ALROSA

2018 IFRS FINANCIAL RESULTS

MOSCOW, 15 MARCH 2019

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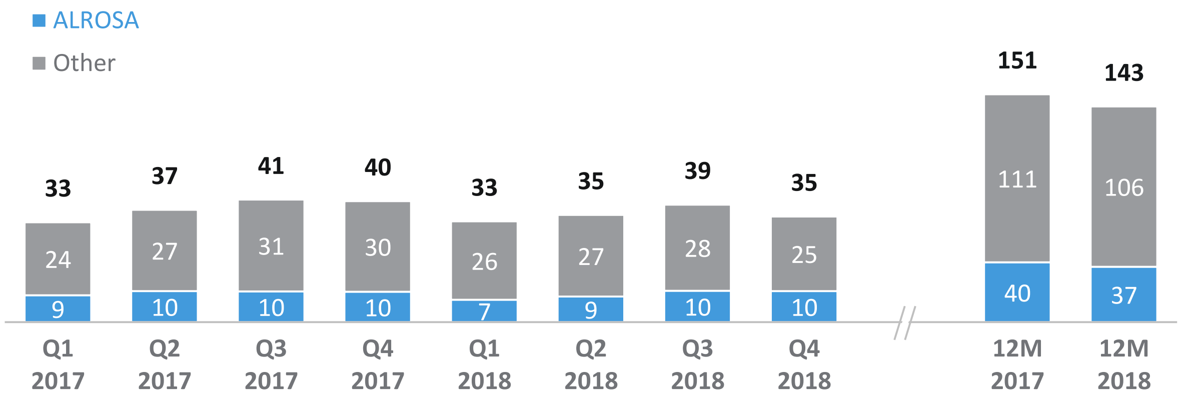
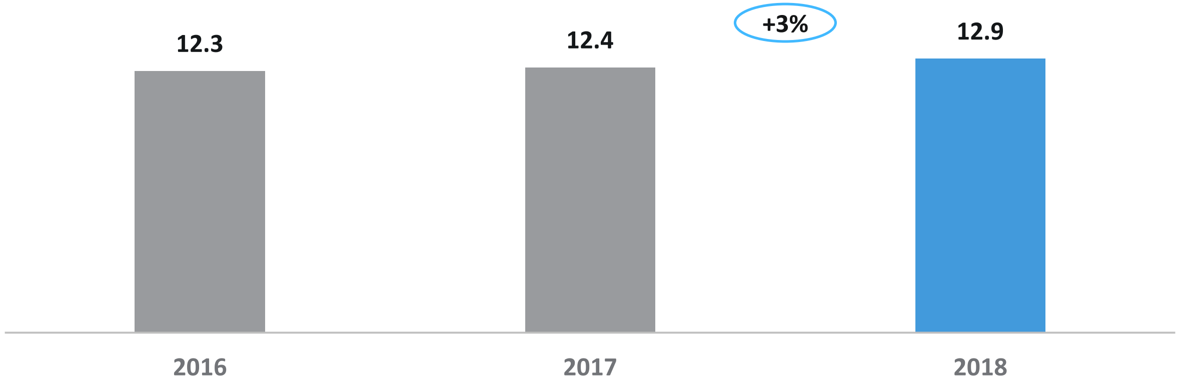
MARKET OVERVIEW

- **In 2018, output** decreased by 5% y-o-y, mostly driven by ALROSA and Rio Tinto
- Q4 midstream and downstream stocks increased y-o-y mainly due to small stones
- **2018 global diamond sales in USD increased by 3% mainly due to strong demand recovery and stronger prices in H1**

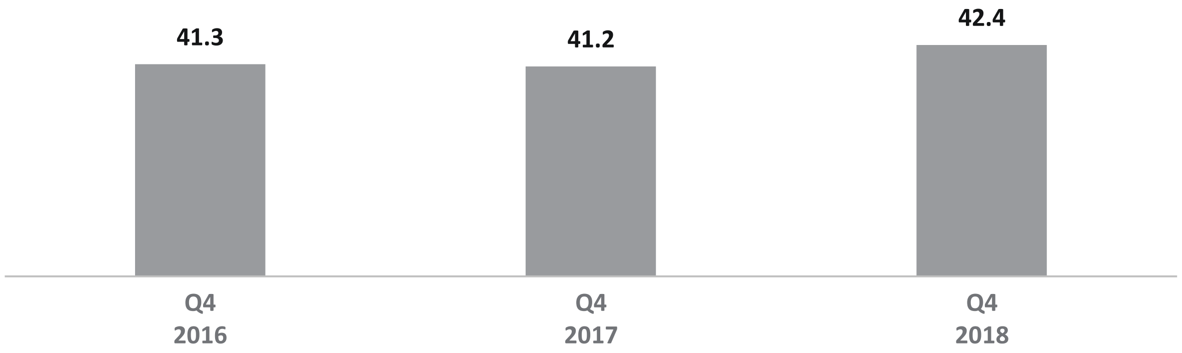
Decrease in global diamond output*
m ct



Major producers diamond sales**
$ bn



Diamond stocks at midstream and downstream
$ bn



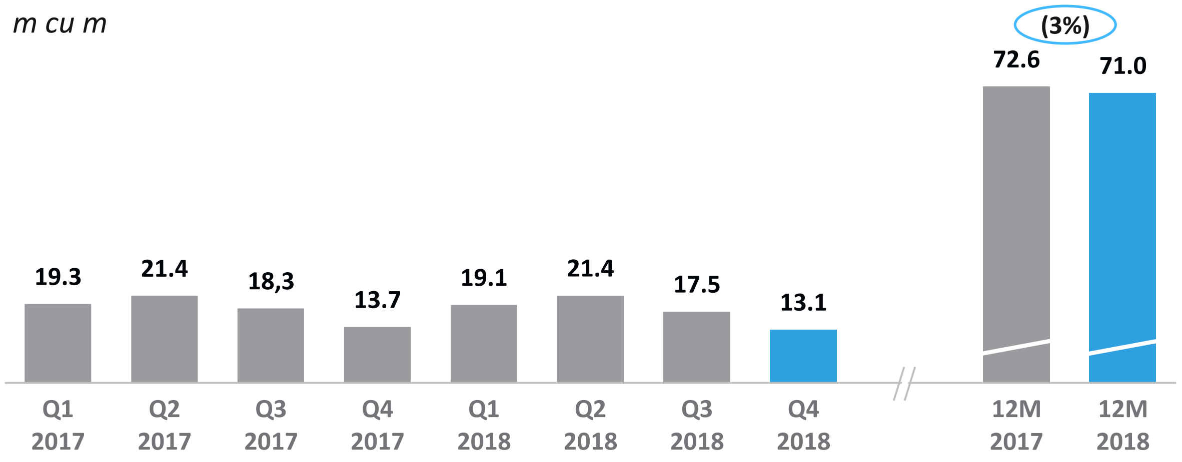
*Note: *data based on results of ALROSA and other diamond producers with a market share totalling c. 76% in 2017-2018*
*** ALROSA, De Beers, Rio Tinto, Catoca, Petra Diamonds, Dominion Diamond (Diavik), Mountain Province, Stornoway Diamond*
Source: Company analysis

ALROSA PRODUCTION

- **12M run-of-mine ore decreased by 3%** due to planned decreased at Severalmaz and Botuobinskya. **In Q4 run-of-mine ore** was marginally lower y-o-y.
- **12M processed ore grew by 3%** to 40.5 m t due to increased gravel processing at Almazy Anabara (up 8%) and Mirny Division (up 10%). **In Q4** was down 2.3x q-o-q (+3% y-o-y) to 7.5 m t, due to a seasonality (alluvial deposits closed)
- **12M average grade decreased by 10% to 0.91 ct/t** mainly due to shutdown of the Mir mine and increased production at lower-grade assets. **In Q4**, average grade increased 2.3x q-o-q (down 0.2% y-o-y) to 1.38 ct/t due to seasonality
- **12M diamond production declined by 7% y-o-y to 36.7 carats** due to Mir mine closure and completion of open-pit mining at the Udachnaya pipe in 2017. **Q4** diamond production was seasonally lower 2% q-o-q to 10.3 m carats, but 2% up on growth at newly launched assets

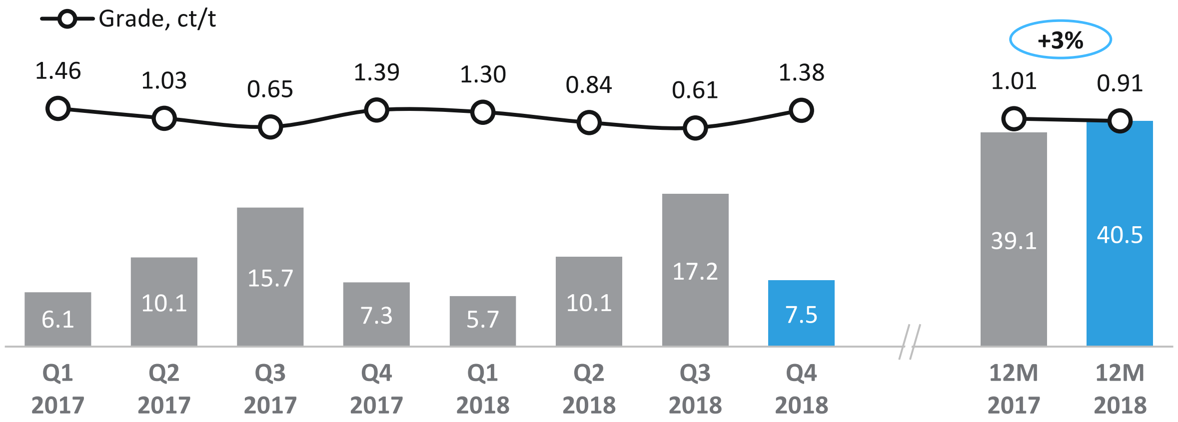
Run-of-mine ore was down by 3% y-o-y

m cu m



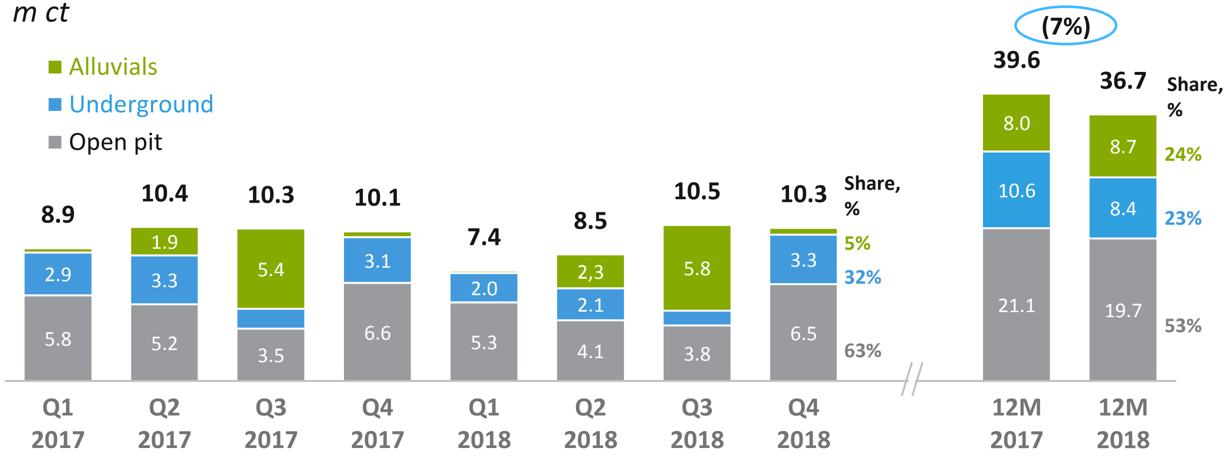
Ore and sands processing goes up 4% y-o-y, grades stability

m t



Diamond production was down by 7% y-o-y

m ct

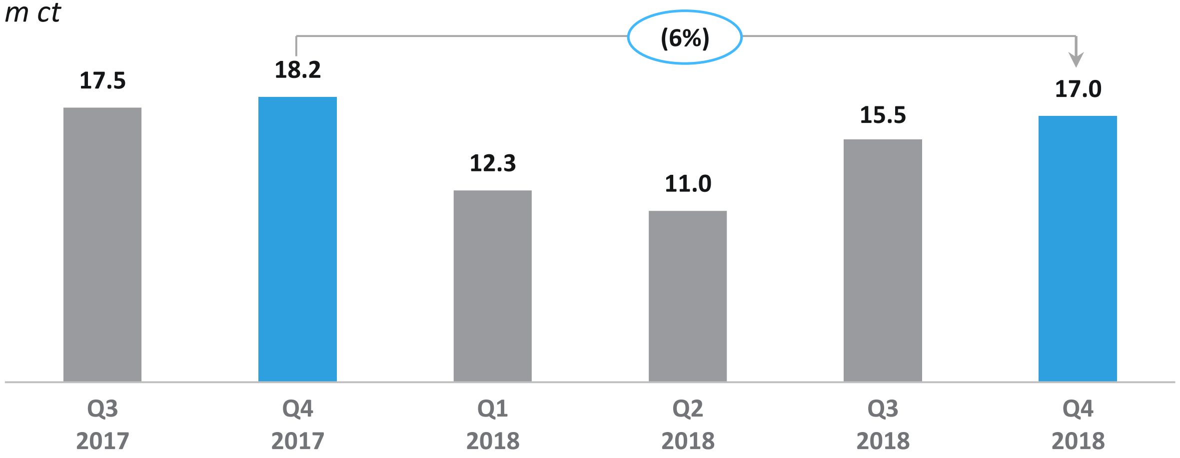


INVENTORIES

- **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
- **By the end of Q4,** inventories were seasonally up 10% q-o-q (down 7% y-o-y) to 17 m ct
- During 2018 continued efforts to optimize working capital resulted into expansion of finished goods share in our inventories, and drop in w/c days turnover from 109 days to 101 days in 2018

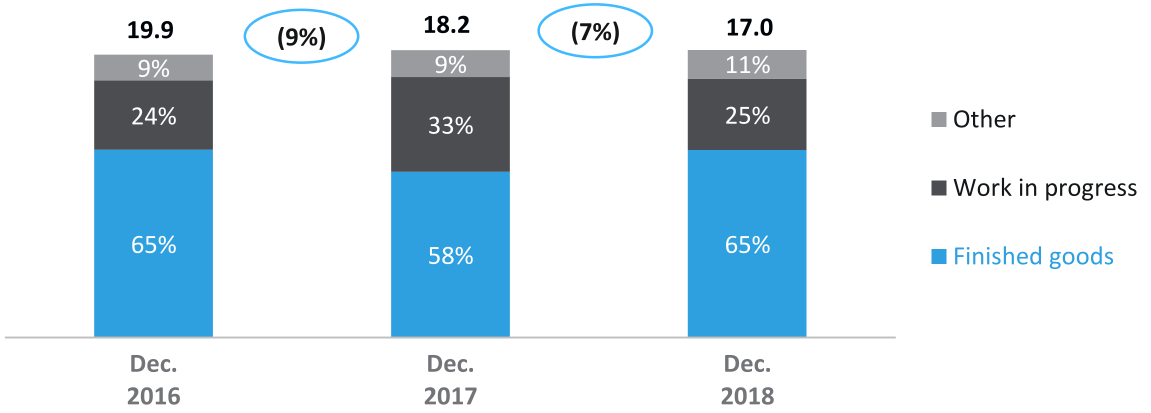
ALROSA's diamond inventories were down 6% y-o-y

m ct



ALROSA's diamond inventories structure

m ct

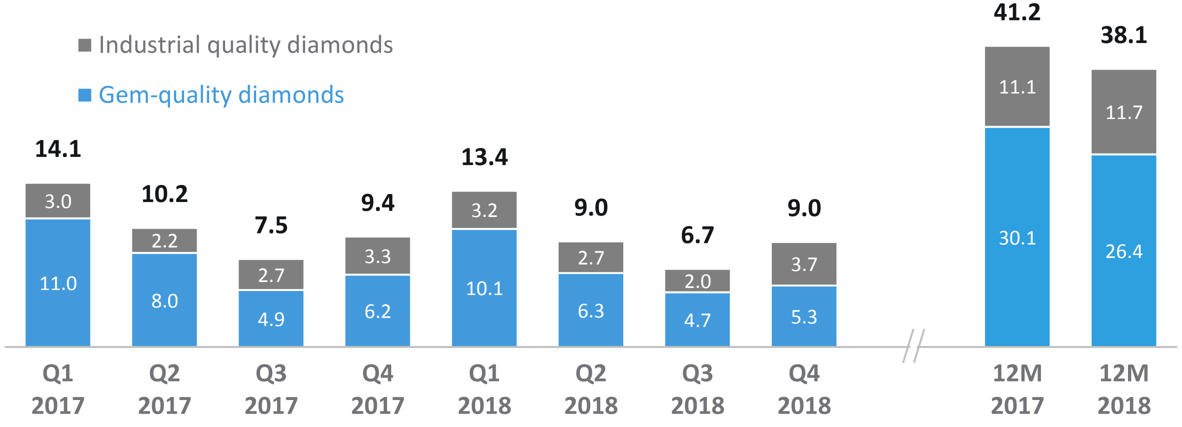


ALROSA SALES

- **12M, diamond sales were 38.1 m carats (down 8% y-o-y)**, while
- **… diamond sales in value terms rose by 6% to USD 4.4 bn** on the back of stronger prices and improved mix of gem-quality diamonds
- **Q4, diamond sales** increased by 2.3 m carats (34% q-o-q) to 9.0 m carats
- **Sales were down 13% q-o-q to USD 824 m** (down 7% y-o-y) due to weaker large-size diamond sales

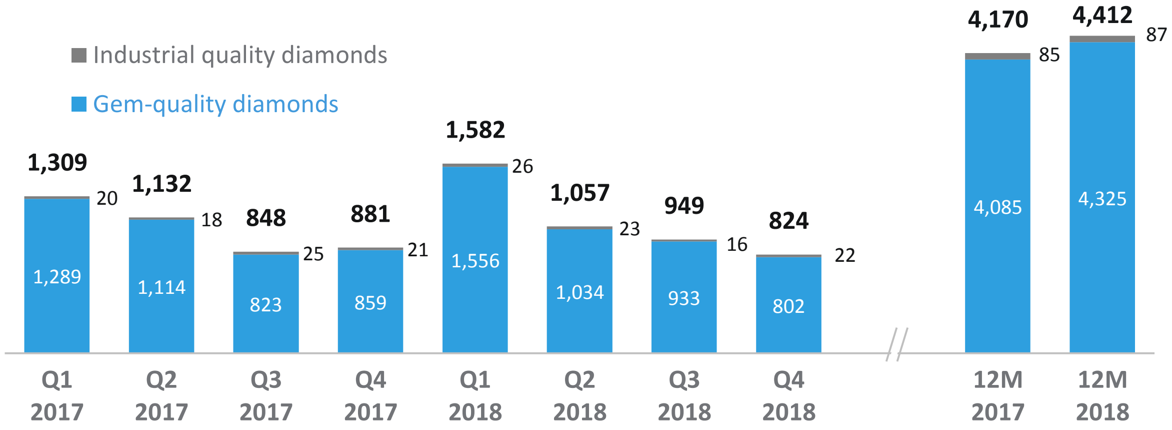
Diamond sales were down by 8% y-o-y, but exceed production level by 4%

m ct



12M diamond sales by value were up by 6% on better mix

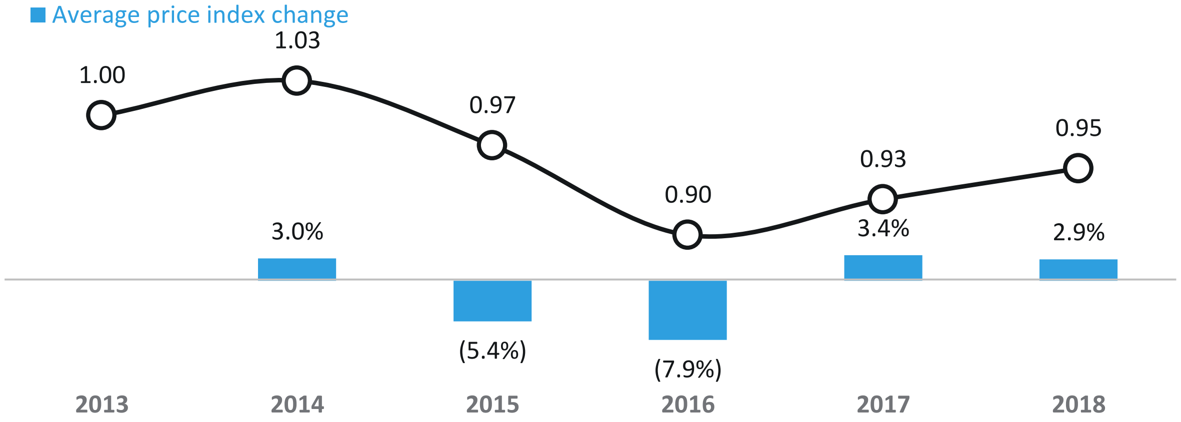
$ m



PRICES

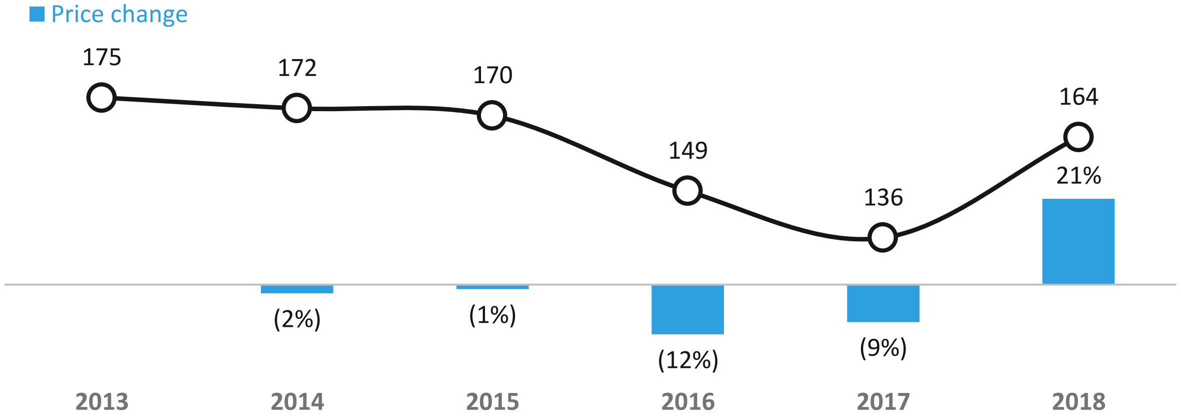
- **In 2018 average price index gained 2.9%** (following a 3.4% gain in 2017)
- **In the first six months of the year we saw strong price uptick on healthy demand** and we used this opportunity to maximise sales bringing our inventories to minimum
- **Due to better mix in sales 12M average selling price* for gem-quality diamonds grew by 21%** and reached $164/ct
- **Q4 average selling price*** for gem-quality diamonds fell by 23% q-o-q to $153/ct due to a lower share of large diamonds in sales mix

Price index for gem-quality diamonds



Average selling price* for gem-quality diamonds

$/ct



*Note: * average selling prices (sales revenue divided by sales volumes in carat terms) is also impacted by changes in the product mix throughout the reported period*

FINANCIAL HIGHLIGHTS

12M:

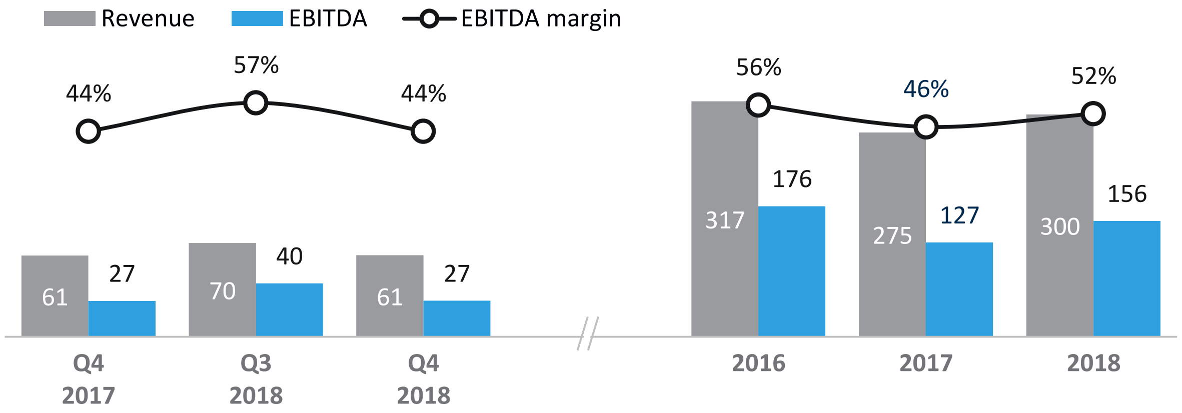
- **Revenue** grew by 9% on stronger pricing & better mix, offsetting a 8% drop in sales
- **EBITDA** grew by 23% on stronger sales and cost control
- **EBITDA margin** climbed 6 p.p. to 52%
- **Leverage** slimmed down with Net debt / EBITDA standing at 0.4x
- **Net income** increased by 15% to RUB90.4 bn
- **FCF** grew by 26% to RUB92 bn due to capex discipline & margins expansion

Q4:

- **Revenue** came in at RUB61 bn (down 12% q-o-q) due to changes in sales mix and increase share of industrial diamonds.
- 1% y-o-y growth was driven by stronger pricing and a better sales mix
- **EBITDA** stood at RUB27 bn (down 32% q-o-q), rising by 1% y-o-y on better mix, cost control and weaker RUB
- **EBITDA margin** decreased by q-o-q by 13 p.p to 44%, no changes y-o-y
- **Net income** stood at RUB8,0 bn (down 67% q-o-q, up 53% y-o-y)
- **FCF** decreased by 11% q-o-q to RUB14.3 bn (+22% y-o-y)

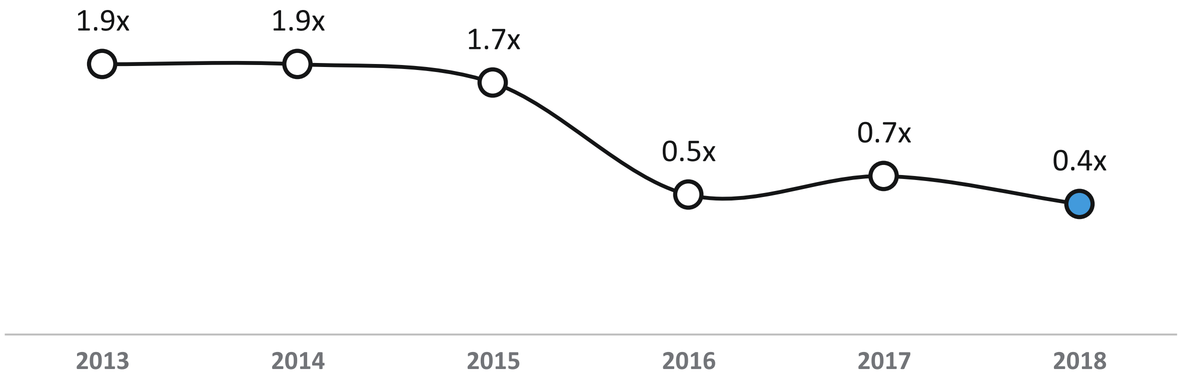
Margins continue to expand

RUB bn



Leverage trends down

Net debt/EBITDA



REVENUE DRIVERS

2018 revenue grew by 8% driven by stronger gem-quality diamond sales

2018 gem-quality diamond sales were up by 12% to RUB267 bn driven by:

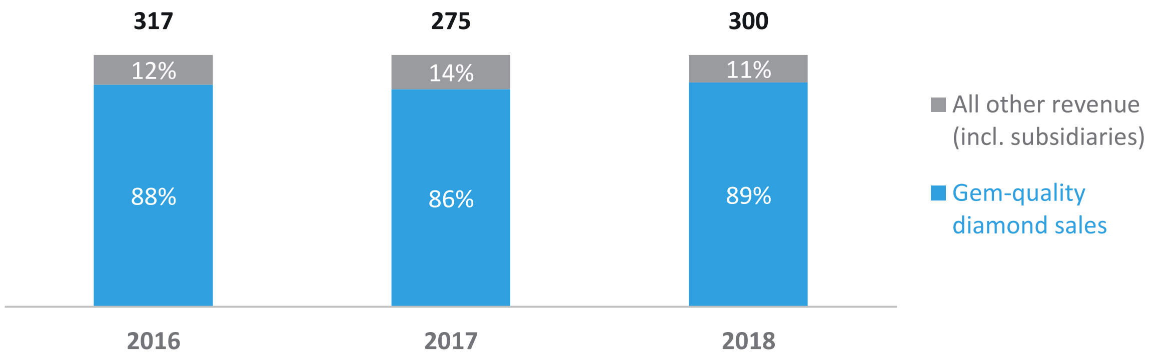
- (+) better product mix partially compensating for poorer mix in 2017
- (+) continued recovery in like-for-like prices
- (-) 12% reduction in volumes (in carats)
- (+) FX rate impact as RUB weakened

Q4 gem-quality diamond revenue declined to RUB8.3 bn (-14% q-o-q) driven by:

- (-) deteriorated sales mix
- (-) softer like-for-like prices in December 2018
- (+) carat sales up due to increased small-size diamond sales driven by year-end restocking of Indian polishers
- (+) FX rate impact

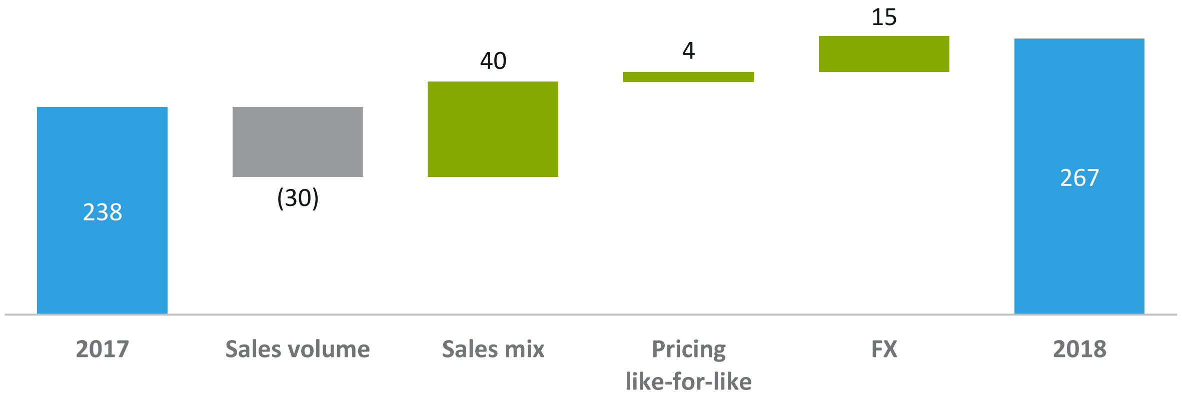
Over 86% of revenue is coming from gem-quality diamonds sales

RUB bn



Gem-quality rough diamond revenue – key drivers

RUB bn



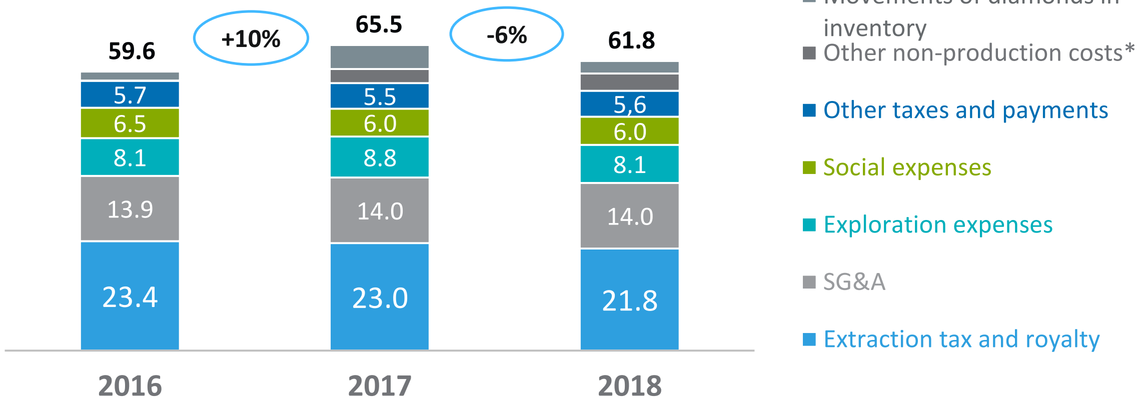
*Note: * cancellation of export duty – 6.5%*

COSTS DYNAMICS AND BREAKDOWN

- **12M total costs went down by 3% to RUB143.7 bn mostly due to:**
  - (-) decrease of sales in carat by -8% (impact – RUB6.7 bn)
  - (-) cost savings (impact – RUB 3.4 bn)
  - (+) inflation (impact – RUB 6.7 bn)

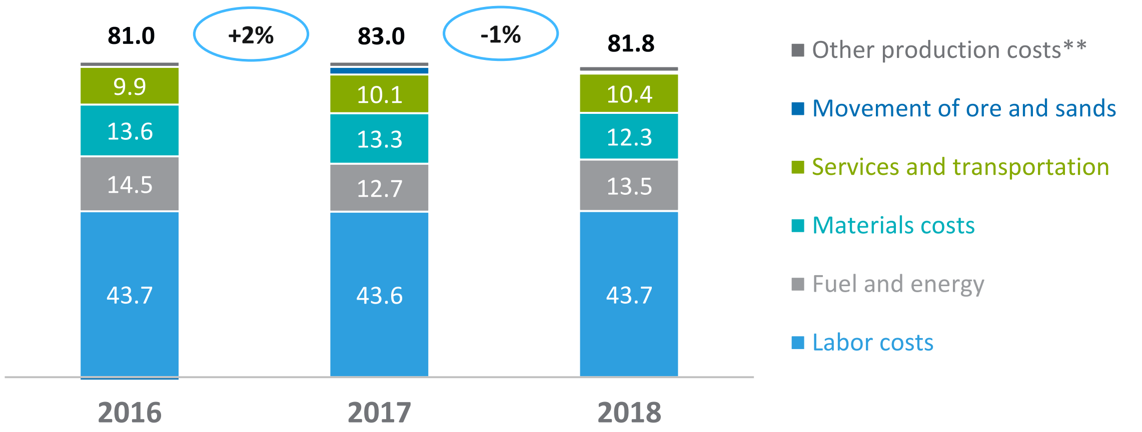
Non-production costs were down by 6% y-o-y

RUB bn



Production costs decreased by 1% y-o-y

RUB bn



*Notes: * mainly includes mainly other operating income and other non-production costs*

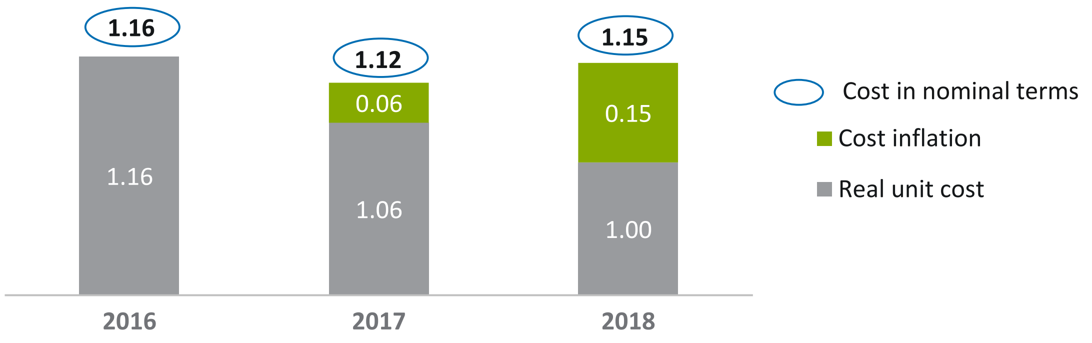
*** mainly includes cost of diamonds for resale, provision for obsolete inventory, etc.*

UNIT PRODUCTION COST DYNAMICS

- **In 12M, the Company's unit costs increased by 3%** y-o-y mainly due to decreased volume of run-of-mine ore by 2% on the back of decrease of stripping work volume
- Key drivers:
  - **Labor costs per unit were up by 3% y-o-y** as wages were indexed by CPI and launch of Verkhne-Munskoye asset (staffing operations)
  - **Fuel and energy expenses were up by 9%** y-o-y mainly due to increase of price for fuel more than 20%
  - **Material costs were down by 6% y-o-y** due to Mir UG mine closure

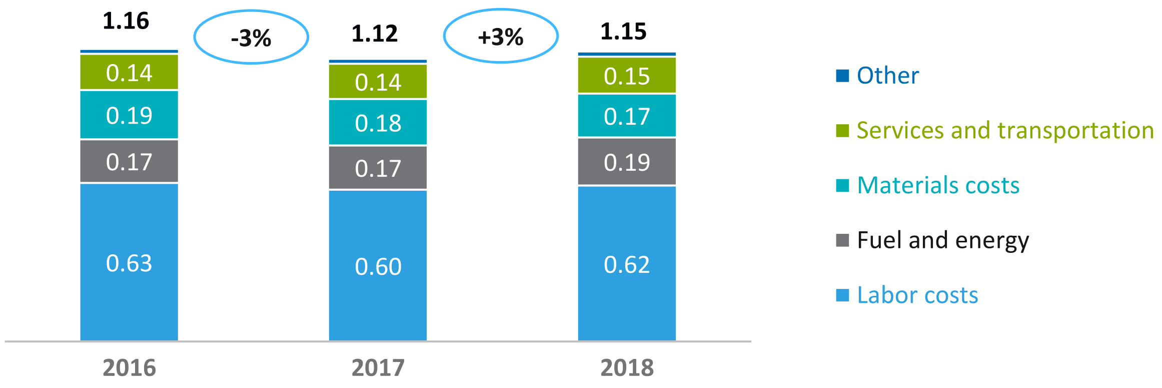
Unit production costs in in real and nominal terms* (non-adjusted to inflation)

RUB '000 / cu m



Production costs per unit

RUB '000 / cu m



*Notes: * change of methodology of calculation unit production costs:*

1) *reclassification of SG&A expenses from production to non-production costs and part of other costs, which related to production activity,*
2) *adjustment of run-of-mine ore on capitalized to PPE volume on Zaria pipe*

*** methodology of calculation of real unit cost please see slide 24*

PROFITABILITY ANALYSIS

12M EBITDA was up by 23% to RUB156 bn driven by:

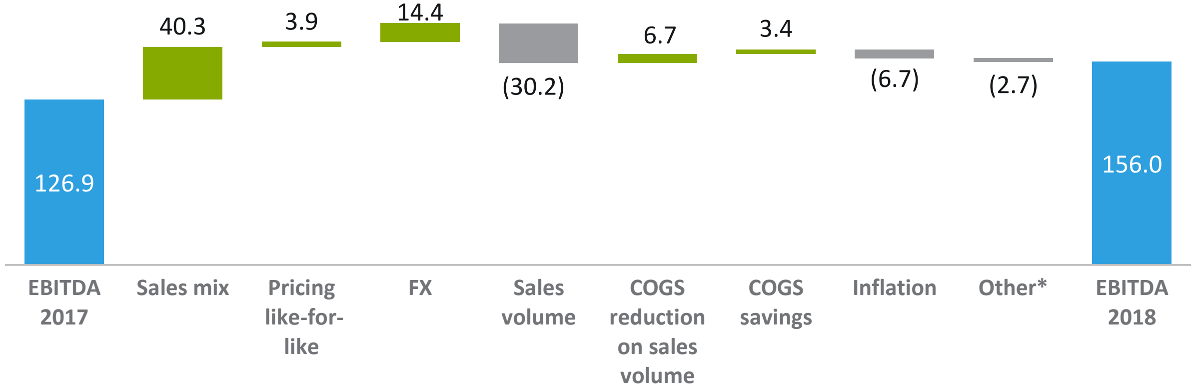
- (+) improved sales mix: impact RUB40.4 bn
- (+) stronger like-for-like prices: impact RUB3.9 bn
- (+) FX rate impact RUB14.6 bn
- (-) 8% reduction in carat sales: impact RUB30.2 bn
- (+) COGS reduction on sales volume: impact RUB6.7 bn
- (-) inflation impact: -RUB6.7 bn
- (+) other factors: total impact RUB0.5 bn

Q4 EBITDA was RUB26.9 bn (down 33% q-o-q, flat y-o-y) driven by:

- (-) changes in sales mix: impact -RUB14.5 bn due to increase sales of industrial diamonds
- (-) decrease in like-for-like prices: impact -RUB1.9 bn
- (+) 34% increase in carat sales: impact RUB8.0 bn
- (+) FX rate impact RUB0.3 bn
- (-) other factors: total impact -RUB5.0 bn

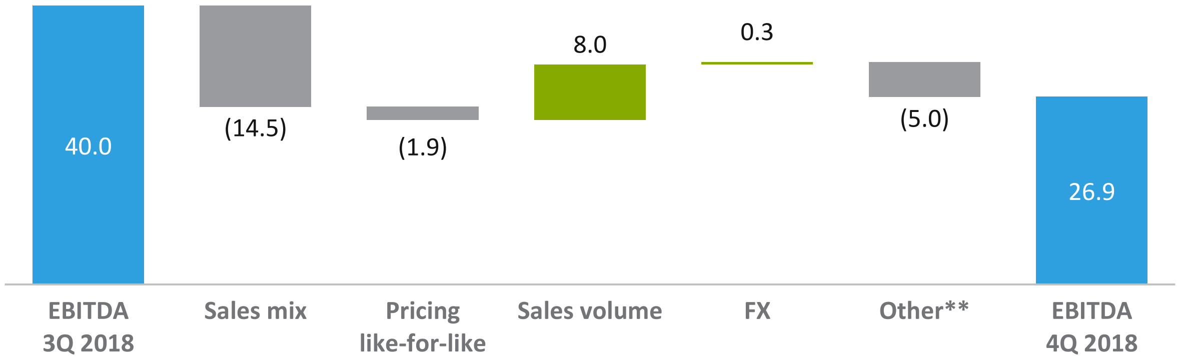
12M EBITDA – key drivers

RUB bn



4Q EBITDA – key drivers of q-o-q dynamics:

RUB bn



*Note: * mainly includes (+) impact of sale of gas assets by RUB1.7 bn and increase of SG&A and other costs by RUB1.2 bn*

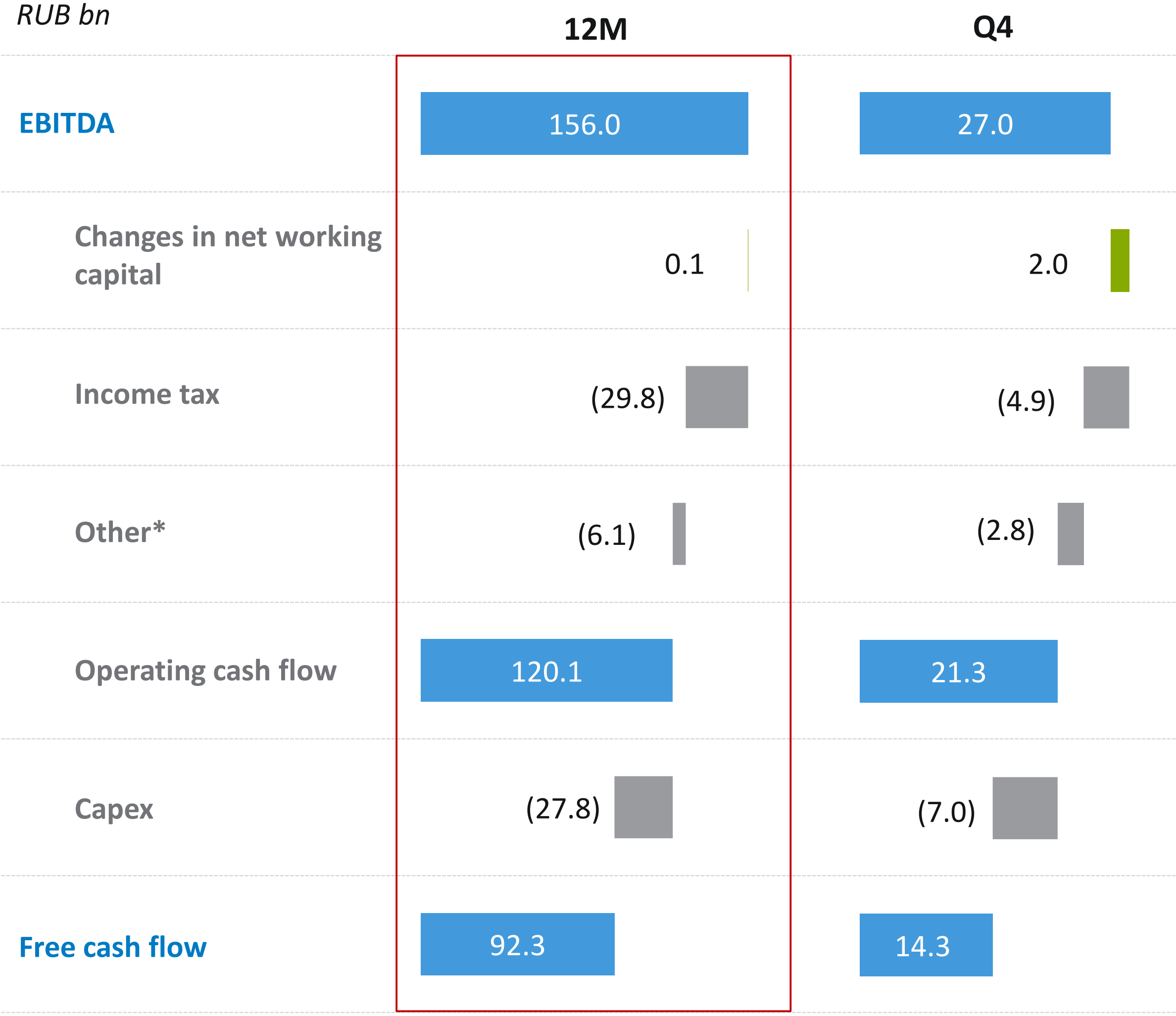
*** mainly includes (+) increase of SG&A and labour expenses by RUB6.2 bn, movement in inventory of ores and sands by RUB4.9 bn, decrease of other revenue by RUB0.8 bn*

(-) movement in inventory of diamonds by RUB8.7 bn

FREE CASH FLOW ANALYSIS

- **12M FCF grew 26% to RUB92.3 bn driven by:**
  - Profitability growth by 23%
  - Conservative capex which was marginally up on final stage investments in Verkhne-Munskoye asset (lunched in Oct.2018)
  - No change of working capital due to
    - decrease in diamond, ores and sands inventories by RUB1.1 bn,
    - increase mining and construction materials by RUB1.8 bn and trade receivables for supplied diamonds by RUB4.8 bn and
    - decrease of prepaid taxes, other than income tax by RUB3.9 bn
- **Q4 FCF decreased by 11% q-o-q (+22% y-o-y) to RUB14.3 bn driven by:**
  - Sales mix deterioration q-o-q (profitability down by 33%)
  - Working capital release by RUB2.0 bn mainly due to:
    - (+) increased level of diamonds, ore and sands (+RUB9.5 bn) due to seasonality of production cycle
    - (-) decrease mining and construction materials (-RUB3.9 bn)
    - (-) decrease in receivables (-RUB3.7 bn) due to realization of capital optimization program
    - Lower capex as capital outlay on investment projects is levelling off

Free cash flow bridge
RUB bn



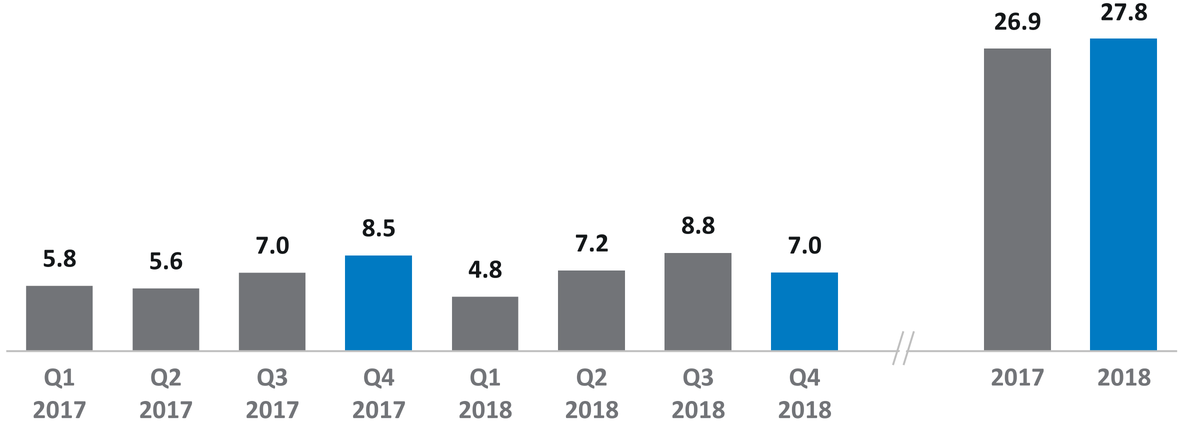
*Note: * mainly includes pension contribution*

CAPEX IS SET TO STABILIZE

- **12M capex was up 3% to RUB27.8 bn driven by:**
  - Mining capacity increased by 25% y-o-y as the newly launched project (V.Munskoye) deposit capex cycle peaked in 2018
  - Equipment maintenance increased by 5% y-o-y on higher spending on modernization of key assets
  - Infrastructure expense decreased by -57% y-o-y mainly due to sale of gas assets
- **In Q4 capex was down 20% q-o-q to RUB7.0 bn driven by**
  - Decrease of expenditure in V. Munskoye deposit by -81% q-o-q;
  - Increase of expenditure in equipment maintenance by 77% due to seasonality.

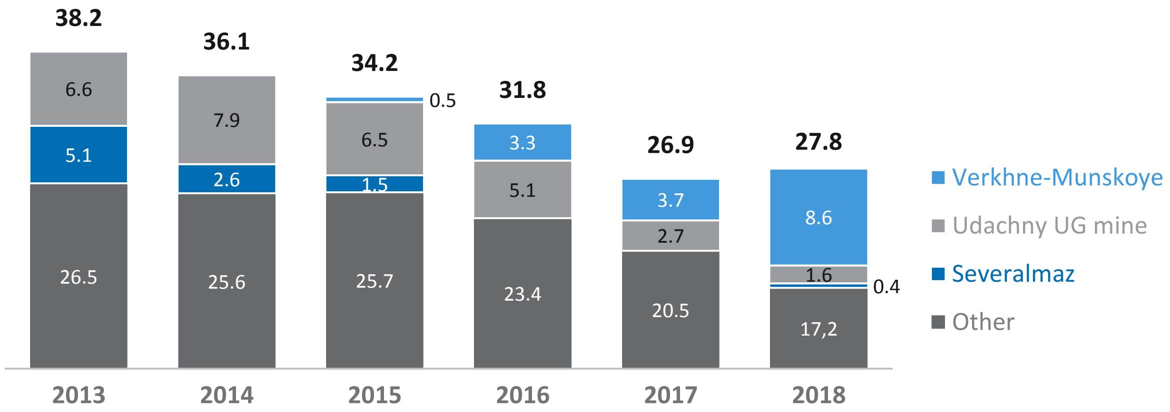
Capex dynamics

RUB bn



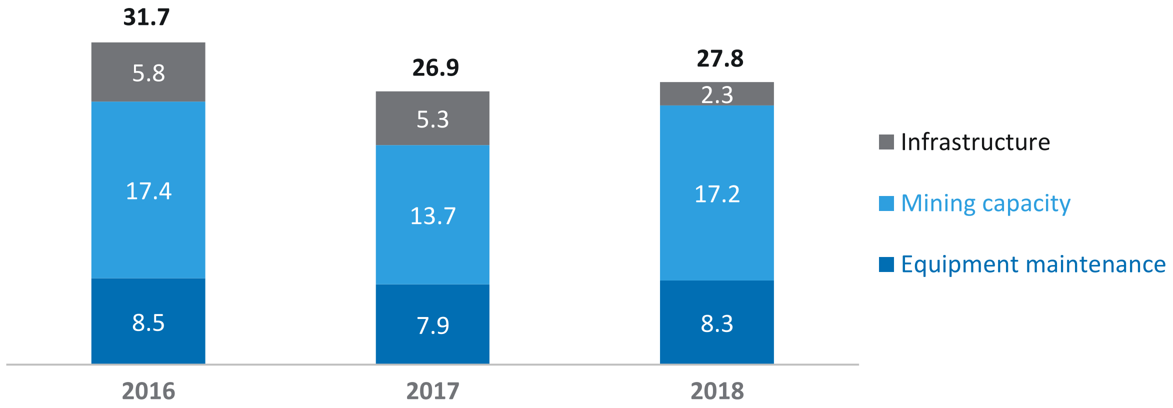
Capex by projects

RUB bn



Capex breakdown

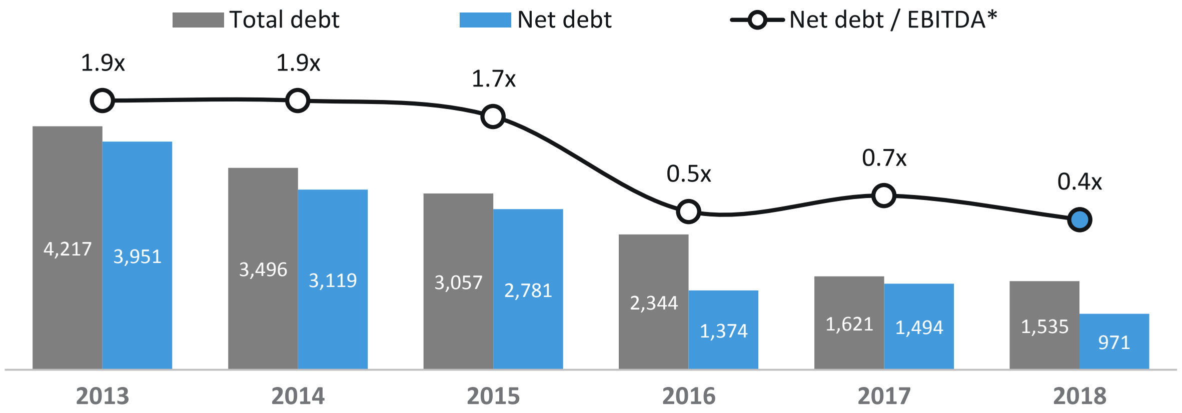
RUB bn



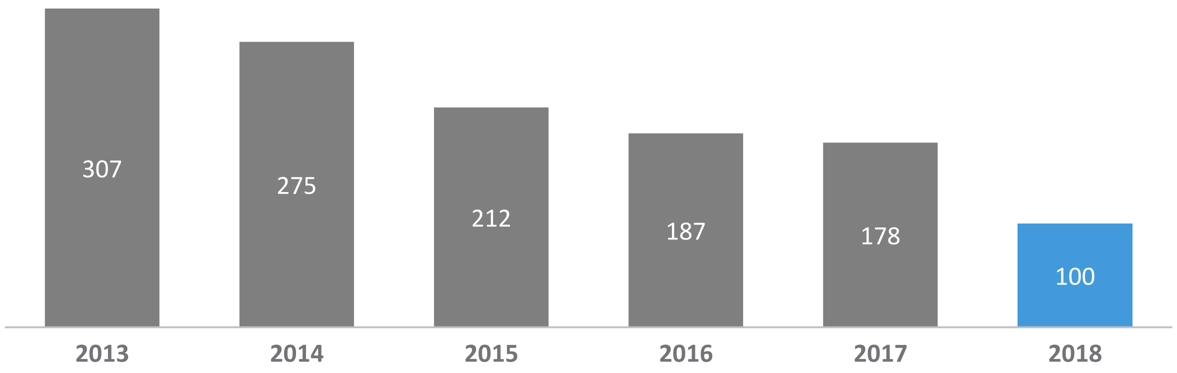
DEBT POSITION: COMMITMENT TO INVESTMENT GRADE

- **Total debt '18 decreased by 5% y-o-y to $1.5 bn**
- **By the end of 2018 liquidity increased to $564 m (+4.4x) – in line with the new financial policy** – due to stronger FCF and active debt portfolio management
- **Net debt / EBITDA reduced to 0.4x (vs 0.7x)** on the back of robust FCF

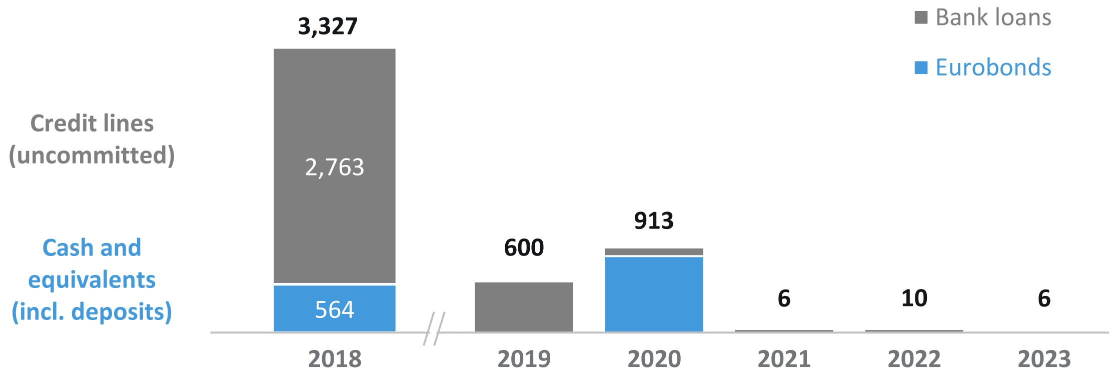
Debt profile changes
$ m



Interest expense, continue to decrease on lower debt level
$ m



Liquidity position and debt maturity profile
$ m

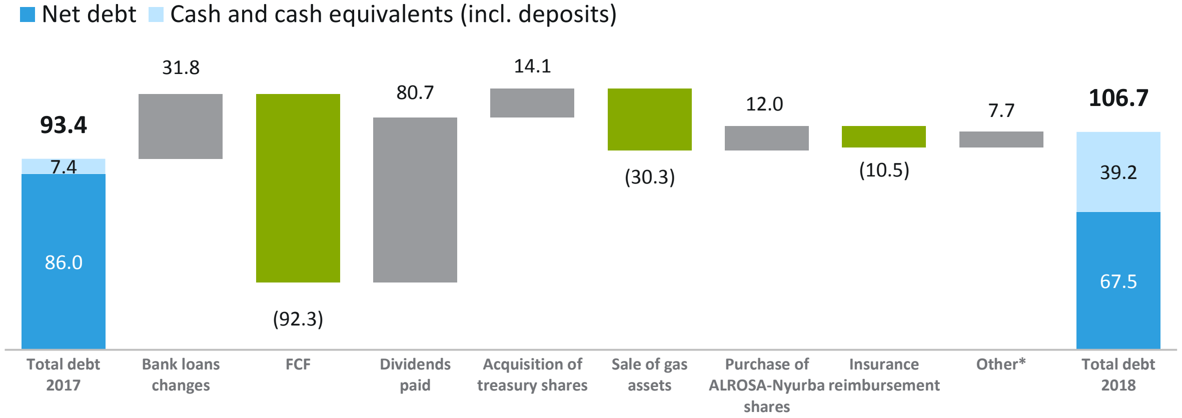


*Note: * based on EBITDA and Net debt denominated in rubles*

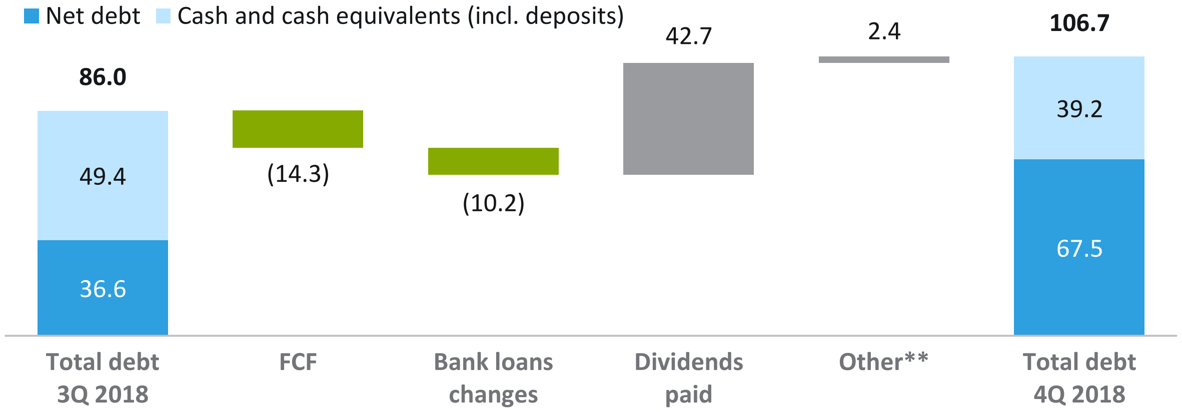
DEBT CHANGE

- **In 12M net debt was down 22% due to strong FCF and use of cash proceeds from disposals (RUB30 bn) to pay-down debt**
- To set up its stock option plan, ALROSA bought back 156.1 m shares year-to-date (2.1% of the authorised capital)
- **In Q4 net debt increased from RUB36.6 bn to RUB67.4 bn q-o-q** driven by dividend payment for H1 (RUB43.7 bn)

12M Total debt bridge
RUB bn



4Q Total debt bridge
RUB bn



*Note: * mainly includes changes in FX, finance income/expense, income from grands, etc.*
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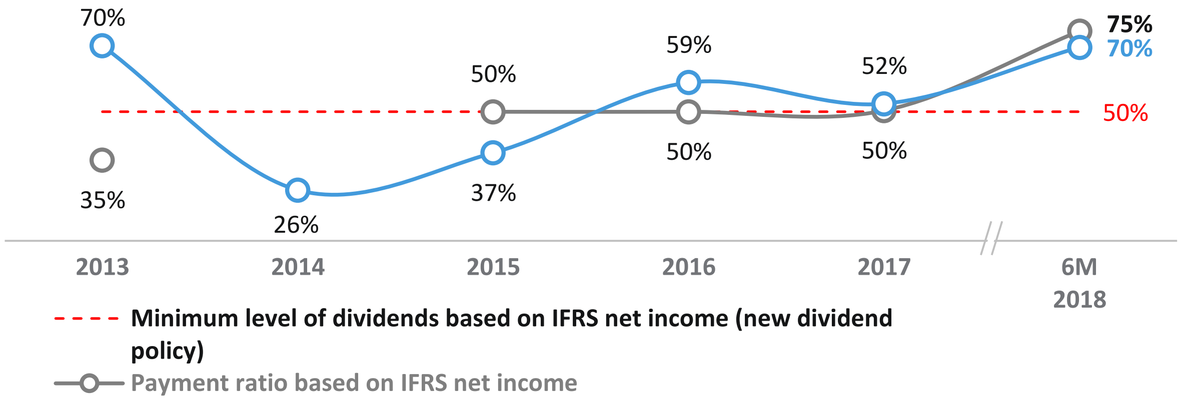
DIVIDEND POLICY

- ALROSA's dividend policy:
  - free cash flow based
  - payments twice a year
  - minimum payout at 50% of IFRS net income
- **Dividend payout estimate under the new policy:**

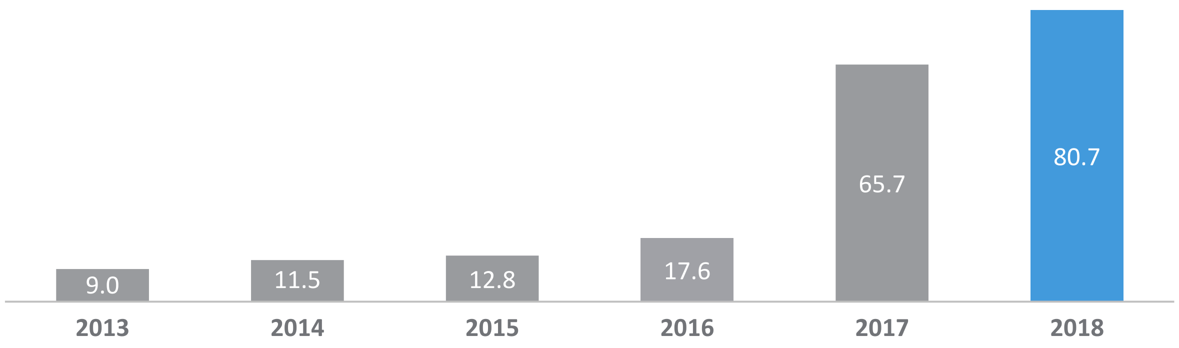
1. Net debt / EBITDA < 0.0 – over 100% FCF
2. 0.0 < Net debt / EBITDA < 1.0 – 70-100% FCF
3. 1.0 < Net debt / EBITDA < 1.5 – 50-70% FCF

Dividend payout ratios



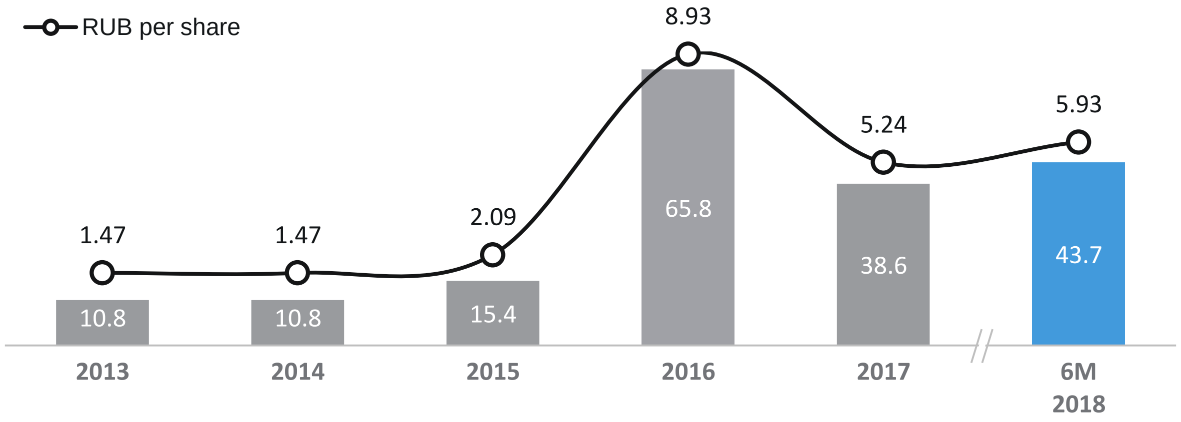
Dividend paid

RUB bn



Dividend accrued

RUB bn



OUTLOOK

Market outlook

- Diamond jewellery demand remains healthy while macro headwinds will continue to impact growth rates both in Developed and Emerging economies
- Mid-stream stocks are expected to remain low due to FX volatility and rising financing costs for polishers
- Global supply will continue to gradually decrease on mines depletions

ALROSA operating performance

- 2019 production outlook is expected to increase to 37.5-38.0 m carats (vs 36.7 m carats in 2018)
- 2019 average grade is expected to stabilize at 0.9 ct/t

APPENDIX

KEY INVESTMENTS PROJECTS

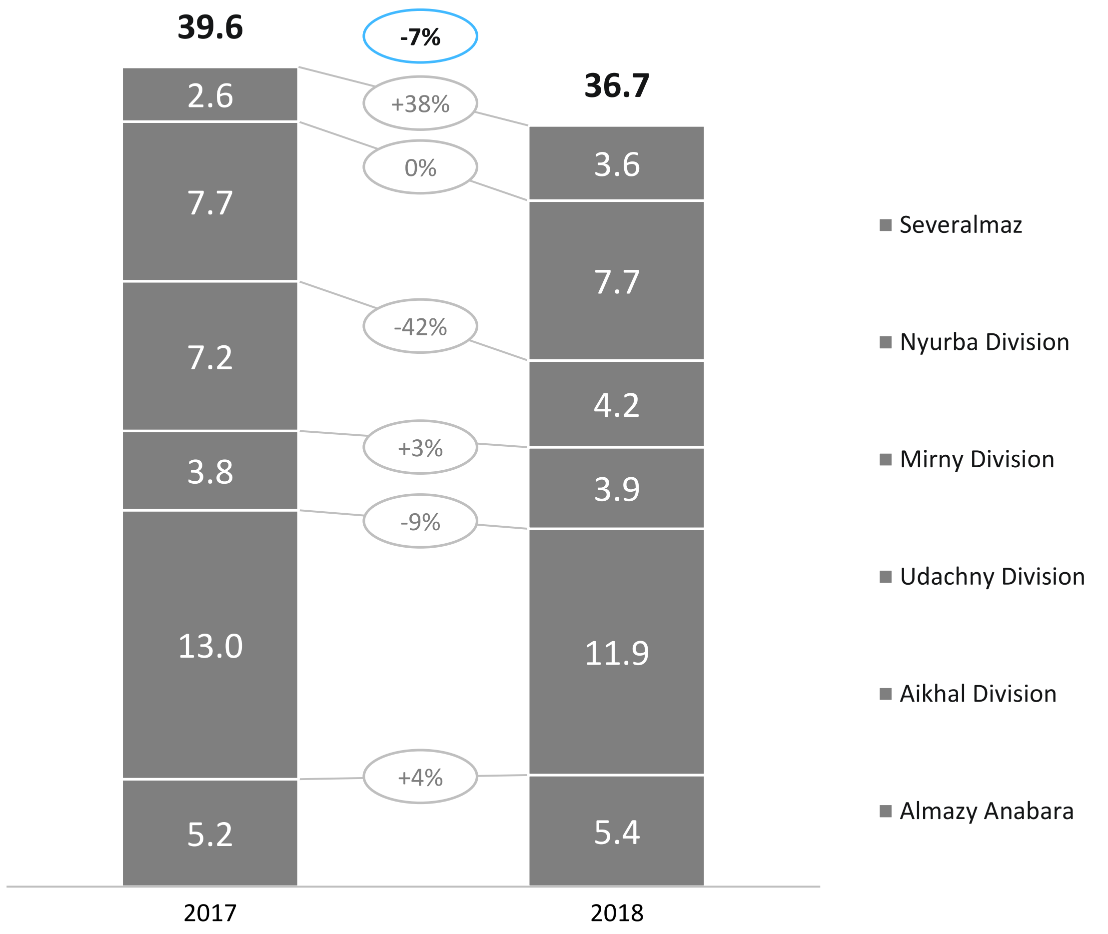
	Udachny UG mine	VM* deposit	Zaria pipe	Maiskaya Pipe	VG** deposit
Type of mining	Underground	Open-pit	Open-pit	Open-pit	Alluvials
Production start	2014	2018	2020	2025	2022
Ramp-up	2021	2020	2021	2027	2022
Target ore output pa	4.0 m t	3.0 m t	1.2 m t	0.3 m t	1.1 m t
Target production pa	5.6 m ct	1.8 m ct	0.4 m ct	1.2 m ct	0.4 m ct
Total CAPEX	RUB 63.9 bn	RUB 25.0 bn	RUB 8.4 bn	RUB 5.6 bn	RUB 2.3 bn
Invested share	*85%*	*69%*	*77%*	*1%*	*0%*
Resource base, m ct	59.3 m ct	38.2 m ct	3.5 m ct	13.8 m ct	3.8 m ct

*Notes: * Verkhne-Munskoye deposit*
*** Vodorazgelochnye Galechniki deposit*

DIAMOND PRODUCTION BY ASSETS

- **Key drivers of diamond production decline in 12M (down 7%):**
  - shut-down of the Mir underground mine
  - reduction in processing at the Udachnaya and Aikhal pipes
  - lower grade at the Nyurbinskaya and Botuobinskaya pipes
- **Drivers affecting 12M performance:**
  - **Severalmaz** – output was **up 38%** due to the processing plant gradually ramping up
  - **Mirny Division** – output was **down 42%** due to discontinued operations at the Mir pipe and a lower grade at the International pipe
  - **Udachny Division** – output was up **3%** due to start of production on Verkhne-Munskoe deposit
  - **Aikhal Division** – output was **down 9%** due to lower-grade ore from the Jubilee pipe coming on-stream
  - **Almazy Anabara** – output was **up 4%** due to higher processing throughput of sands

Diamond output
m ct

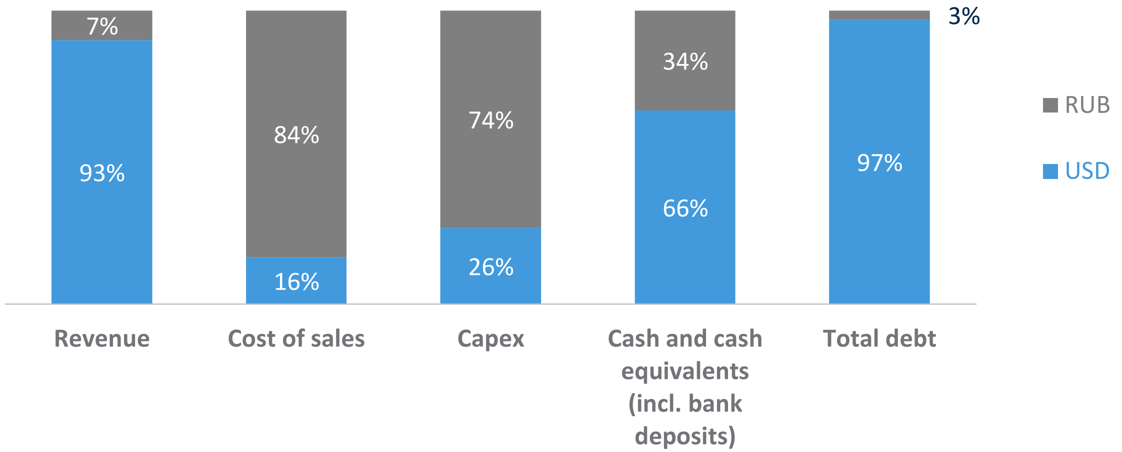


FX RATE

- 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

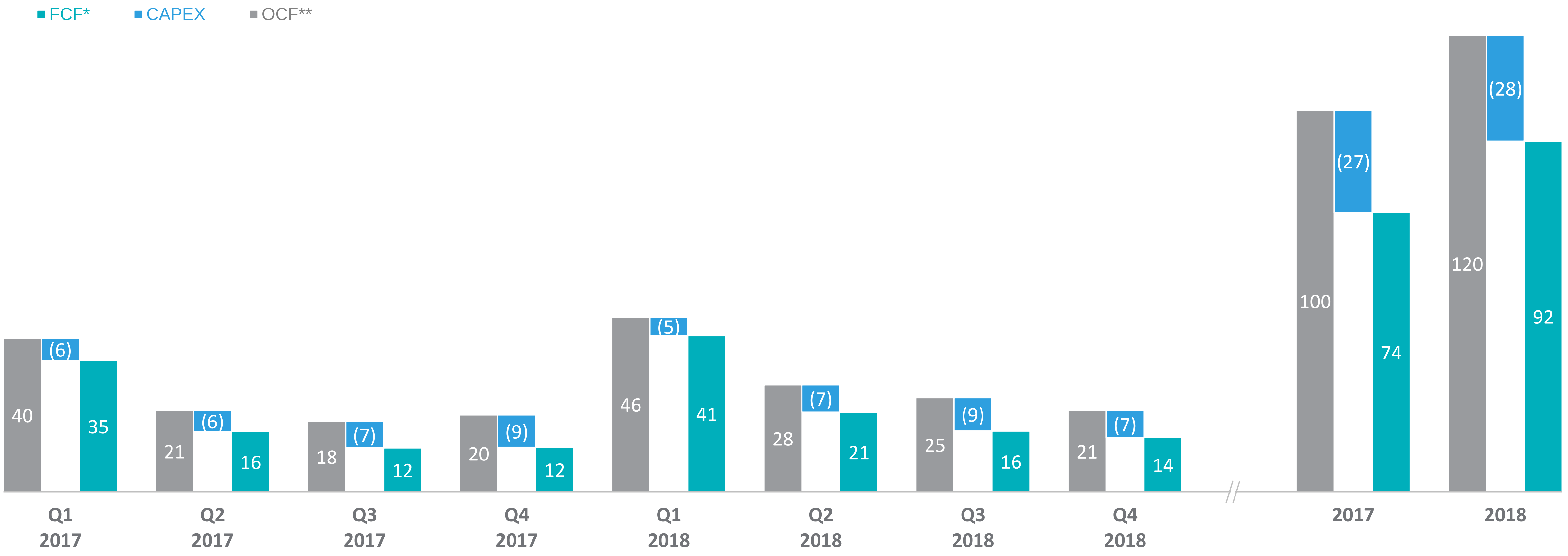
% of metric's total



OPERATING CASH FLOW AND CAPEX

Operating cash flow and capex

RUB bn



*Notes: * FCF – free cash flow is defined as OCF net of capex in the core business*

*** OCF – operating cash flow*

UNIT PRODUCTION COST CALCULATION METHODOLOGY

ALROSA uses the following methodology for real terms unit production cost calculation:

- 1) 2016 (as basic year) production costs are divided by types of expenses and adjusted on on-off items (Mir related and gas assets expenses) in order to achieve homogeneous population of expenses elements
- 2) production unit cost for basic year is calculated as total production cost divided by total run-of-mine ore
- 3) 3 type indices are applied in order to calculate inflation impact :
  - CPI for labor costs, services and transportation (3.7% in 2017, 2.9% in 2018)
  - Price index for fuel and energy (11.0% in 2017, 28.6% in 2018)
  - Price index for material costs (7.7% in 2017, 12.1% in 2018)

5) nominal production costs for 2017 and 2018 are adjusted on inflation impact in order to achieve real production costs. As a result real unit production value in 2017 equal 1.06 RR ’000/cu m, in 2018 - 1.00 RR ’000 /cu m, i.e. decrease in 2017 and 2018 - -8% y-o-y; -5% y-o-y respectively

THANK YOU!

HEAD OF CORPORATE FINANCE
SERGEY TAKHIEV

MOSCOW, RUSSIA 115184
24 OZERKOVSKAYA EMB.

M: +7 985 760 55 74
E: ST@ALROSA.RU