', 'Available', 'Unique', 'Innovative', and 'Real'.

Key marketing messages of LGD producers today

A word cloud representing current marketing messages from LGD producers. The words are arranged in a circular pattern. The most prominent words are 'High quality' in large teal letters at the top, 'Identical' in large blue letters in the center, 'Affordable' in large dark blue letters at the bottom left, and 'Conflict-free' and 'Eco-friendly' in large dark blue letters at the bottom right. Other visible words include 'Unique', 'Innovative', 'Ethical', 'Real', 'Dynamic', 'Rare', 'Above-ground', 'Own design', 'Value', 'Created in America', 'Best of millennials', 'Good investment', 'Flexible', and 'Pure'.



Key messages are similar, though now lab-grown diamond producers additionally explore “environmentally-” and “socially-friendly” trend

Source: Company data and analysis.

Note: Coloured gem stones messages are based on vintage ads of Chatham Created Gems and Diamonds; Lab-grown messages are based on the message mentions on the websites of Diamond foundry, Chatham Created Gems and Diamonds, Lightbox, NDT, Scio Diamonds and IIA Technologies.

# Diamonds and Their Synthetic Substitutes Have Different Price Drivers and Value to Consumers

## Natural diamonds



- Product of nature
- Rare, unique and inherently valuable
- Highly consolidated supply, high entry barriers



### Price drivers:

Rarity  
Symbolism  
Supply discipline

## LGD



VS

- Industrial product
- Can be produced in any volume
- Highly fragmented supply, low entry barriers



### Price drivers:

Cost

## LGD is not the first synthetic alternative to diamonds

### LGD



**Price per carat (\$)**

\$800

### White Zircon



**Price per carat (\$)**

\$75-100

### Moissanite



\$400

### Cubic Zirconia

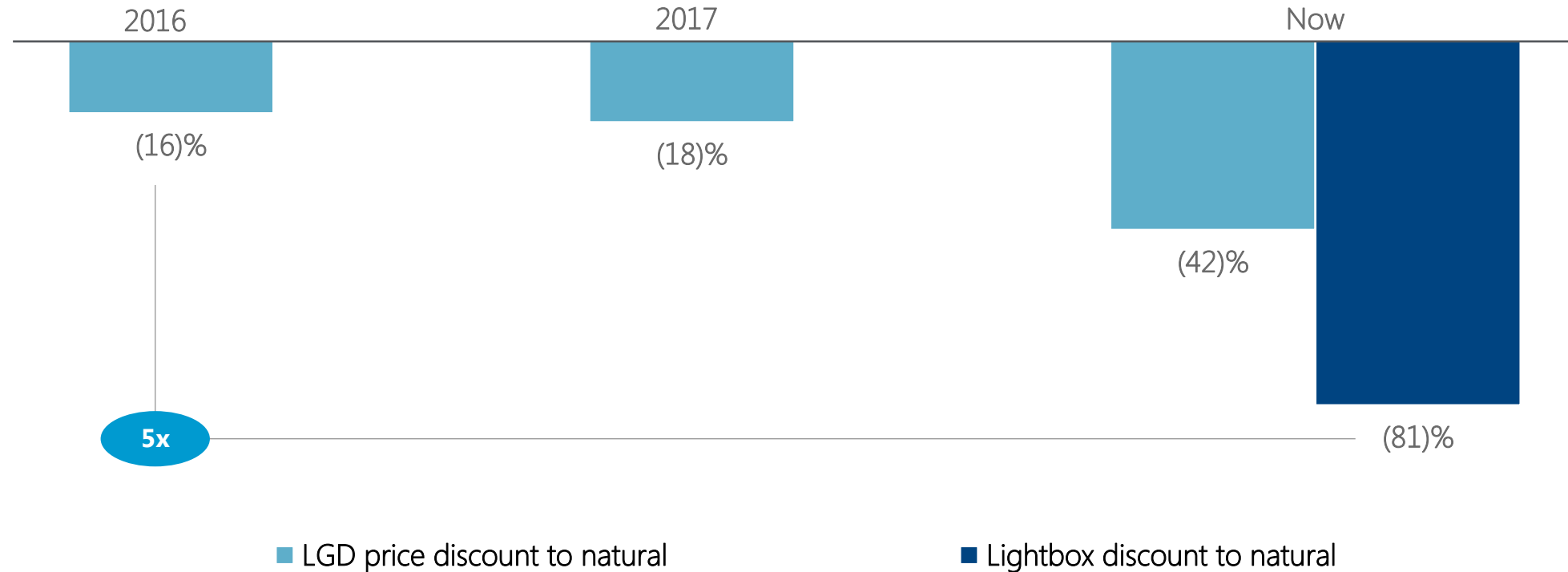


\$20-40

# Expanding LGD Discount Illustrates Different Market Perception of LGD vs. Diamonds

## LGD discount to natural diamonds

Price of 1 carat polished diamond: Round, VS clarity, F-H colour





# Executing to strengthen our business

**1** Key Challenges for the Industry and How We Address Them

**2** Superior Exploration Capabilities

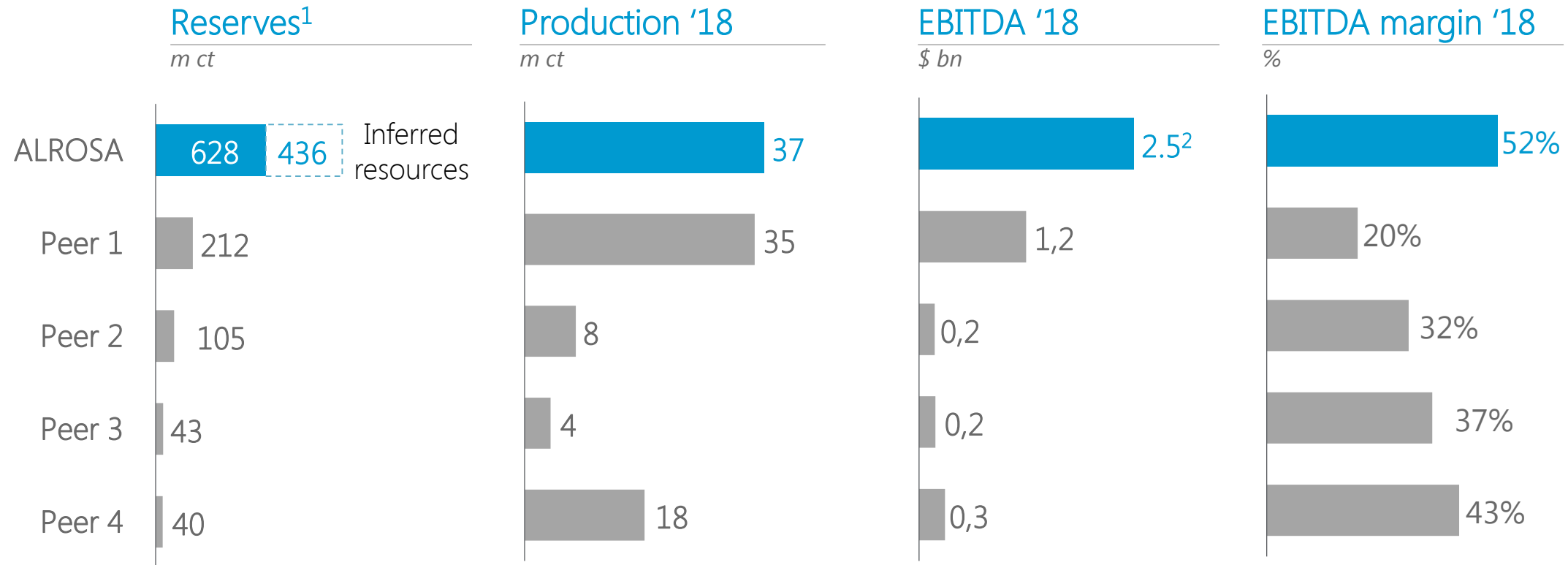
**3** Stable Production Outlook

**4** Focus on Efficiency and Case Studies

**5** Prudent Capital Allocation

# ALROSA: the Story of the Industry Leader in 4 Charts

The largest and most profitable player in the industry



Source: Company data and analysis, Diamond producers' data.

Note: Diamond producers include De Beers, Rio Tinto, Dominion Diamonds, Petra Diamonds.

1. Reserves are as per latest available data.

2. ALROSA's financial metrics are converted at 2018 average USDRUB rate of 62.54.

# Key Challenges for the Industry

- 1 Lack of new deposits, limited exploration success
- 2 Grade deterioration, cost inflation
- 3 Ever increasing competition from other luxury goods
- 4 Rising scrutiny over capital allocation discipline

## ... and how we address them from a value creation perspective

- Investment in exploration and production development to maintain reserves base and production
- Operational efficiency program and culture
- Increasing our marketing efforts to promote the unique appeal of our product
- Focus on core business
- Prudent investment program
- Focus on shareholder returns

# Superior Exploration Capabilities

... result in solid track record of resource replenishment at low finding costs

Unique full-cycle exploration operations...



... Backed up by advanced technologies



Complex  
Aerogeophysical  
Footage-5



Georadar footage

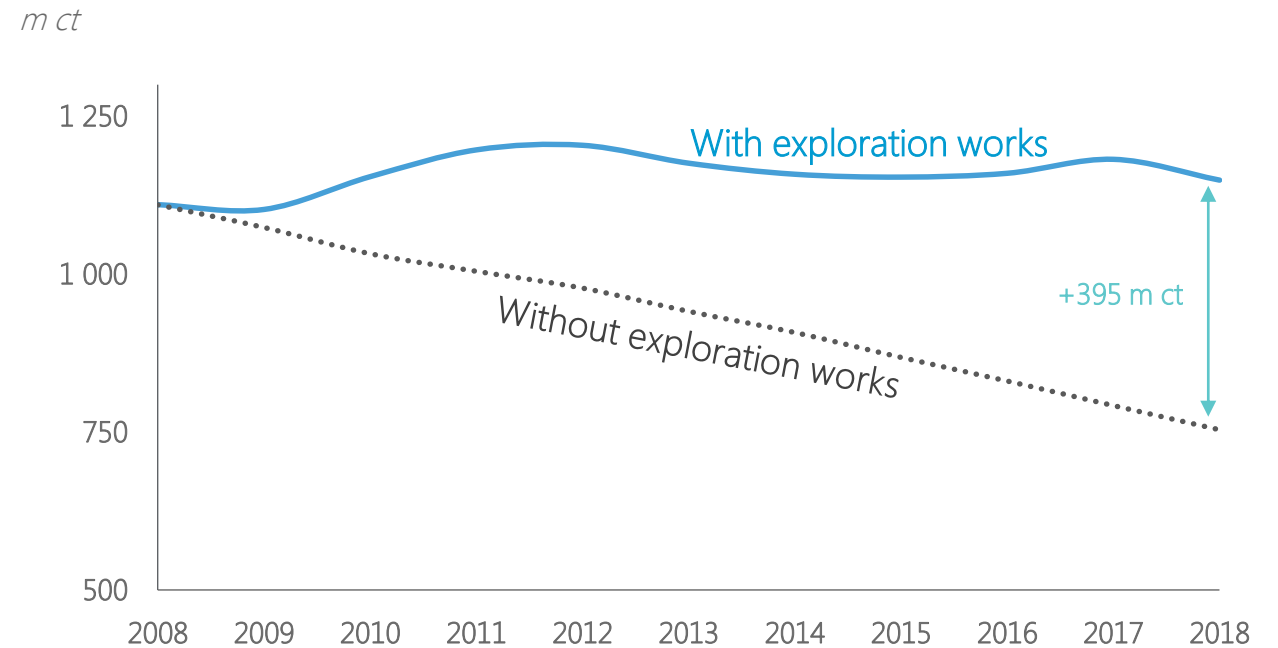


Radio Wave  
Geointrospection



High resolution  
seismic survey  
in 3D / 2D

Track record of resource replacement<sup>2</sup>



- Discovered resources: 395 m ct
- Average finding costs of \$3.1 per ct<sup>1</sup>

Source: Company data and analysis.

1. For the period from 2009 to 2018.

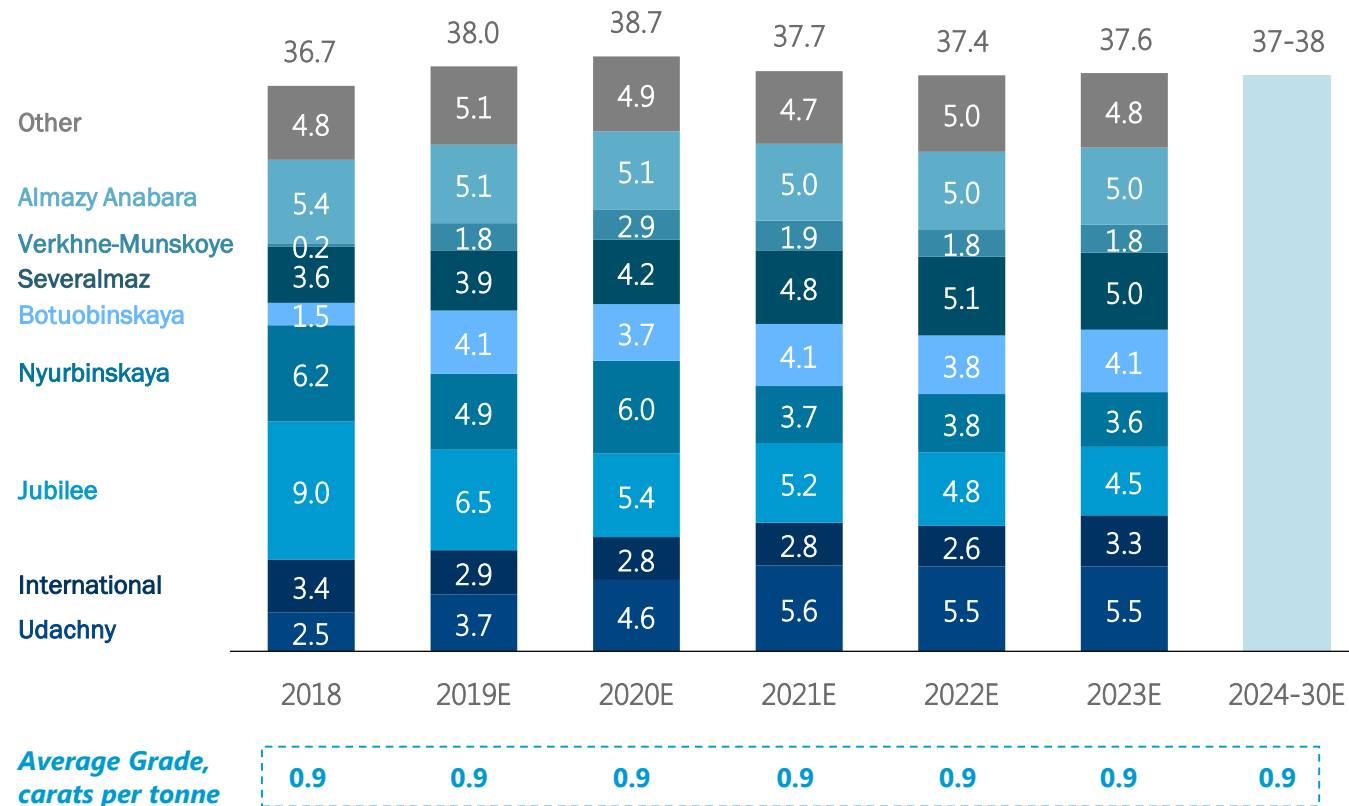
2. Based on resources in accordance with the Russian classification.

# Stable Production Outlook

...supported by development of new projects and debottlenecking

## Production outlook

m ct



## Key drivers

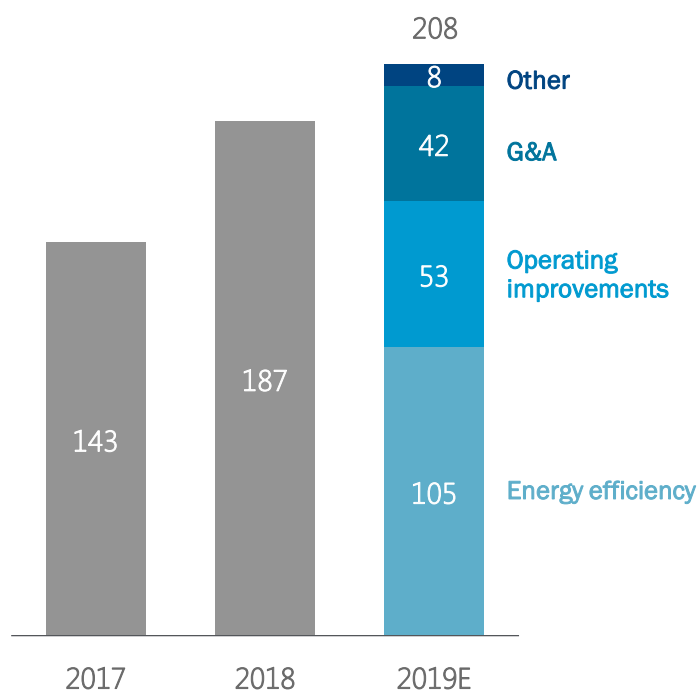
- Development of new projects/debottlenecking:
  - V. Munskoye deposit: +c.2.0 m ct – full ramp-up by '20
  - Udachny underground mine: +c.3.0 m ct – full ramp-up by '21
  - Severalmaz: +c.1.4 m ct (debottlenecking) from '21-22
  - Nyurba division: +c.2 m ct (debottlenecking) in '19-20
- Decline in diamond output:
  - Jubilee: -1.5 m ct from '19 (due to production at kimberlites with a lower grade)
  - International underground mine: decrease in '18-'22 due to mining and geological conditions

# Focus on Efficiency

## Dedicated operating efficiency program launched in 2017

### Scaling up initiatives

Number of Initiatives

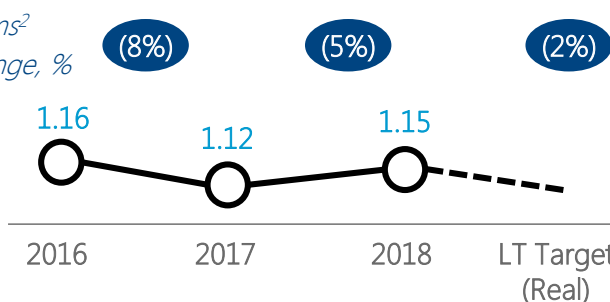


### Delivering tangible results

Nominal Unit Costs<sup>1</sup>, k RUB/m<sup>3</sup>

Real terms<sup>2</sup>

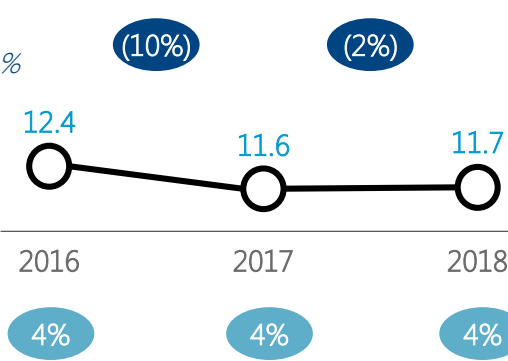
YoY change, %



General and administrative expenses, RUB bn

Real terms<sup>3</sup>

YoY change, %



As % of revenue



### Key initiatives

- Optimisation of ore beneficiation and separation processes
- Restructuring of construction and geological exploration units
- Implementation of centralised management and usage-based approach for transportation
- Labour productivity increase
- G&A optimisation

Source: Company data and analysis.

1. Include payroll and other employee payments, fuel and energy, materials, external services and transportation, other production costs.

2. Labour costs, services and transportation are adjusted based on CPI. Material costs, fuel and energy are adjusted based on respective price indexes.

3. Calculated based on CPI, excl. impairment of receivables.

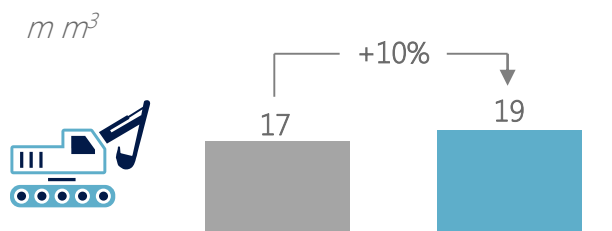
# Case Study: Operational Turnaround Program at Nyurba

Nyurba's success can be replicated and scaled up across other divisions

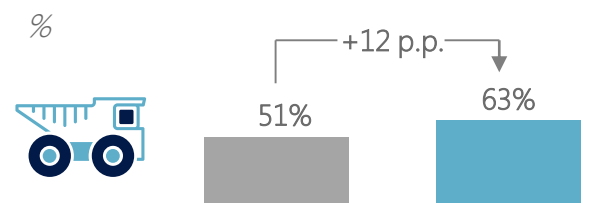
## Key streams and initiatives

- Improving mine fleet dispatching processes by SIC<sup>1</sup> procedures implementation
- Optimizing OEE<sup>2</sup> by reducing non-value added operations
- Optimizing maintenance and repairs operations will lead to improved equipment availability and
- ... improved plant availability
- Increasing hourly throughput by optimizing ore blending processes

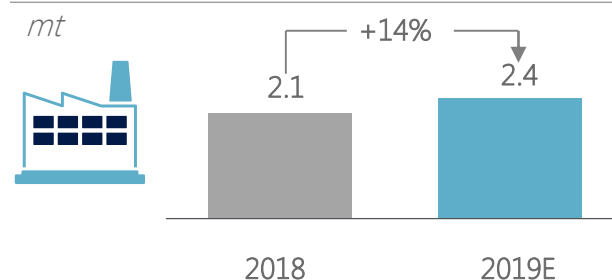
## Run of mine



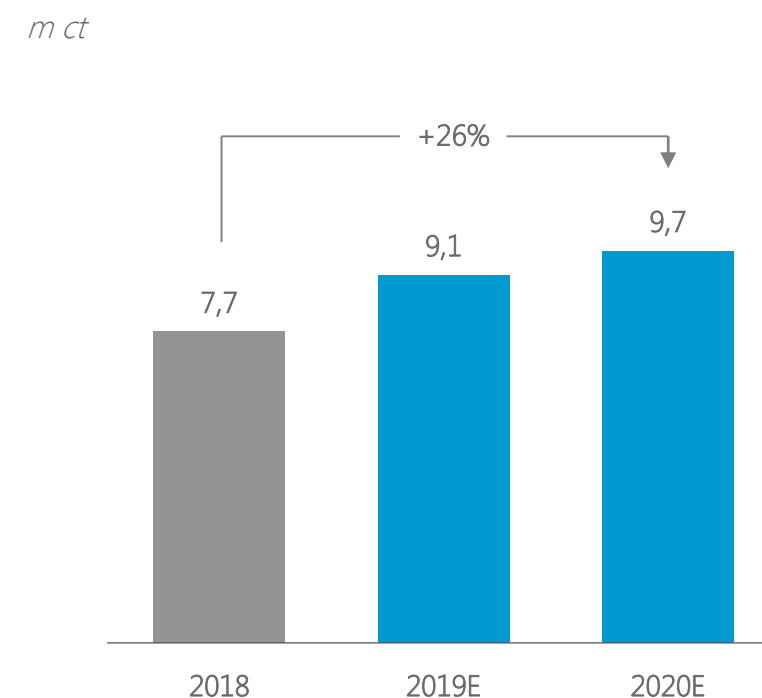
## Overall equipment efficiency



## Processing



## Diamond production growth



Source: Company data and analysis.

1. Short interval control.

2. OEE – overall equipment efficiency.

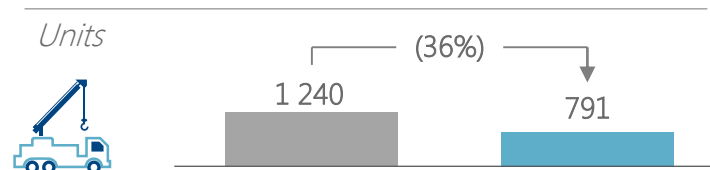
# Case study: Automotive Transport Optimization

## Centralization and usage-based approach provide long-term cost cutting effect

### Key streams and initiatives

- Number of vehicles went down following implementation of new processes and tools: usage-based approach to vehicles request and utilization, route optimization and reduction of fleet renewal program
- Revision of organizational structure and headcount optimization
- Shift to natural gas from gasoline and diesel leads to decreased fuel cost decline and reduced emissions

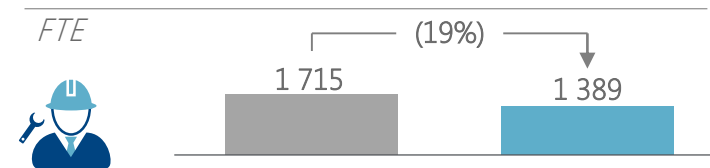
### Number of vehicles



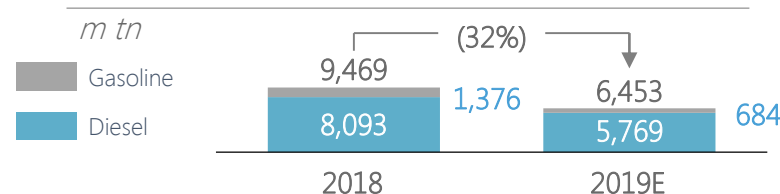
### Vehicles utilization factor



### Headcount

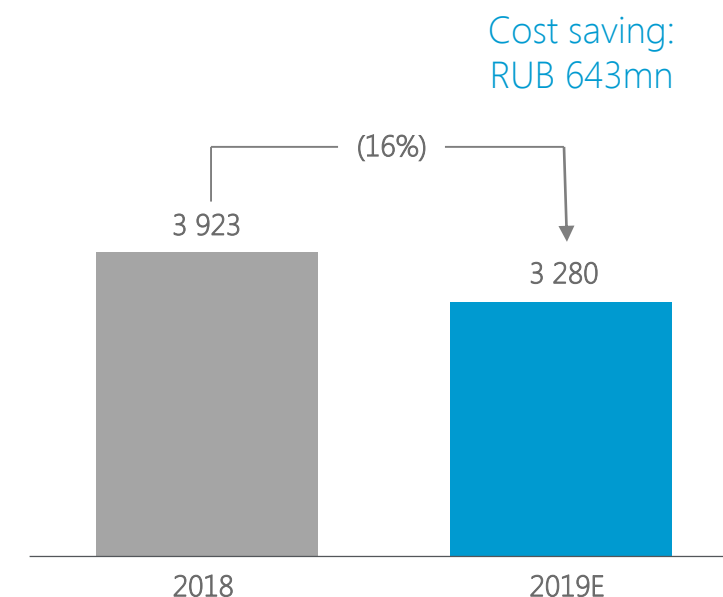


### Fuel



### Cumulative effect in cost cutting

RUB mn, expenses related to transportation





# Case Study: Working Capital Management

## Reduction in rough diamond WIP inventory days

### Optimization levers



- Downtime reduction
- Workflow optimisation
- New analytics and modelling
- Process automation

### Key enablers

- Team and capability development
- Productivity monitoring and benchmarking
- New productivity based motivation system
- IT systems upgrade

### Reduction of diamonds WIP<sup>1</sup> cycle

#### Production Chain of Rough Diamonds



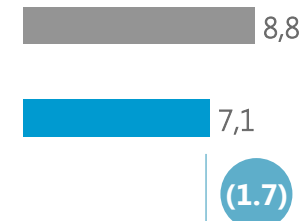
#### Decrease in average WIP Cycle

Number of days



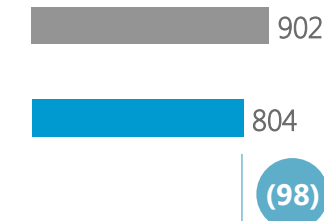
#### ... leading to lower rough diamond WIP inventory by Volume

m ct



#### ... and by Value<sup>2</sup>

\$ mn



Source: Company data and analysis.

1. Rough diamonds before sorting is completed. Does not include +10.8 ct and industrial grade diamonds.

2. Based on prices of diamonds set by reference to price lists approved by the Ministry of Finance of the Russian Federation.

# Employee Training and Development System

... to further improve long term competitiveness and productivity

## Key initiatives and programmes



### Improvement of remuneration system

- Revision and simplification of remuneration system to increase transparency and link it to performance
- Launch of share-based incentive program to retain top management and align their interests with shareholders



### Development of talent pool

- Implementation of a multi-stage competency assessment system for the selection and professional development of the talent pool members

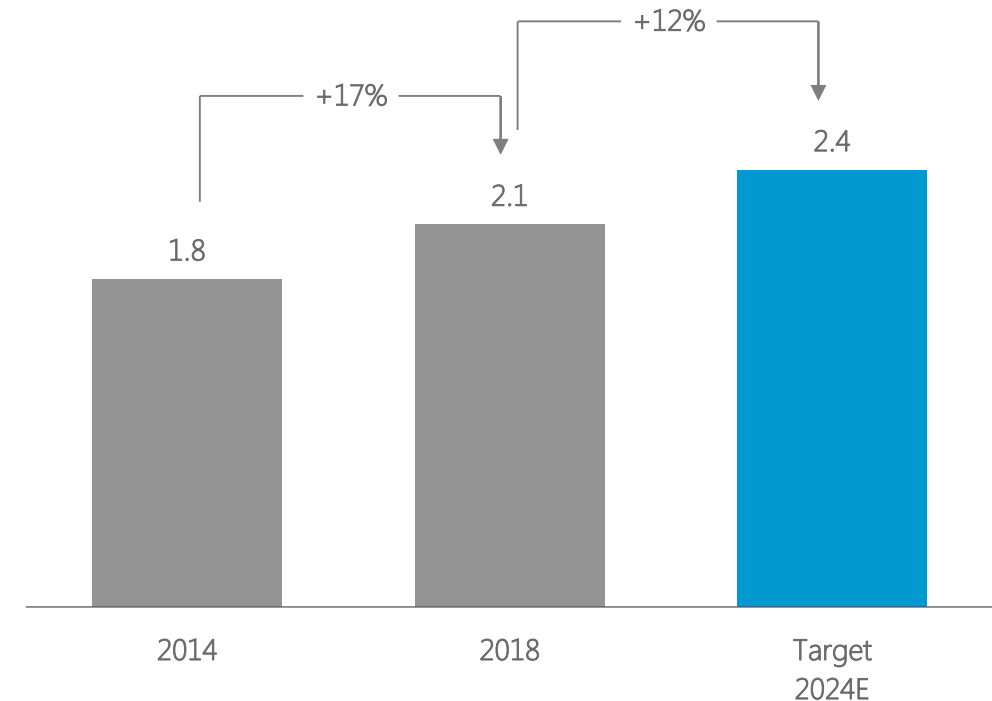


### Establishment of Corporate University

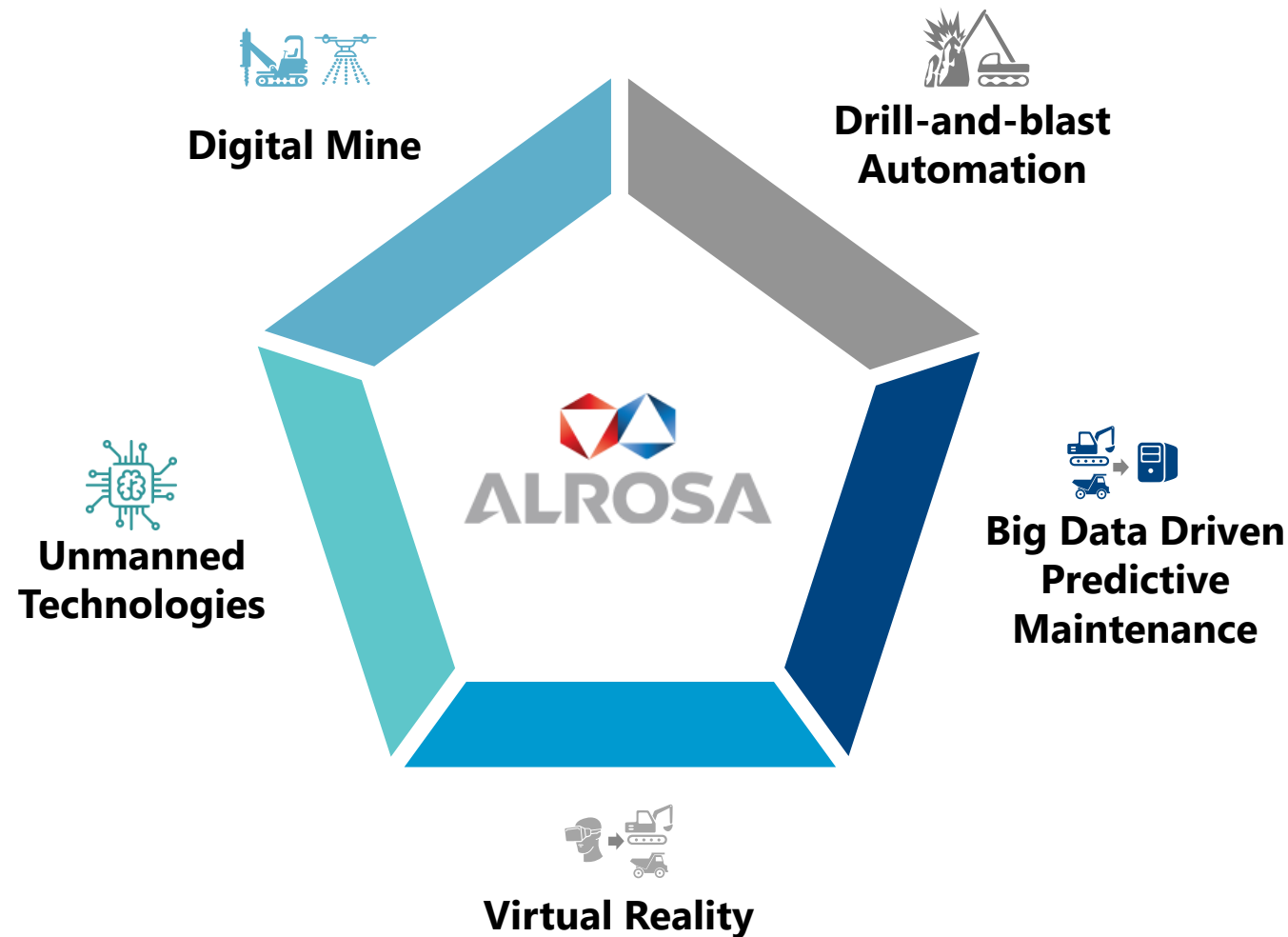
- Development of in-house corporate educational system covering various grades and business divisions
- Implementation of internal coaching and mentoring programmes

## Labour productivity growth

*k m<sup>3</sup> of run-of-mine ore per employee*



# Adoption of Best Practices in Digitalisation Offers Further Efficiency Potential



# Marketing Strategic Initiatives

## Generic (category) marketing



- Participation in DPA to promote the integrity and reputation of natural diamonds
- Differentiation of natural diamonds and LGDs markets driven by rarity, uniqueness and inherent value of natural diamonds

## Marketing of diamond collections



- Promotion of large, exceptional quality diamonds
  - Sale of Dynasty collection consisted of five stones manufactured from a 179 ct rough diamond
- Promotion of fancy coloured diamonds
  - Launch of the first “True Colours” auction of large coloured diamonds at the Hong Kong Jewelry & Gem Fair

## Promotion of different assortment categories



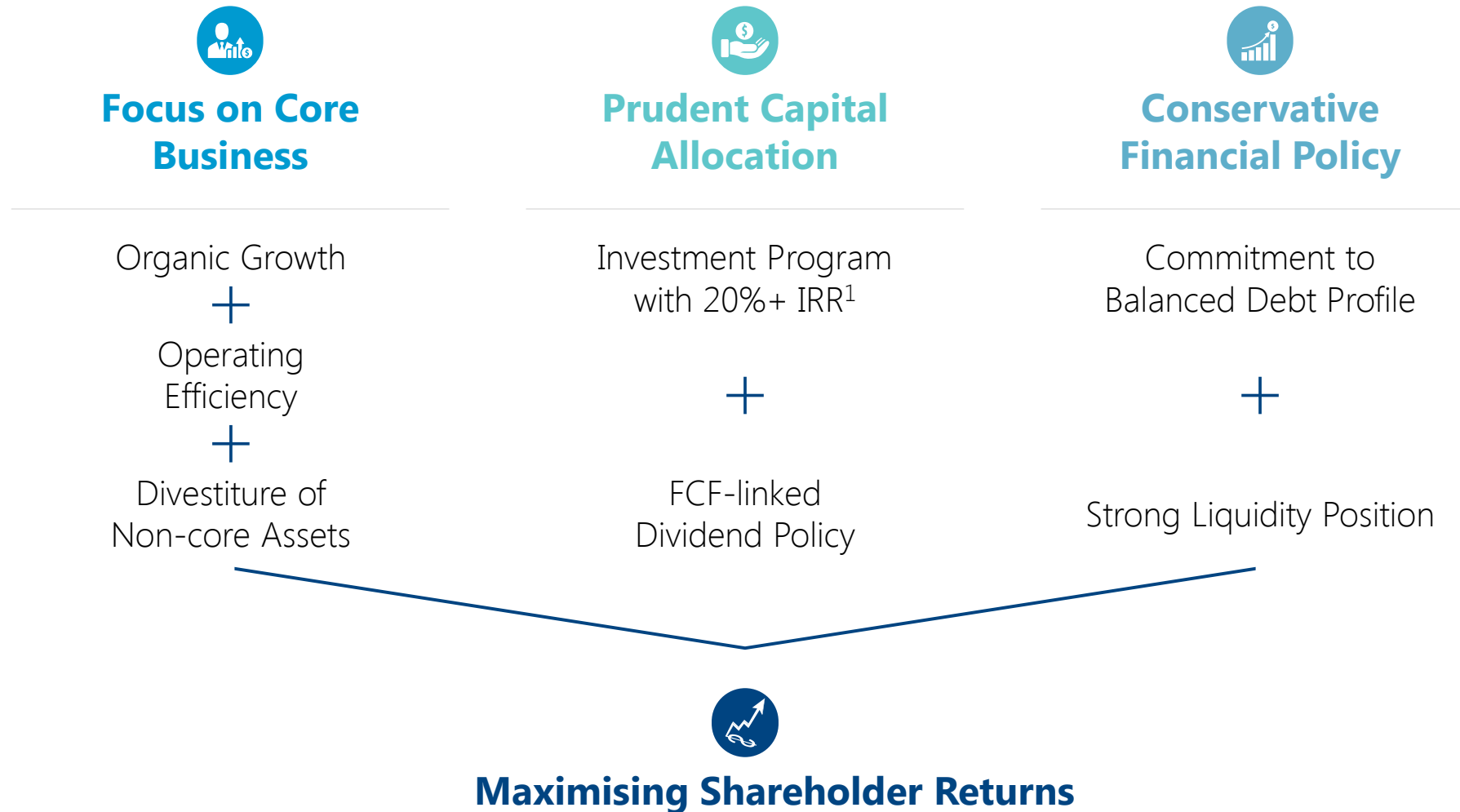
- Active promotion of fluorescent diamonds to stimulate demand in B2C segment
- Marketing initiatives to improve broader sentiment towards fluorescent diamonds

## Introduction of digital marketing



- Participation in pilot projects involving M2M and Tracr tracing platforms
- Implementation of digital twin technology providing detailed information about each stone
- Development of digital platform for online sales

# Capital Allocation - Key Principles and Policy Overview



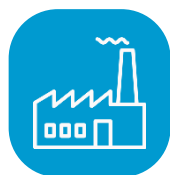
1. For investments in new mining capacity and operational efficiency projects.

# Focus on Value Accretive Capex

Capital-intensive phase is over

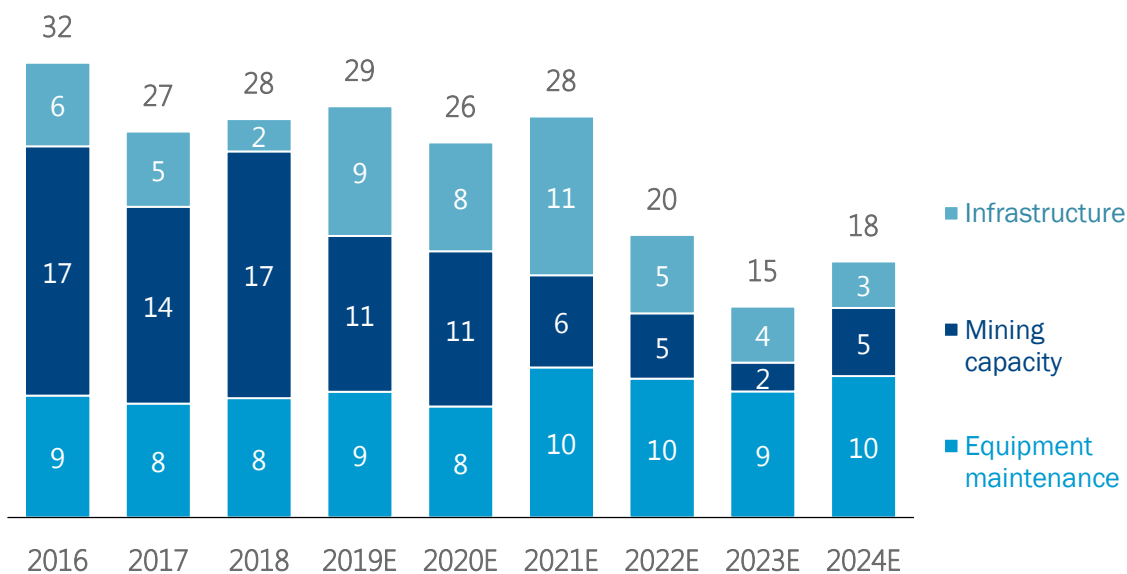
Capex dynamics

RUB bn



**Capex:**

Investment program with target IRR<sup>1</sup> of 20%+



Source: Company data and analysis.

1. For investments in new mining capacity and operational efficiency projects.

Key projects

## Mining capacity

- Total 2019-24 Capex – **RUB 40 bn**
- Completion of Udachny underground mine construction
- Completion of Verkhne-Munskoye diamond deposit development
- Construction of Maiskaya pipe (see p. 39)
- Construction of Zaria pipe (see p. 39)

## Equipment maintenance

- Total 2019-24 Capex – **RUB 55 bn**

## Infrastructure

- Total 2019-24 Capex – **RUB 40 bn**
- Reconstruction of Mirny Airport: total Capex – **~RUB 10 bn** to be invested in 2018-22
- Gasification of production facilities in Udachny: total Capex – **RUB 4.6 bn** to be invested in 2019-23
- Organization of production site for the needs of USO: total Capex – **RUB 5.3 bn** to be invested in 2019-20
- Construction of gas processing facility by "ALROSA-Gaz" (JSC): total Capex – **RUB 2.7 bn** to be invested in 2018-21

# Pipeline of New Projects

## Zaria pipe (open-pit)

- **Description:** construction of Zaria pipe
- **Location:** 2 km from Aikhal
- **Exploration activities :** concluded in 2012
- **Resource base:** 3.5 m ct
- **Launch:** 2020
- **Ramp-up:** 2021
- **Designed capacity:**  
1.2 mmt of ore (0.35 m ct)
- **Capex:** RUB 8.4 bn (23% remaining)
- **NPV:** RUB +1.1 bn
- **IRR:** 20%

## Maiskaya pipe (open-pit)

- **Description:** construction of Maiskaya pipe
- **Location:** 3 km from Botuobinskaya
- **Exploration:** concluded in 2015
- **Resource base:** 13.8 m ct
- **Launch:** 2025
- **Ramp-up:** 2027
- **Designed capacity:**  
0.3 mmt of ore (1.2 m ct)
- **Capex:** RUB 5.6 bn (99% remaining)
- **NPV:** RUB +6.7 bn
- **IRR:** 26%

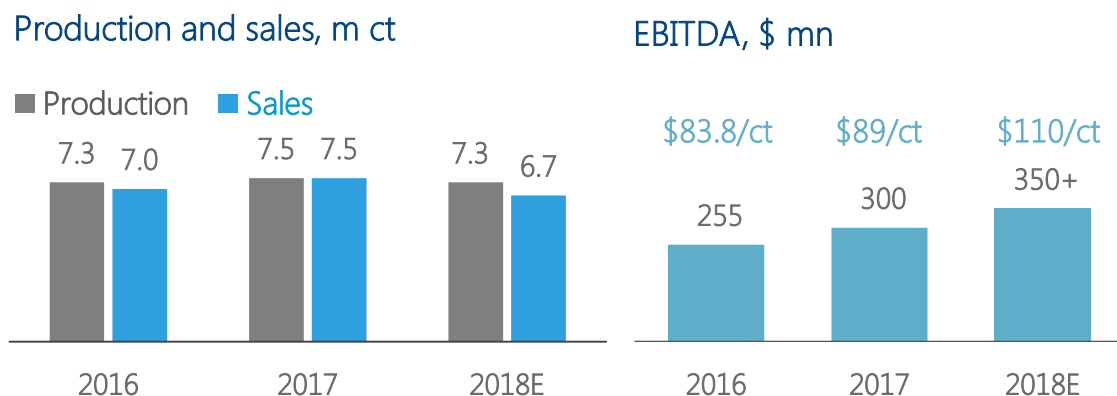
## VG deposit (Mirny)

- **Description:** construction of a new Mirny airport to start the development of the Main Unit of the Vodorazdelnye Galechniki (VG) deposit, which lies below the existing airstrip and other airport facilities
- **Resource base:** 3.8 m ct
- **Launch:** 2022
- **Ramp-up:** 2022
- **Designed capacity:**  
1.1 mmt of ore (0.39 m ct)
- **Capex:** RUB 2.3 bn (100% remaining)
- **NPV:** RUB +6.3 bn
- **IRR:** >180%

# Expansion to Africa

## Promising region with high exploration potential

### Improved financial performance at Catoca



- **Catoca in numbers:**
  - Total reserves ~120 m ct // 2 processing plants with 13 m t pa // ~0.61 ct/t
- **Recent corporate governance improvements:**
  - Supervisory & Fiscal committees authorized to review and approve contracts
  - Appointment of executive directors to be approved by Supervisory committee
  - Rotation between ALROSA and Endiama in appointing CEO and CFO
- **Change in sales practices:**
  - New approach to sale channels diversification following reform in Angola's diamond industry has already resulted in double-digit growth of diamond prices

### Development of Luele pipe

- Luale kimberlite pipe is the largest diamond discovery over the past 60 years
- The project is operated by Luaxe consortium
- The pipe development plan to be approved by the end of 2019
- **Resource base:** 350 m ct
- **Expected average grade:** 0.95 ct/t

### Exploration activities

- **Kimang JV (Angola):**
  - 50/50% JV between ALROSA and Endiama
  - Exploration activities in Quango area, the North of Central Angola
  - Awaiting exploration license approval for Chisombo area
- **Zimbabwe:**
  - Strategic partnership with the government of Zimbabwe
  - Selection of potential targets for exploration study



# Strong Balance Sheet

## Current credit rating



## Long-term financial targets

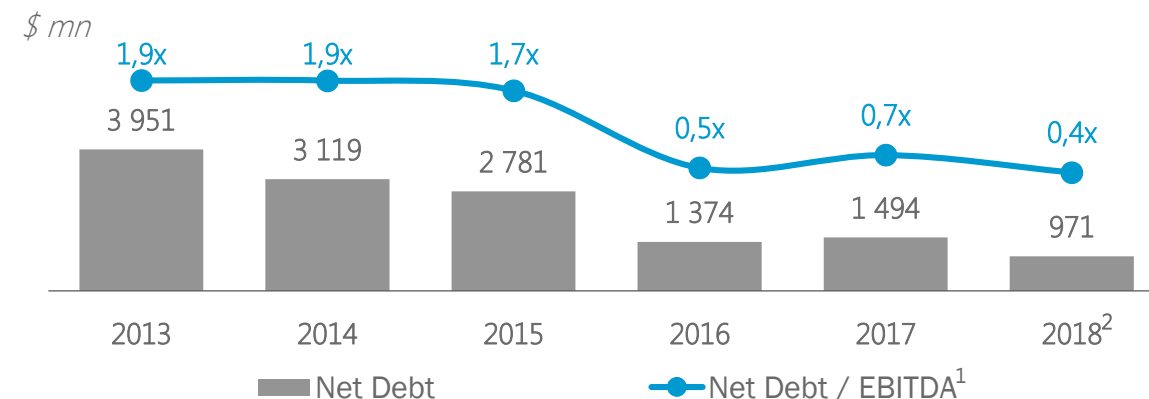
- Maintain conservative debt profile in line with investment grade criteria
- Target Net Debt / EBITDA range: 0.5-1.0x
- Net Debt / EBITDA ceiling level: 1.5x
- Liquidity reserves of >RUB 35 bn (committed credit lines and cash)
- Solid public debt track record with fixed-income investors

Source: Company data and analysis.

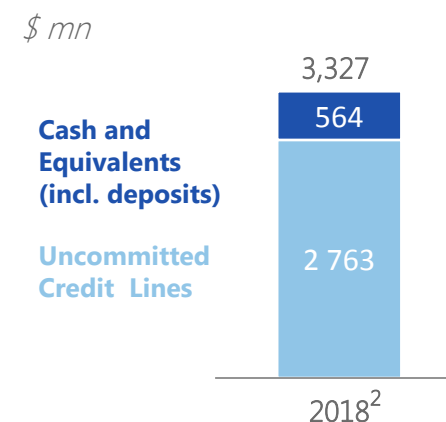
1. Based on EBITDA and Net Debt denominated in rubles.

2. Based on USD to RUB exchange rate of 69.47.

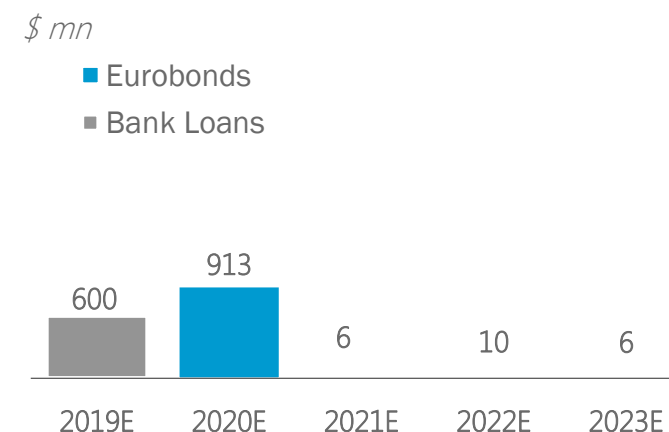
## Net Debt evolution to investment grade credit ratings



## Liquidity position



## Debt repayment schedule

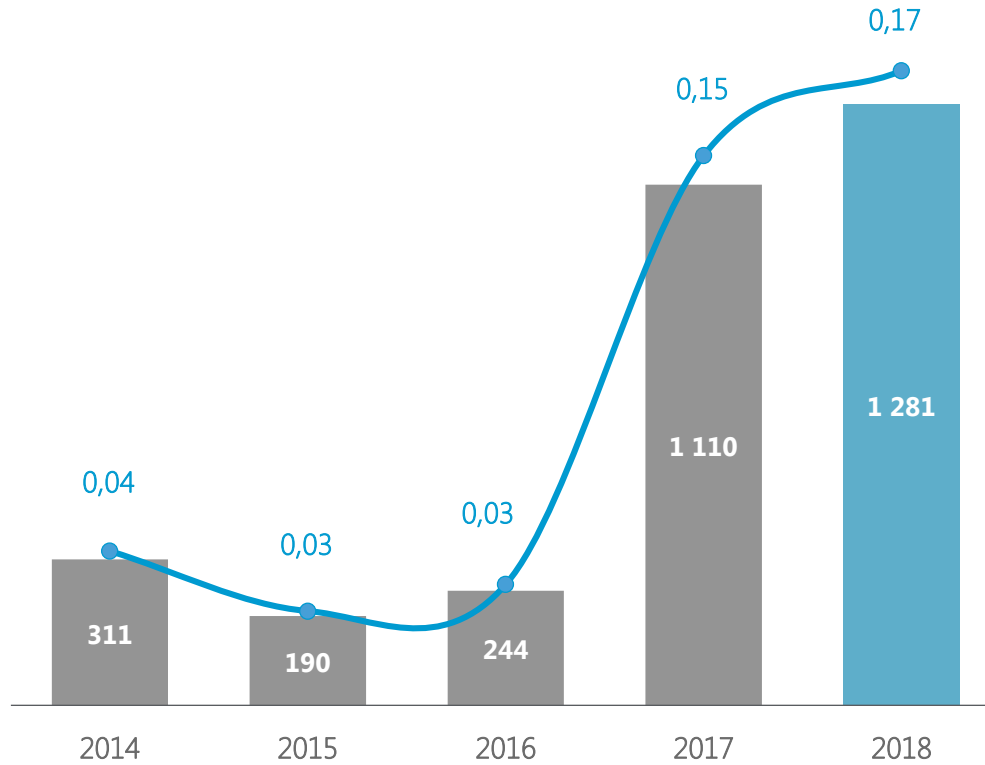


# Dividend Policy Focused on Maximisation of Shareholder Returns

## Historical dividend payments<sup>1</sup>

\$ mn

\$ per share



Source: Company data and analysis.

1. Based on FX rate as of the dividend record date.

## Dividend policy overview

Dividend Base

FCF

Frequency

Semi-annual

Conditions

Net debt /  
EBITDA < 0.0x

0.0x < Net Debt /  
EBITDA < 1.0x

1.0x < Net Debt /  
EBITDA < 1.5x

Payout Ratio

100+%

70–100%

50–70%

Subject to minimum dividend payout of 50% of IFRS net income

# 2018 financial performance update

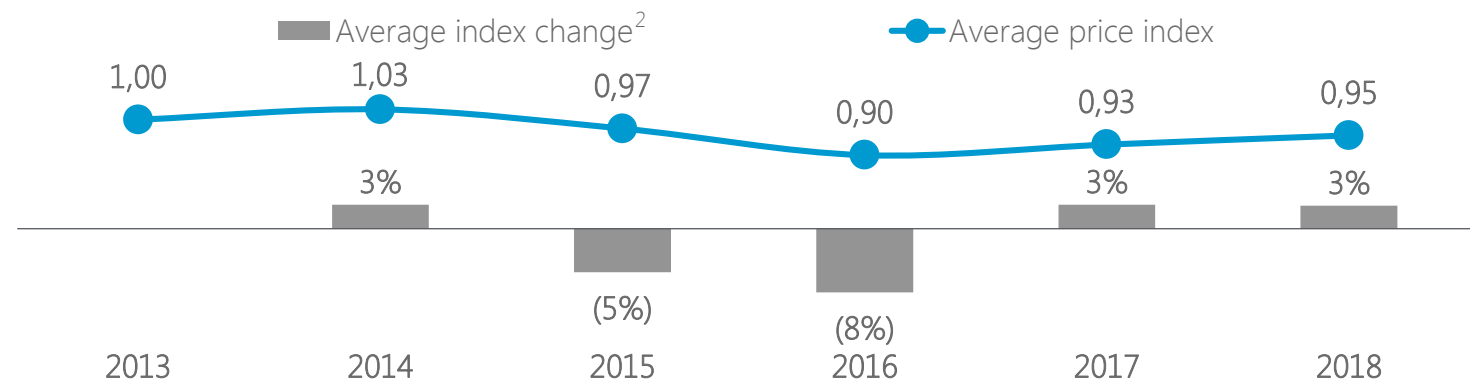
- 1 Price Dynamics
- 2 Sales and Inventory Update
- 3 Profitability Analysis
- 4 Free Cash Flow and Net Debt Analysis

# Price Dynamics

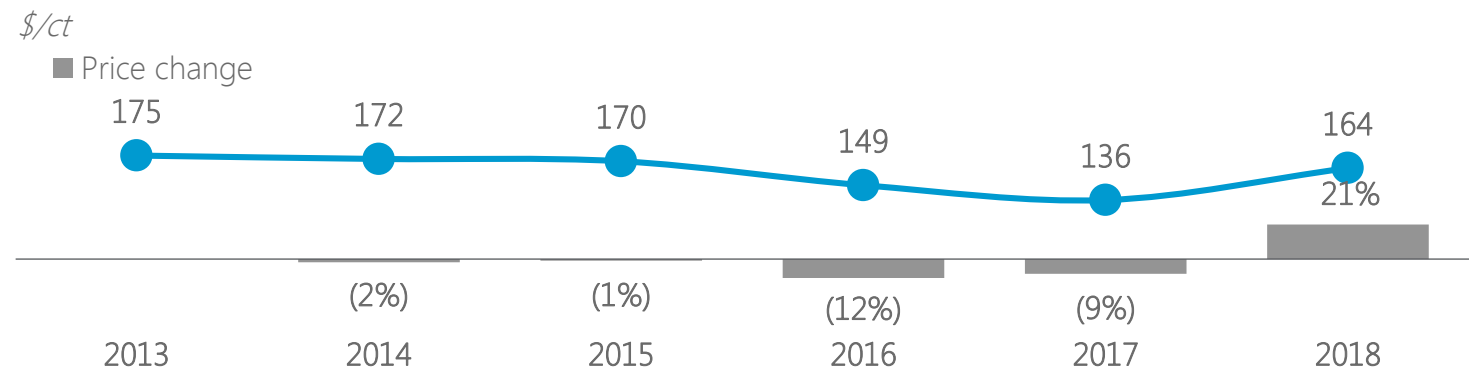
## Highlights

- In 2018 average price index gained 2.9% (following a 3.4% gain in 2017)
- In the first six months of 2018 we saw strong price uptick on healthy demand and we used this opportunity to maximise sales bringing our inventories to a minimum
- Due to better sales mix, 12M '18 average selling prices<sup>1</sup> grew by 21% and reached \$164/ct

## Price index for gem-quality diamonds



## Average selling price<sup>1</sup> for gem-quality diamonds



Source: Company data and analysis.

1. 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.

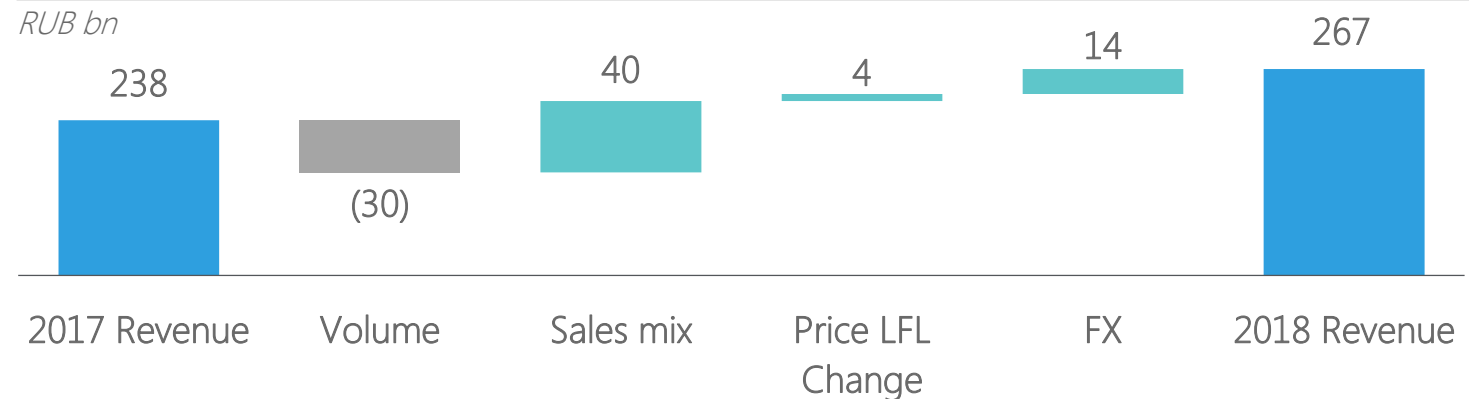
2. Average index change of like-for-like diamonds prices (excl. +10.8 carats)

# 2018 Sales and Inventory Update

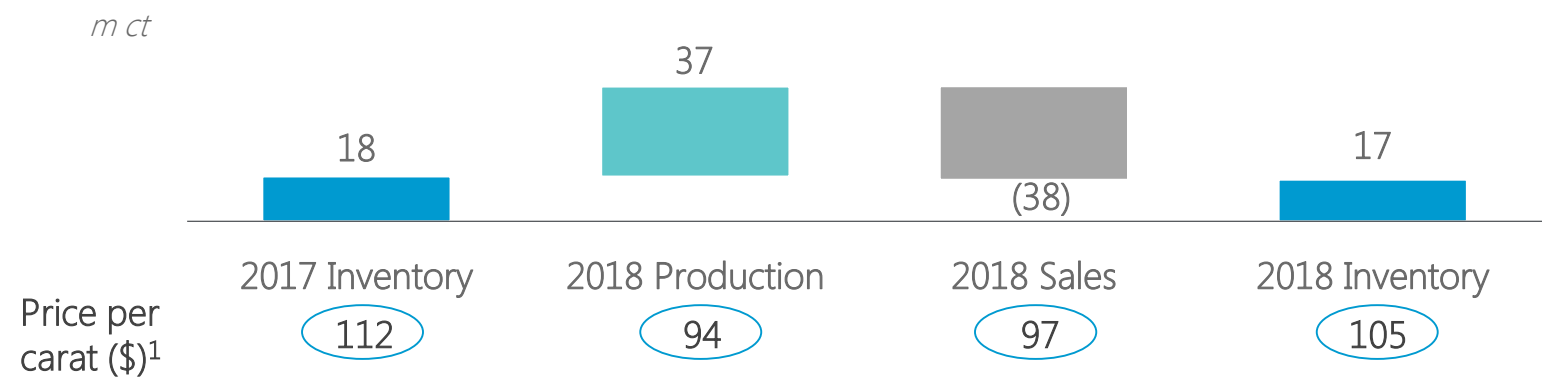
## Highlights

- 2018 revenue grew by 8% driven by stronger gem quality diamond sales
- 2018 gem-quality diamond sales were up by 12% to RUB 267 bn driven by:
  - (-) 12% reduction in volumes (in carats)
  - (+) better product mix partially compensating for poorer mix in 2017
  - (+) continued recovery in like-for-like prices
  - (+) FX rate impact as RUB weakened
- In 12M diamond inventories were down by 6% y-o-y as we maximised sales on stronger demand in H1 resulting into 2018 sales exceeding output

## 2017-2018 gem-quality rough diamond revenue



## 2017-2018 inventory bridge



Source: Company data and analysis.

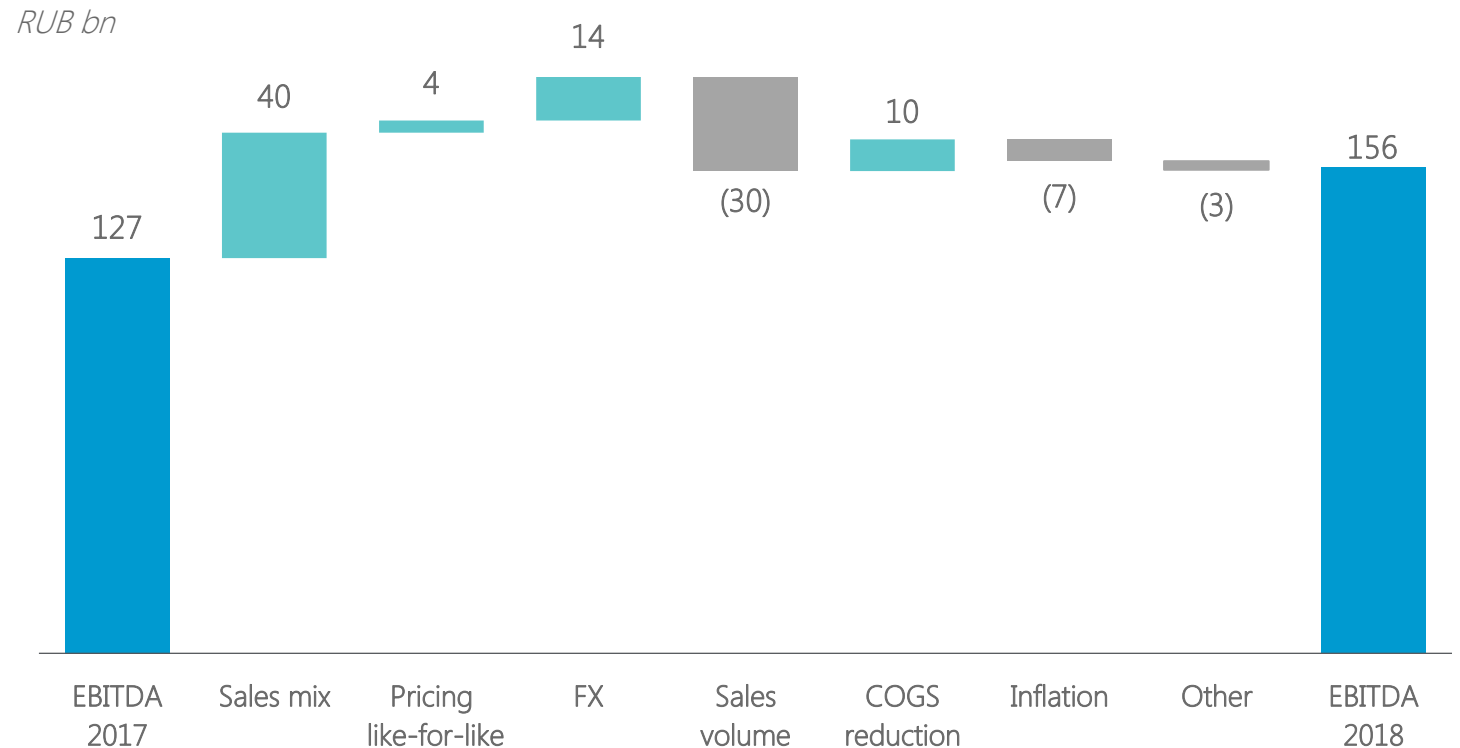
1. Prices of diamonds are set by reference to price lists approved by the Ministry of Finance of the Russian Federation.

# Profitability Analysis

## Highlights

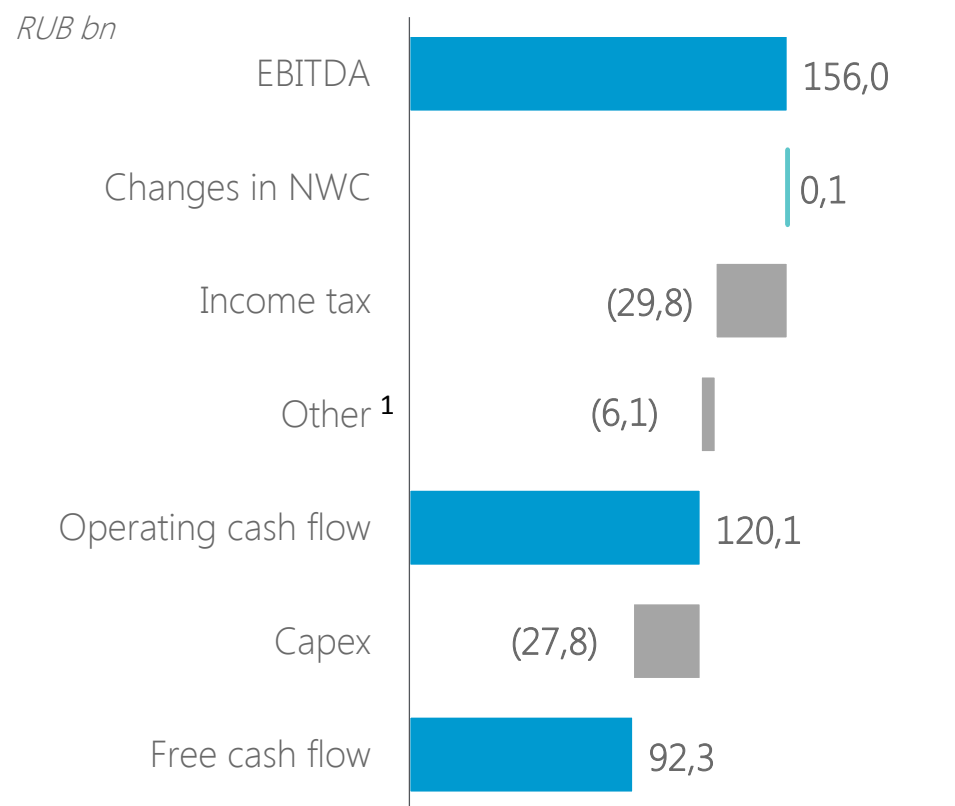
- 12M EBITDA was up by 23% to RUB 156 bn driven by:
  - (+) improved sales mix: impact RUB 40.3 bn
  - (+) stronger like-for-like prices: impact RUB 3.9 bn
  - (+) FX rate impact RUB 14.4 bn
  - (-) 8% reduction in carat sales: impact RUB 30.2 bn
  - (+) COGS reduction: impact RUB 10.1 bn
  - (-) inflation: impact -RUB 6.7 bn
  - (-) other factors: total impact RUB 2.7 bn

## 12M EBITDA – key drivers

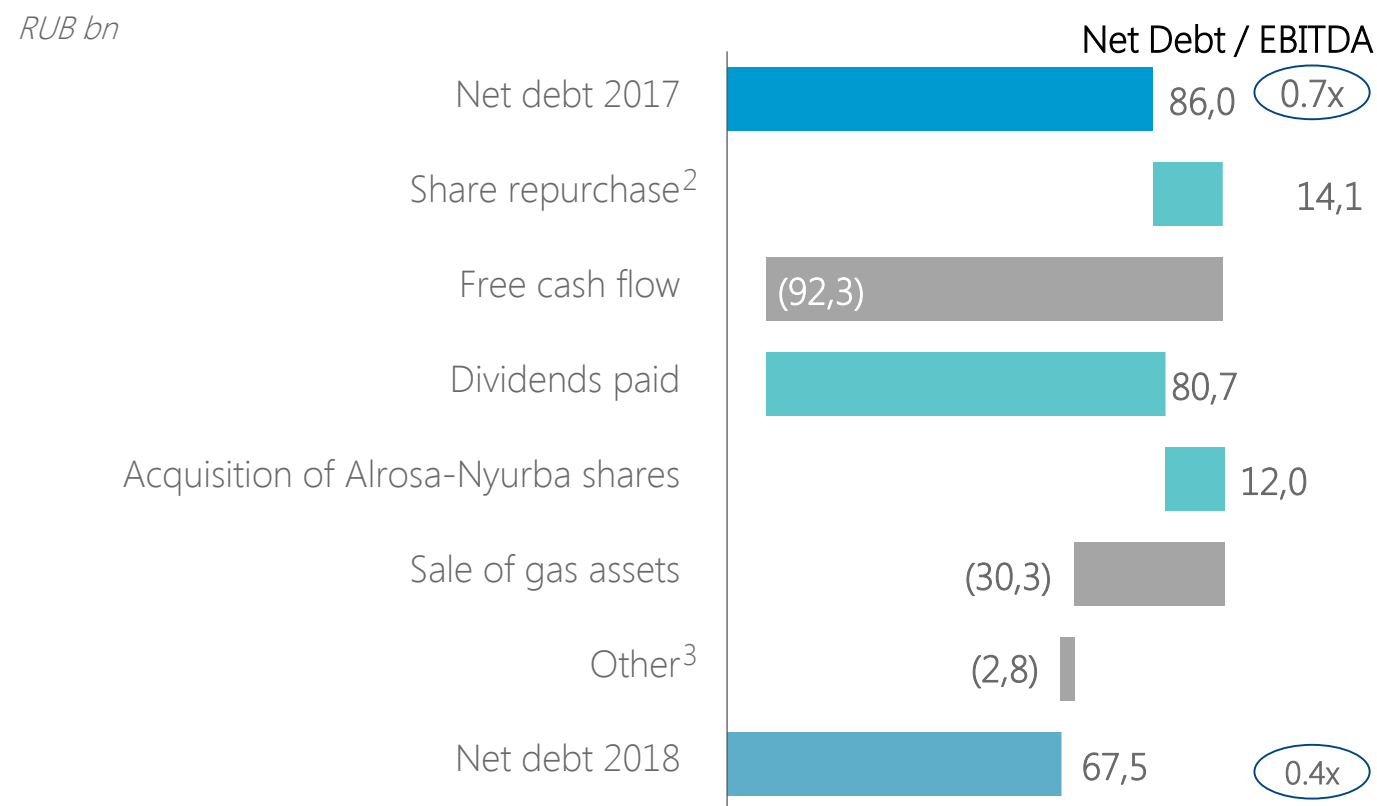


# Free Cash Flow and Net Debt Analysis

## Free cash flow bridge



## Net Debt bridge



Source: Company data and analysis.

1. Mainly includes pension contribution.

2. Shares repurchase in relation to option programme.

3. Mainly includes changes in FX, finance income/expense, income from grants, etc.

# Closing remarks from CEO

Attractive consumer-driven industry with strong long-term fundamentals

Superior margins and free cash flow generation

Identified optimization initiatives paving the way for further efficiency gains

Prudent financial and capital allocation policy focused on maximizing shareholder returns

Socially responsible business



07

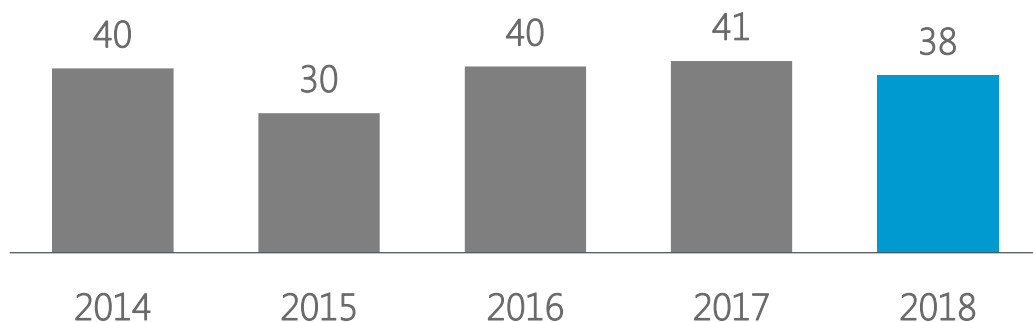
# Appendix

# Strong Financial And Operational Performance

Resilient financial performance with strong margins and positive free cash flow since IPO

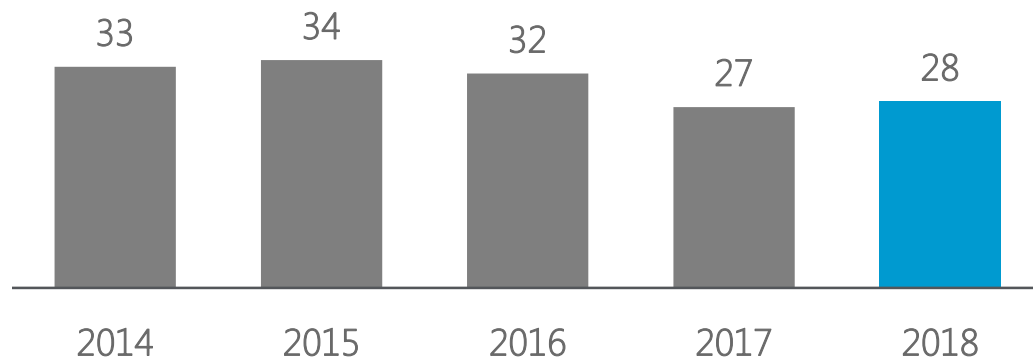
## Diamond sales

m ct



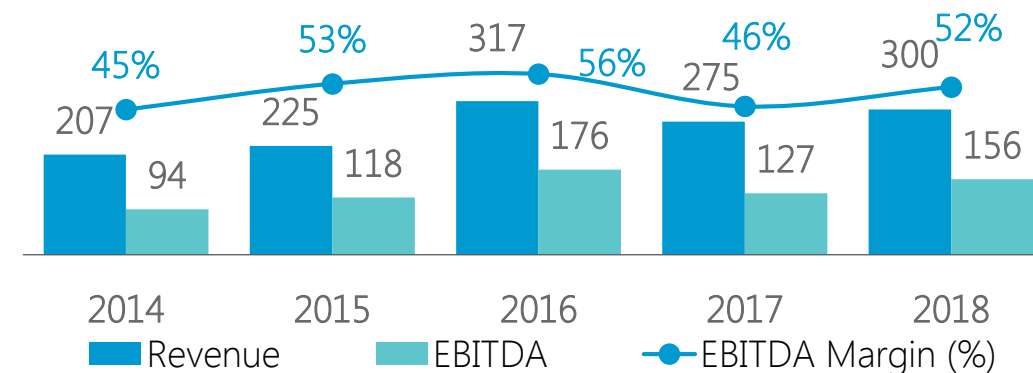
## Capex

RUB bn



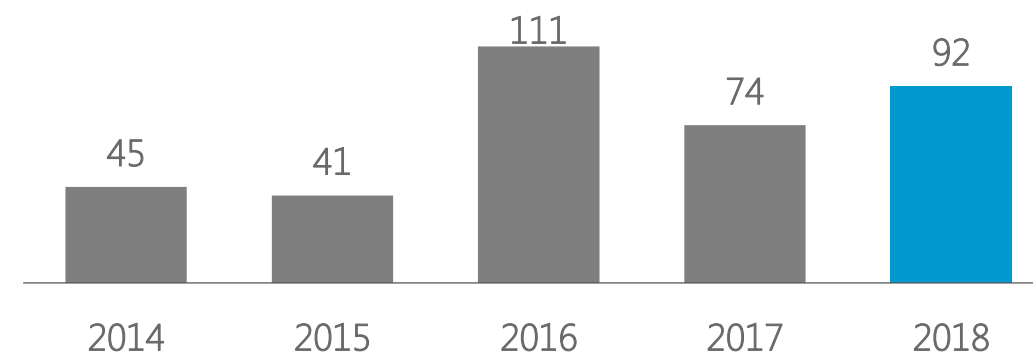
## Revenue and EBITDA margin

RUB bn



## Free cash flow

RUB bn



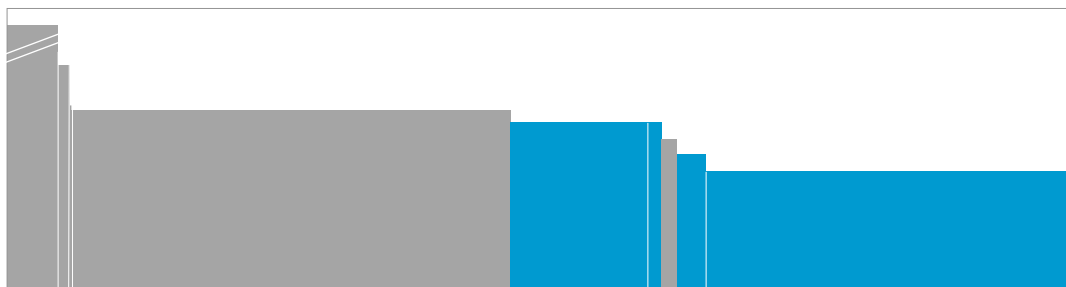
Source: Company data and analysis.

# Profit Curve of Existing Diamond Mines

## Margin per carat by mines

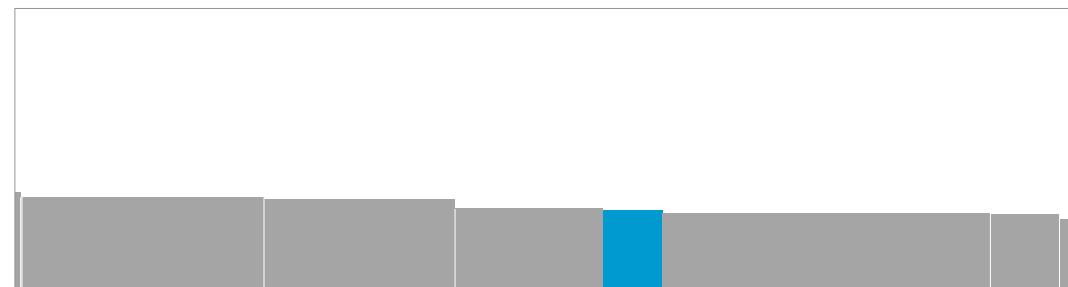
Tier-1 performing mines (1st quartile, 0-25%)

(Price per ct - Cash Cost per ct), \$



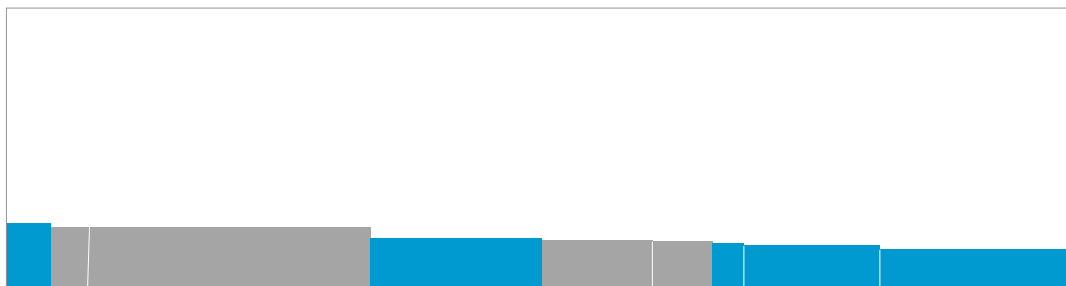
Tier-2 performing mines (2nd quartile, 25-50%)

(Price per ct - Cash Cost per ct), \$



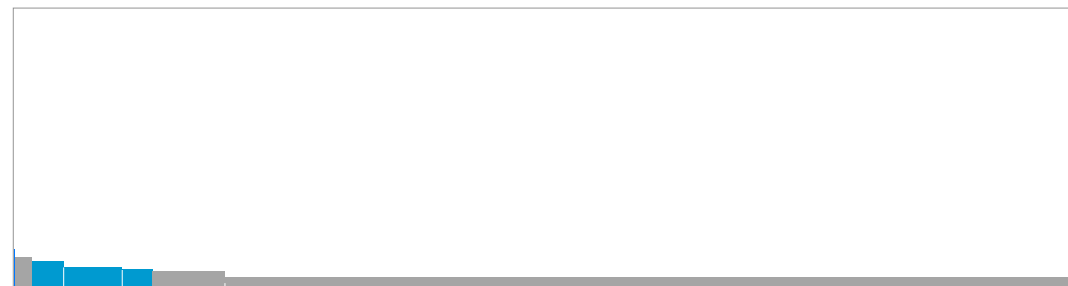
Tier-3 performing mines (3rd quartile, 50-75%)

(Price per ct - Cash Cost per ct), \$



Tier-4 performing mines (4th quartile, 75-100%)

(Price per ct - Cash Cost per ct), \$



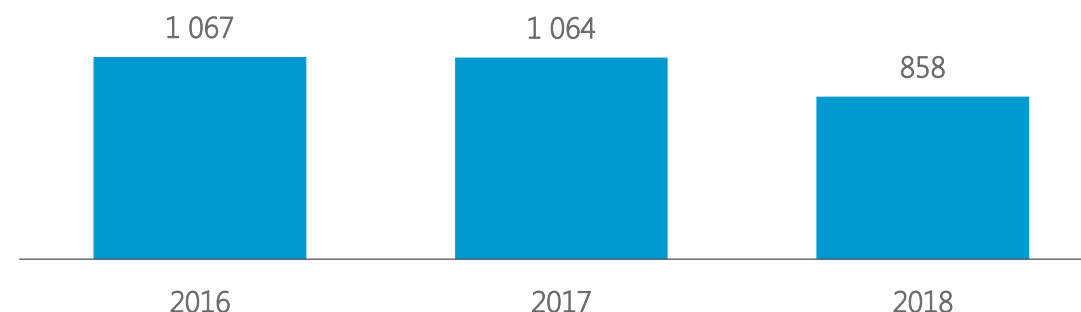
# Creating a clearer and sustainable environment

## Latest developments

- Over the past two years, ALROSA has reduced CO<sub>2</sub> emissions by c.20%
- Already impressive share of clean electricity and heat consumption of 86%
- Efficient disclosure is acknowledged by ESG ratings:
  - 3<sup>rd</sup> place (out of 33) in the “First rating of environmental performance of mining companies in Russia”
  - Rated among top-10 Russian companies with transparent corporate reporting according to Transparency International-Russia research

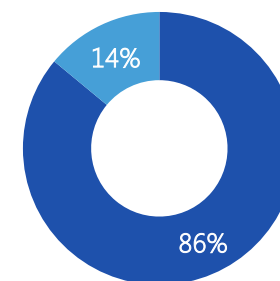
## Reduction of CO<sub>2</sub> emissions<sup>1</sup>

ths tonnes



## Share of clean (incl. renewable) electricity and heat consumption

2018



■ Share of clean electricity and heat consumption ■ Other

Source: Company data and analysis.

1. Include PJSC ALROSA's diamond production assets and the Heat and power supply company, which was removed from PJSC "ALROSA" structure starting from 01.01.2017 and became its subsidiary PTWS LLC.

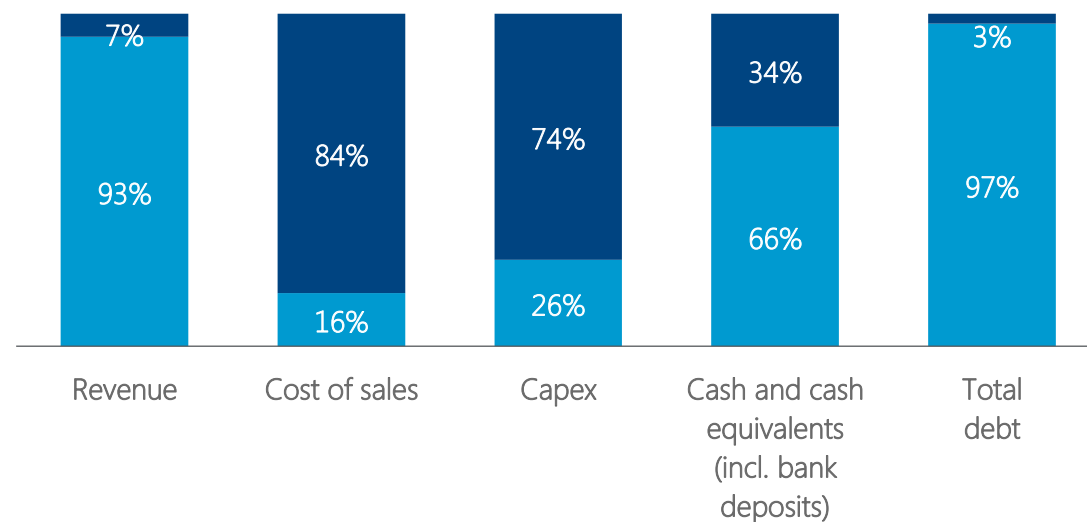
# FX Rate

- ALROSA is an exporter with 93% of revenue denominated in USD
- Major portion (74%) of costs and capex is denominated in RUB  
97% 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 – +/-1.47%
  - cost of sales – +/-0.26%
  - EBITDA – +/-2.62%
  - capex – +/-0.41%

## Financial metrics breakdown by currency

*% of metric's total*

- RUB
- USD



# Glossary

Term	Definition
ct	Carat : one of the four main diamond characteristics, the others being colour, cut and clarity; 1 carat=200 mg
m ct	Million carats
CVD	Chemical vapour deposition: a high-temperature, but normal-pressure process to grow lab-grown diamonds
DPA	Diamonds Producers Association
FTC	Federal Trade Commission
Gem-quality diamonds	Diamonds used for jewellery manufacturing
HPHT	High-pressure, high-temperature; a process using large presses to grow lab-grown diamonds
INED	Independent Director
Lab-grown diamonds (LGD)	Diamonds produced in laboratories using HPHT or CVD methods; also known as synthetic diamonds
m <sup>3</sup>	Cubic meter
Average price index	Average index change of like-for-like diamonds prices (excl. +10.8 carats)
Reserves	Resources known to be economically feasible for extraction
Resources	Valuable deposits that could potentially be economically extracted at a later point
RoW	Rest of the world
tn	Tonnes
mmt	Million tonnes
p.p.	Percentage points

# THANK YOU!

**HEAD OF CORPORATE FINANCE**  
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