# ALROSA

## Q4&12M 2019 IFRS RESULTS

MOSCOW, 10 MARCH 2020

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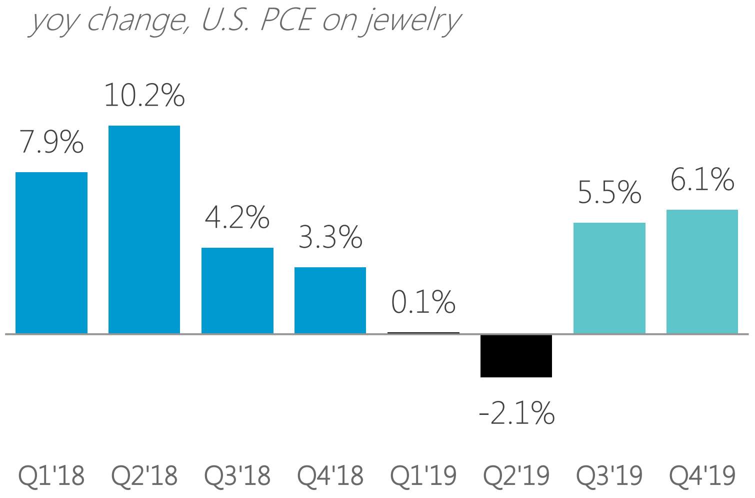
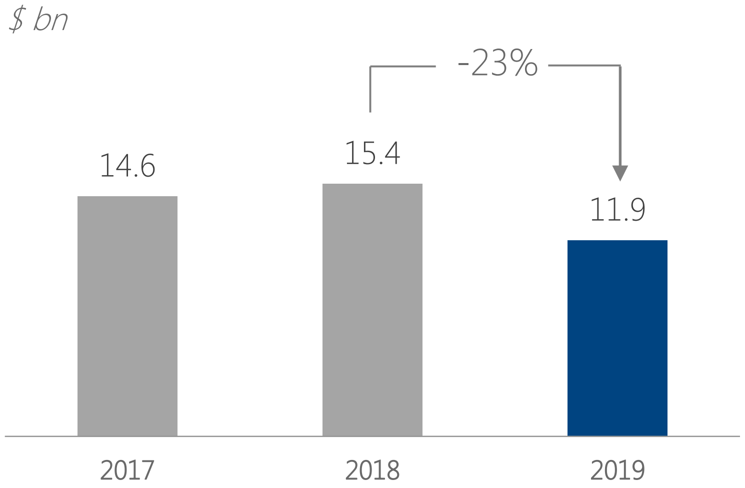
# DIAMOND MARKET OVERVIEW

## Diamond jewelry demand dipped in H1’19



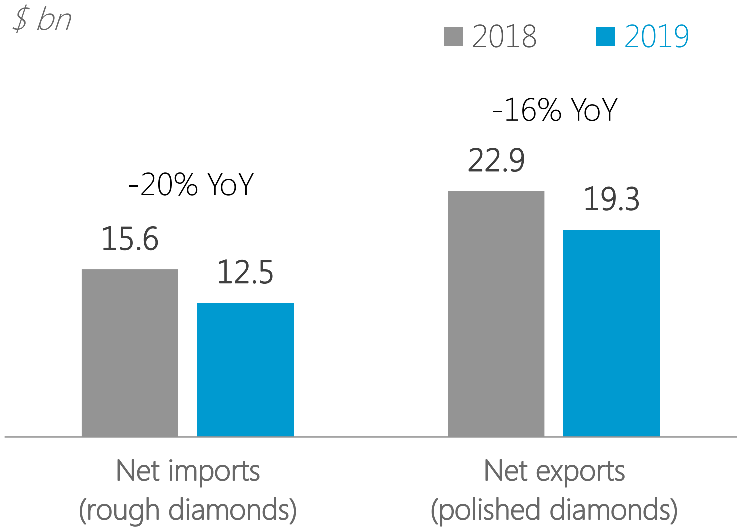

- … on weaker consumer confidence, elevated stocks at retail, and financial issues in India

## Miners adjusted diamonds supply




- Diamond producers helped the industry to avoid supply glut, taming price decreases

## Stocks across the chain normalized



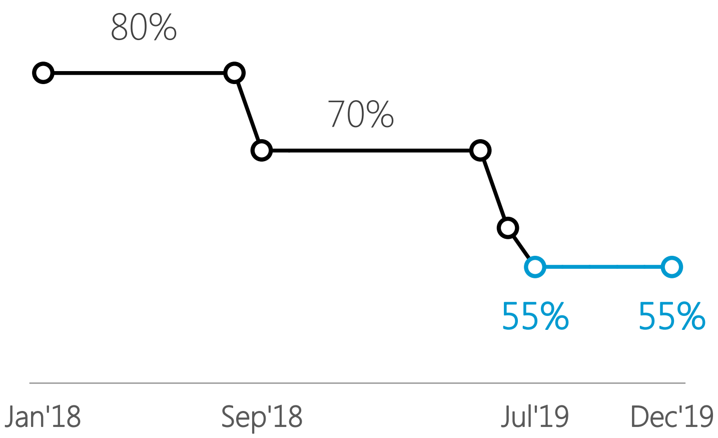

- Indian mid-stream destocked with rough diamonds imports down by 20% yoy
- Better offtake in H2’19 allowing to bring supply and demand into balance by the year-end

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

*1. Data based on results of ALROSA and other diamond producers with a market share totaling c. 75% in 12M 2019.*

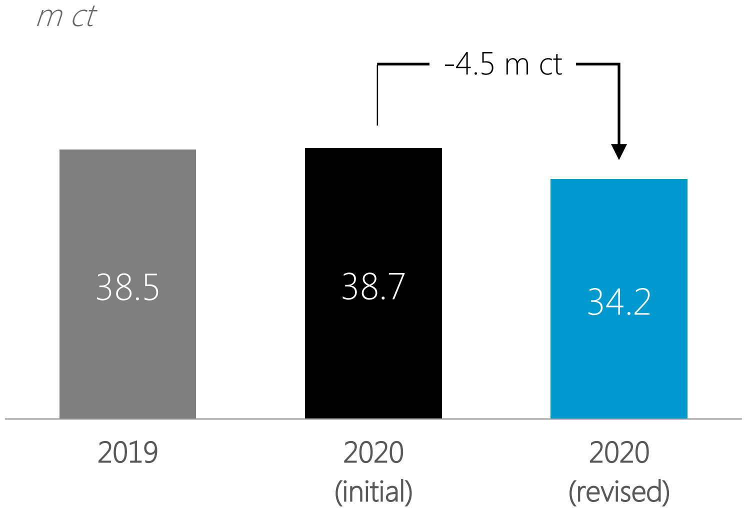
# ALROSA: MANAGING THROUGH THE DOWNTURN

## Min. allowed contract allocation level



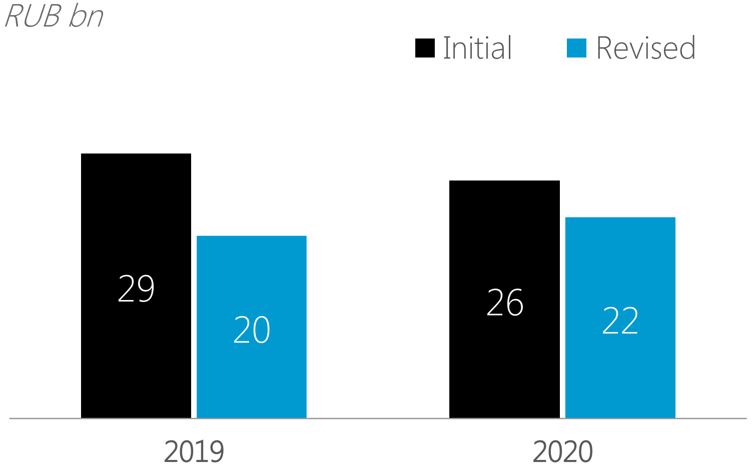

- Mining majors helped industry destock
- E.g. ALROSA decreased minimum allowed contract allocation level to 55% from July 2019

## 2020 output cut down




- Output cuts at the assets with higher variable costs, and with lower prices (~30% discount to Group ave.)
- ...thus helping maximize WC release and reduce expenditures

## Capex downscaled



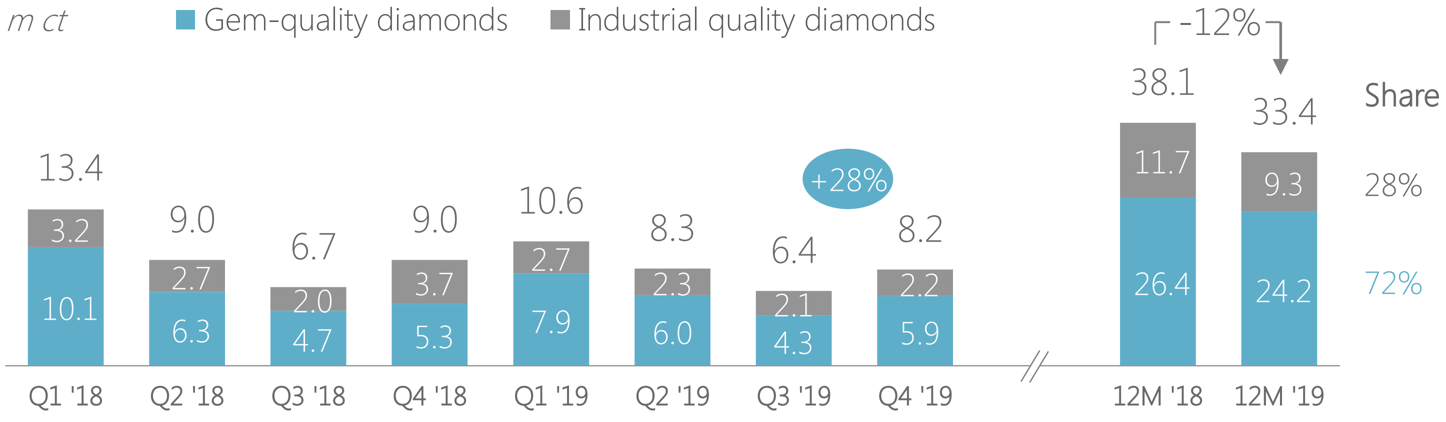

- A number of small projects were rescheduled or put on hold
- No impact on operational performance

*Source: Company data and analysis.*

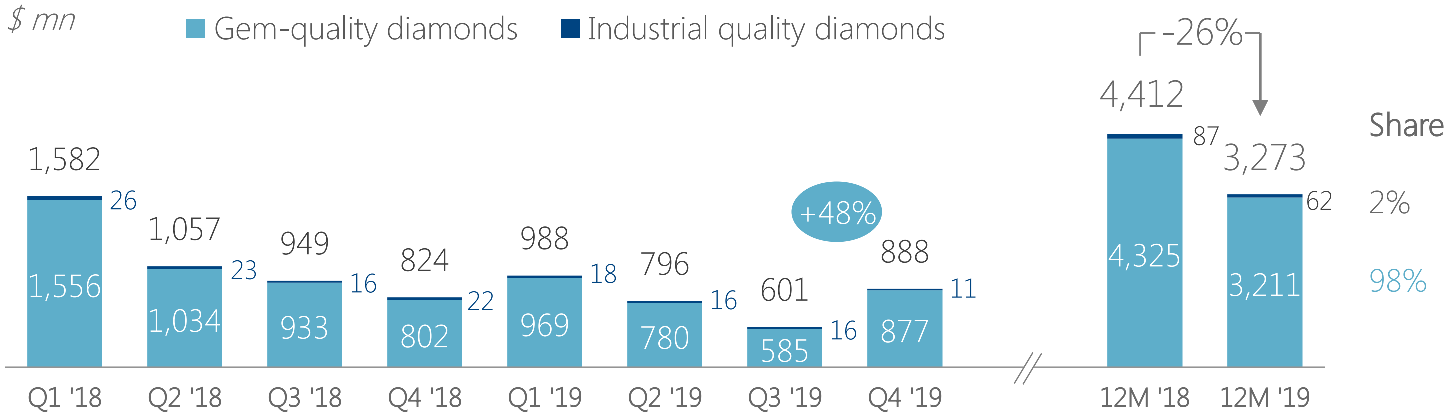
# ALROSA ROUGH DIAMOND SALES

- Q4 ‘19 sales up by 28% qoq (-9% yoy) to 8.2 m ct, due to seasonally higher buying activity (yoy decline driven by lower demand and midstream destocking)
- Q4 ‘19 sales in USD increased by 48% qoq ($888 m) due to 28% qoq sales increase in carats and higher average realized price (see next slide)
- Q4 ‘19 sales in USD increased by 8% yoy due to higher average realized price (incl. like-for-like impact) and partially offset by lower sales volumes (-9%)
- 12M ‘19 sales in USD were down by 26% to $3.3 bn on lower sales volumes (-12%) and prices (both due to mix and like-for-like factors)

Q4 diamond sales went up by 28% qoq (-9% yoy)




Q4 diamond sales by value were up by 48% qoq

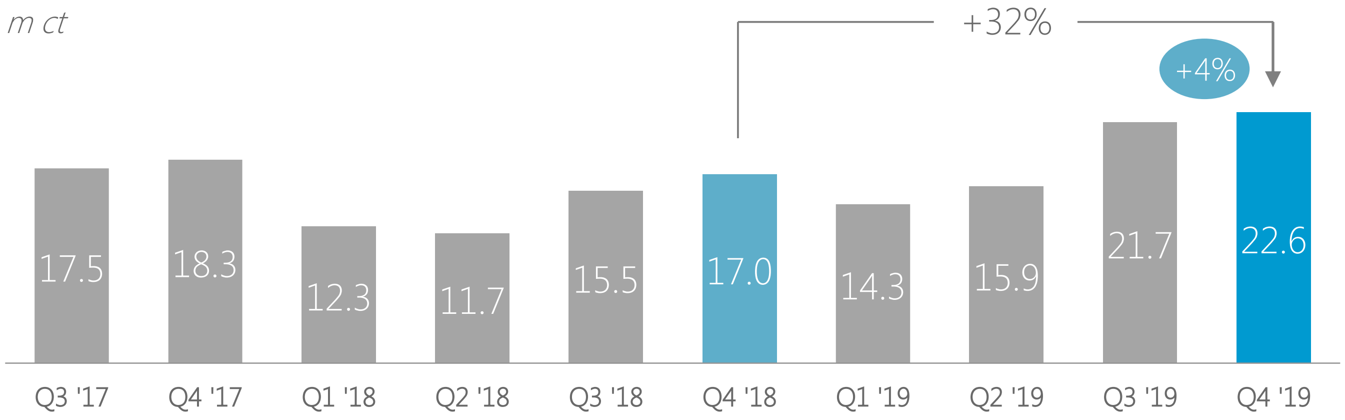



*Source: Company data and analysis.*

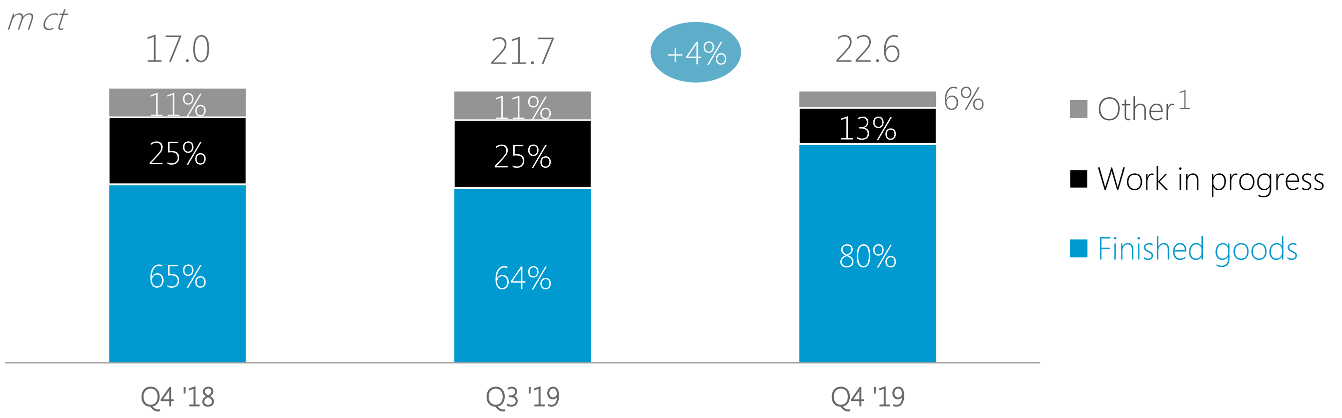
# INVENTORIES

- **Q4 '19 diamond inventories grew by 0.9 m ct** (+4% qoq) **to 22.6 m ct** – though sales accelerated in Q4 (+28% qoq) amid a gradual recovery in diamond demand, but still lagging behind diamond output
- **32% yoy growth in inventories (+5.6 m ct)** driven by lower sales (-12% yoy) on 5% growth in output driven by (a) launch of production at the V.Munskoye deposit in Q4 '18 and (b) productivity improvements at Nyurba

Q4 ALROSA's diamond inventories were up 4% qoq




ALROSA's diamond inventories structure



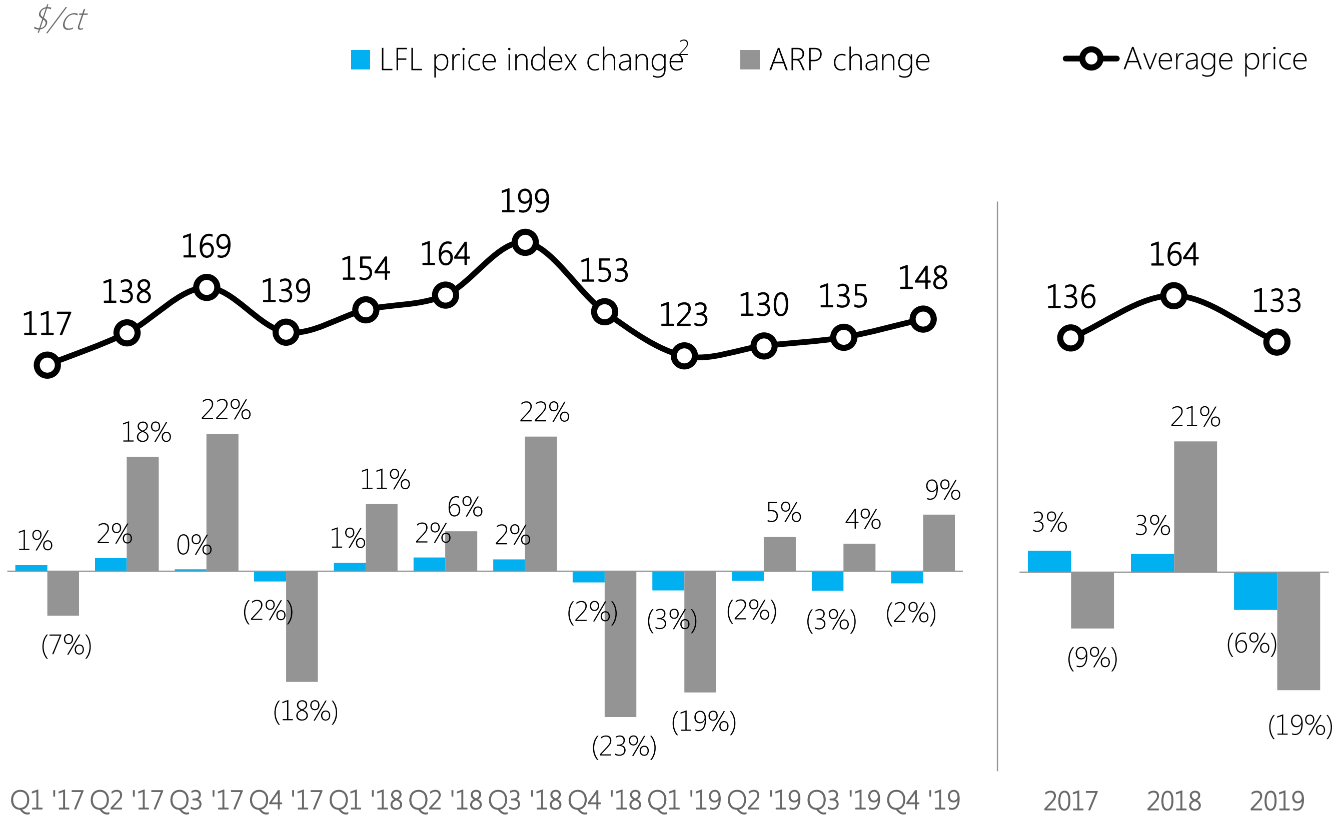

*Source: Company data and analysis.*

*1. Diamond inventories at mining and processing divisions.*

# PRICE DYNAMICS

- Q4 '19 like-for-like price index (LFL PI) was -2% qoq
- Q4 '19 average realized prices (ARP) for gem-quality diamonds rose 9% qoq to $148/ct due to better product mix
- During 12M LFL price index (PI) was down 9.1% due to lower demand from mid-stream and limited access to affordable financing for mid-stream in India, on a yoy basis PI was down by 6%
- 12M '19 ARP for GEMs was 19% yoy down; average LFL PI decreased by 6% yoy

Average price[1] for gem-diamonds was up by 9% qoq on better mix

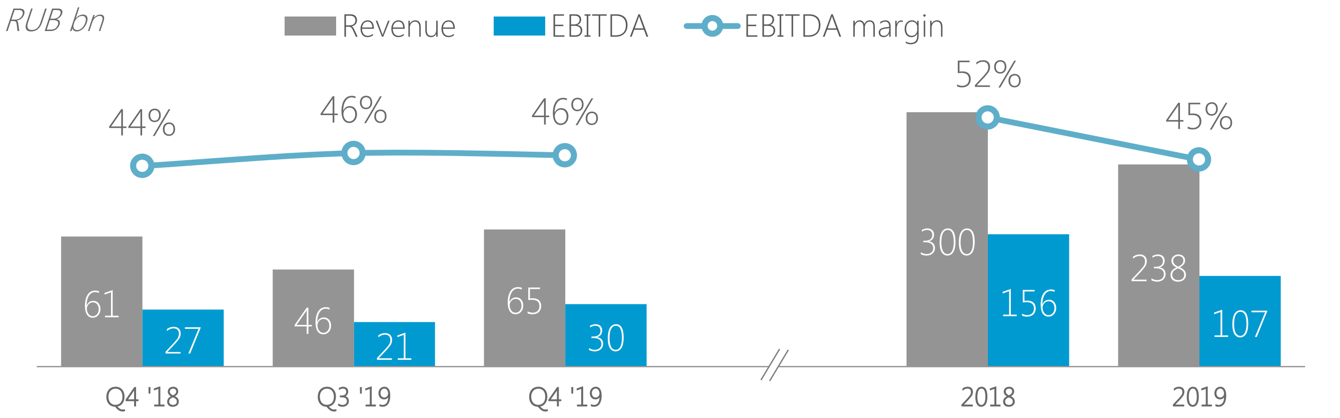



*Source: Company data and analysis.*
1. *Average realized prices (sales revenue divided by sales volumes in carat terms) are also impacted by changes in the product mix throughout the reported period.*
2. *Average index change of like-for-like diamonds prices (excl. +10.8 carats).*

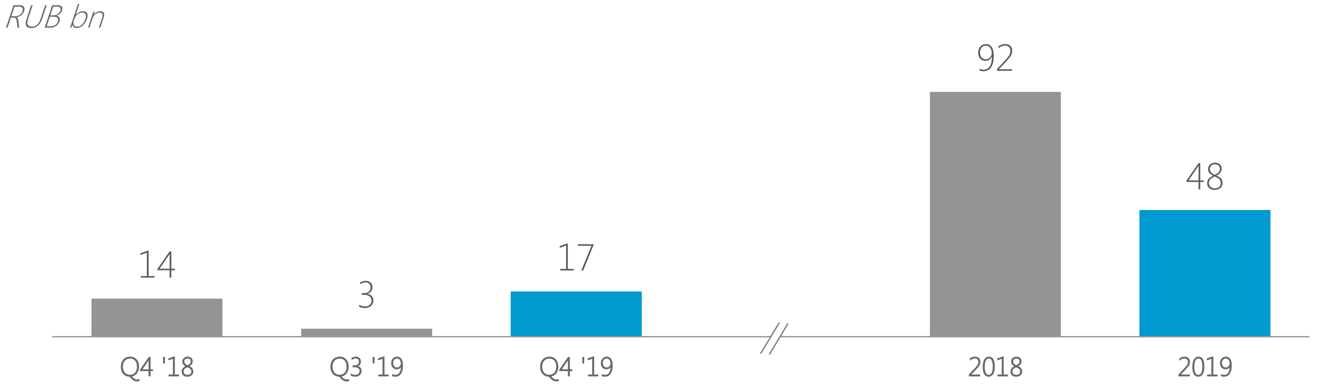
# FINANCIAL HIGHLIGHTS

- Q4 '19:
  - Revenue: RUB 65 bn, +41% qoq on +28% volumes growth; +5% yoy on better mix
  - EBITDA: RUB 30 bn, +40% qoq, +10% yoy
  - Profitability up by 2 pp to 46%
  - FCF grew to RUB 17 bn on better sales, limited capex & w/c release
- 12M '19:
  - Revenue: RUB 238 bn, -21% on lower prices & volumes
  - EBITDA: RUB 107 bn, -31% as sales decreased
  - Profitability down by 7 pp to 45%
  - FCF troughed at RUB 48 bn on lower sales, W/C buildup, partially offset by lower capex
  - Net debt / LTM EBITDA was at 0.7x (vs 0.4x in 2018)

Q4 EBITDA margin amounted to 46%




Strong cash flow generation capability




*Source: Company data and analysis.*

# GEM-QUALITY DIAMONDS REVENUE DRIVERS

- Q4 '19 gem-diamond sales were up by 49% qoq to RUB 56 bn driven by:
  - (+) 38% increase in sales volumes (in carats)
  - (+) normalized product mix
  - (-) softer like-for-like prices (av. index change – -2%)
  - (-) FX rate impact on stronger RUB
- 12M '19 gem-diamond sales 22% decrease driven by:
  - (-) 8% reduction in sales volumes (in carats)
  - (-) weaker product mix
  - (-) softer like-for-like prices (av. index change -6% yoy)
  - (+) FX rate impact on weaker RUB

Q4 gem-quality rough diamond revenue bridge (qoq)

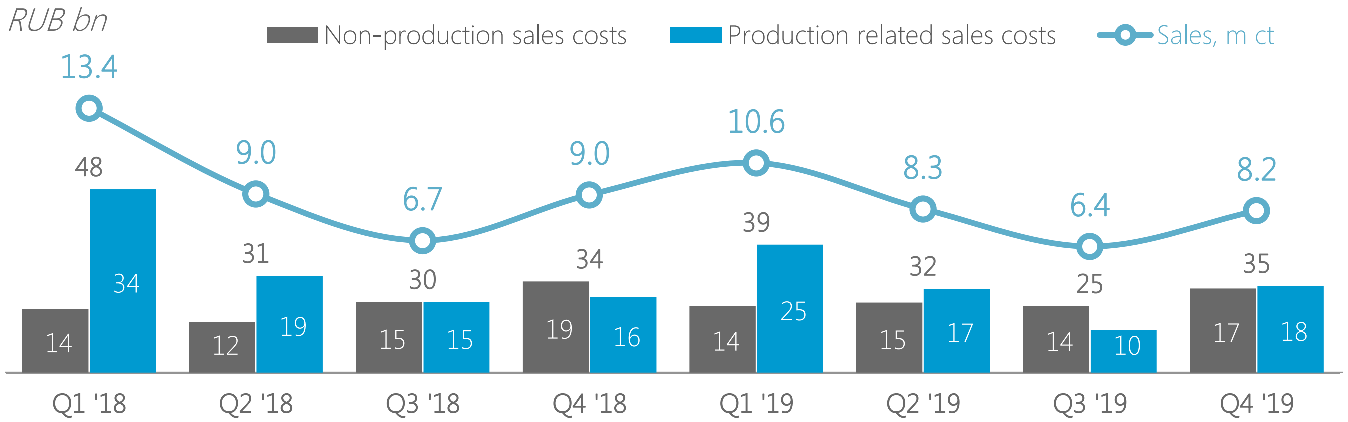

12M gem-quality rough diamond revenue bridge (yoy)


*Source: Company data and analysis.*

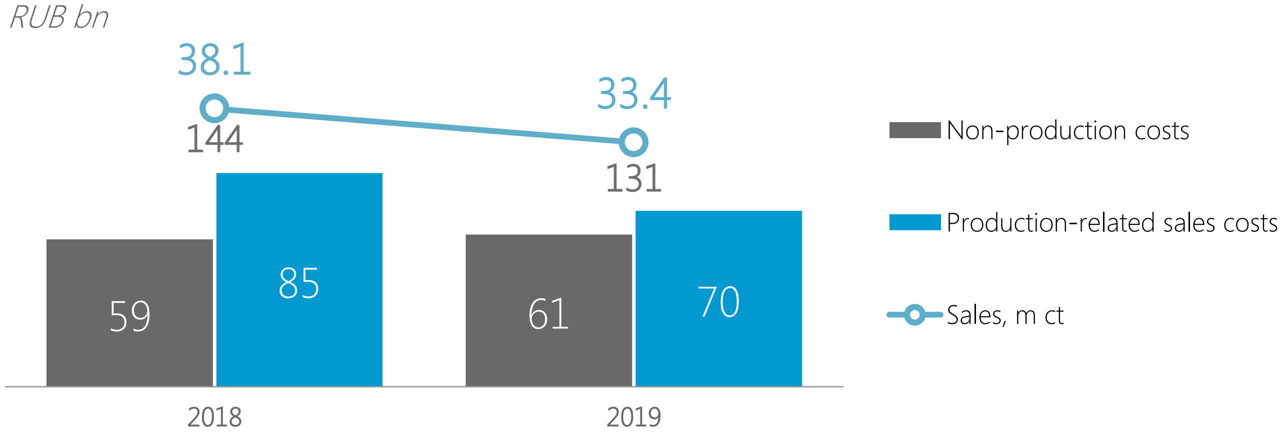
# COSTS DYNAMICS

- **Q4 '19 total costs were up by 42% qoq (+2% yoy)** to RUB 35.1 bn due to:
  - Production-related costs were +72% qoq (+RUB 7.4 bn) on +28% sales volumes growth (see p. 23)
  - non-production costs grew 21% (+RUB 3.0 bn) mostly driven by increase of social costs and SG&A (see p. 24)
- **…2% yoy increase** driven by:
  - Production-related cost of sales up +11% (+RUB 1.8 bn) due to nominal unit production cost increase (see p. 23)
  - non-production costs decline by 6% (-RUB 1.2 bn) driven by increase of other operating income and geological expenses (see p. 24)
- **12M '19 total costs were down by 9%** mostly due to production-related cost of sales decrease (-17%) on lower (-12%) diamond sales

## Q4 total cost of sales were up by 42% qoq




## 12M costs down 9% on lower sales and cost control efforts

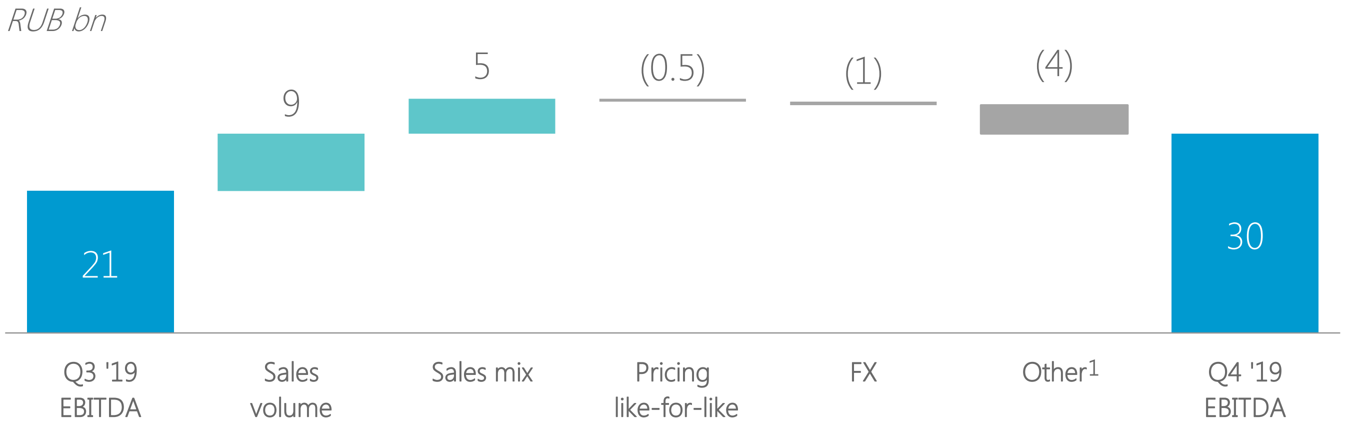



*Source: Company data and analysis.*

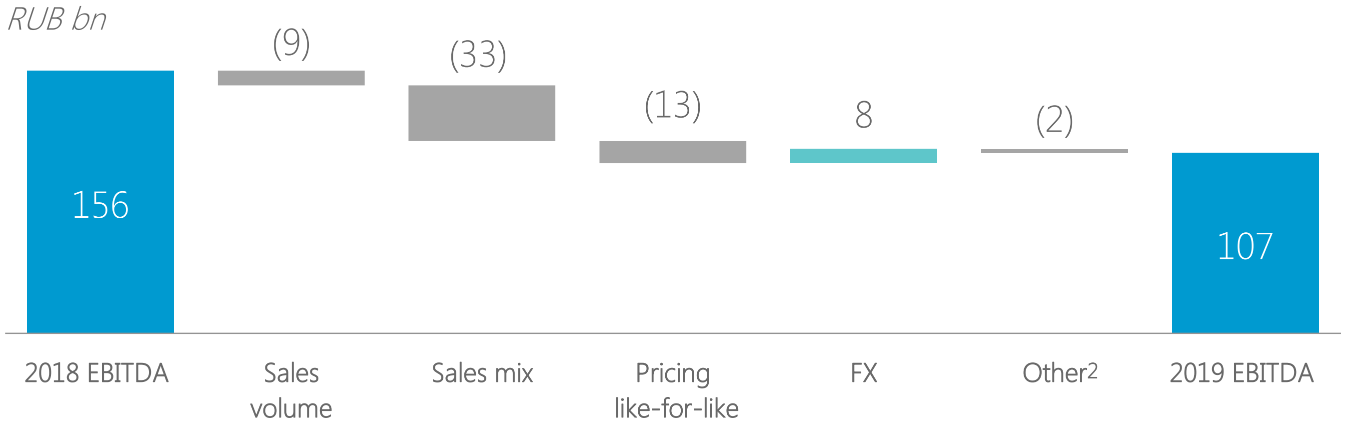
# PROFITABILITY DRIVERS

- Q4 '19 EBITDA was up by 40% qoq driven by:
  - (+) 28% increase in volumes: net impact +RUB 9 bn (revenue increase: +RUB 15 bn, COGS reduction: -RUB 6 bn)
  - (+) sales mix +RUB 5 bn
  - (-) like-for-like prices: -RUB 0.5 bn
  - (-) FX rate: -RUB 1 bn
  - (-) other factors: net impact -RUB 4 bn
- 12M '19 EBITDA was down by 31% yoy driven by:
  - (-) 12% reduction in carat sales: net impact -RUB 9 bn (revenue decline: -RUB 26 bn, COGS reduction: +RUB 17 bn)
  - (-) sales mix on high demand for smaller stones: -RUB 33 bn
  - (-) like-for-like prices: -RUB 13 bn
  - (+) FX rate: +RUB 8 bn
  - (-) other factors: net impact -RUB 2 bn

## Q4 EBITDA – driven by volumes and mix (qoq)




## 12M EBITDA drivers with mix impacting the most (yoy)



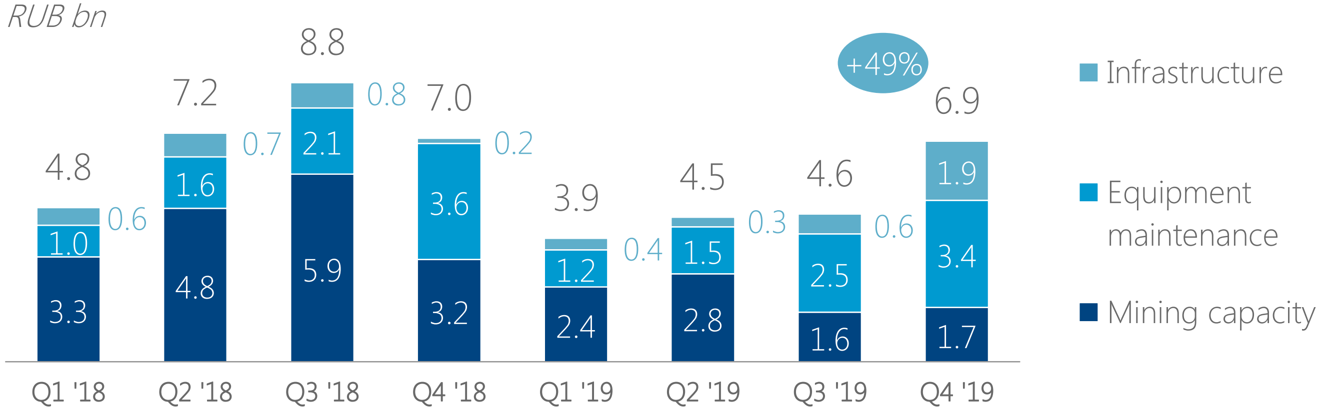

*Source: Company data and analysis.*

1. *Mainly due to increase of fuel and energy expenses (-RUB 2.1 bn).*
2. *Mainly includes other revenue decrease (-RUB 1.8 bn) due to reduction of gas sales.*

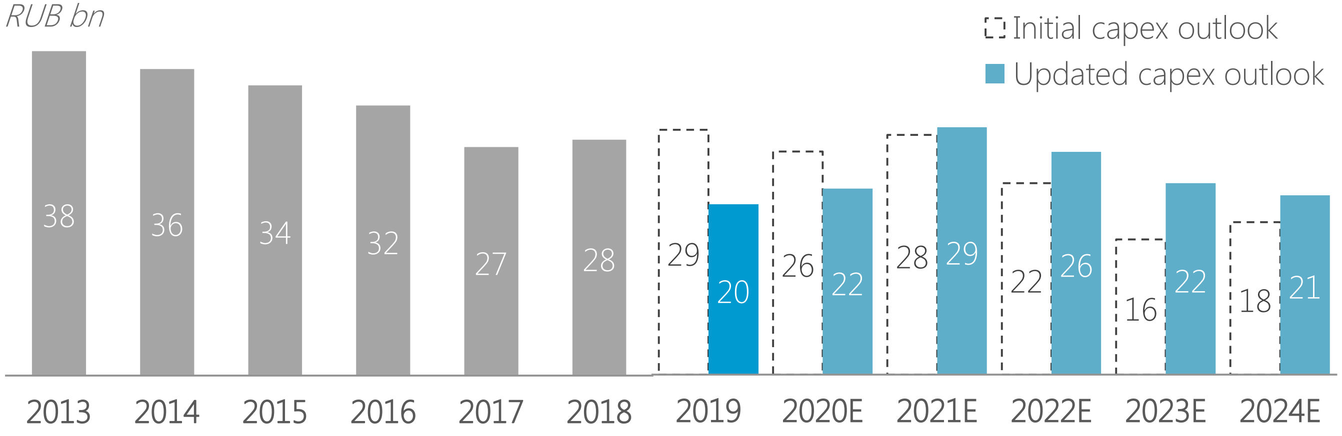
# CAPEX

- Q4'19 capex was up by 49% qoq (-1% yoy) to RUB 6.9 bn mostly due to higher capex in infrastructure (+3x qoq) and seasonal growth of capex in equipment maintenance (+37% qoq)
- 12M '19 capex decreased by 28% to RUB 20.0 bn due to lower capex in mining capacity (-68%, -RUB 9.4 bn):
  - V.Munskoye deposit (-RUB 7.6 bn)
  - Udachny underground mine (-RUB 1.0 bn)
  - … as well as rescheduled payments/projects put on hold
- 2020 capex outlook was reduced to RUB 22 bn, on rescheduled projects implementation and payments
  - with no impact on operational performance

Q4 capex was up by 49% qoq




Annual capex dynamics

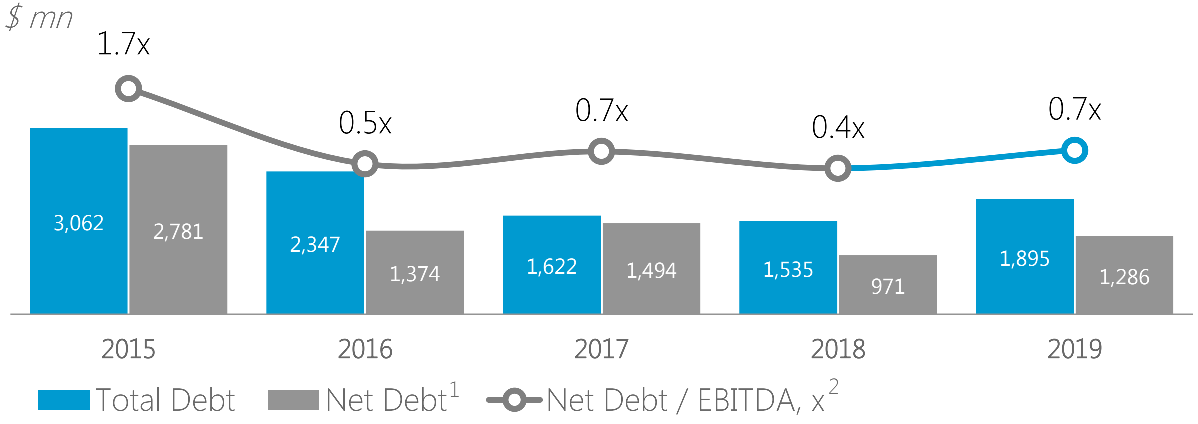



*Source: Company data and analysis.*

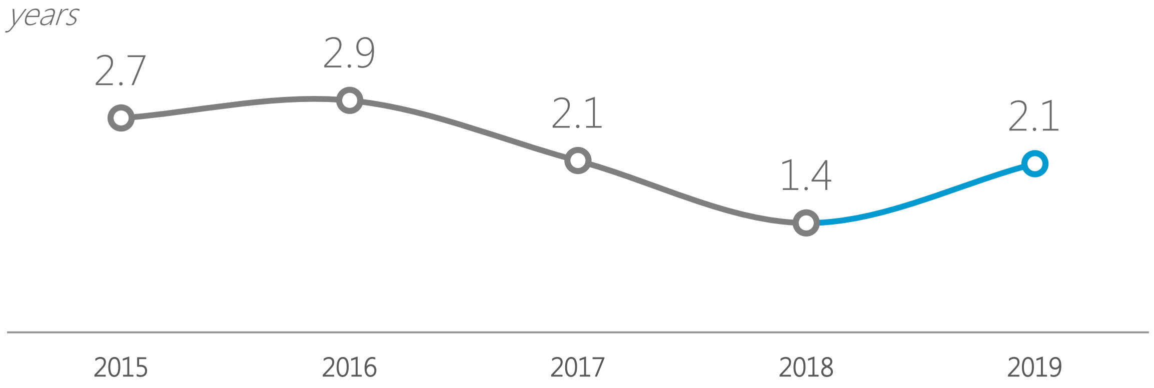
# DEBT POSITION

- **Total debt** in 2019 increased by 23% yoy or by $0.4 bn to **$1.9 bn**
- **2019 liquidity** up by 8% yoy to **$0.6 bn** in line with financial policy
- **Net debt** up by $0.3 bn to **$1.3 bn** (+32% yoy)
- **Net debt/EBITDA** up to **0.7x** on lower EBITDA and Net debt growth
- In Q4 '19 2Y bank loans for the aggregate amount of $250 m raised

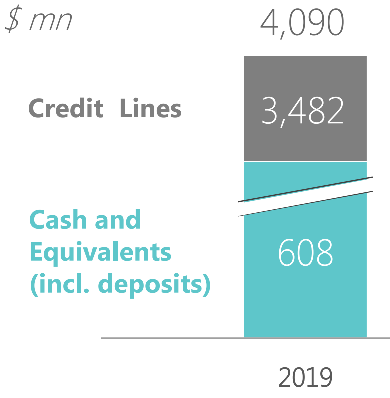
## Sound financial profile



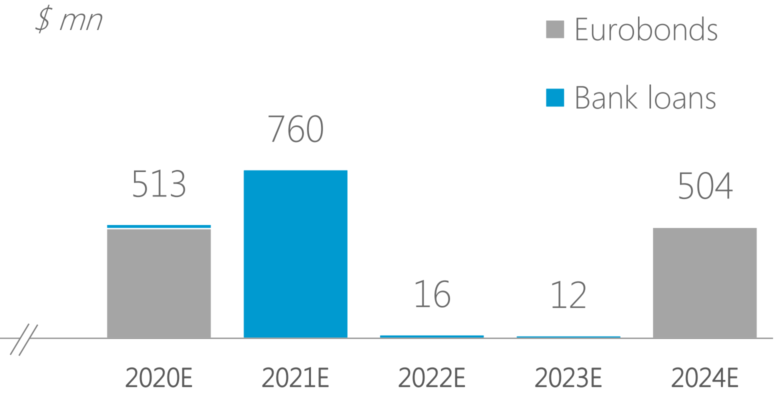

## Weighted average debt maturity restored




## Liquidity position




## Debt[3] repayment schedule



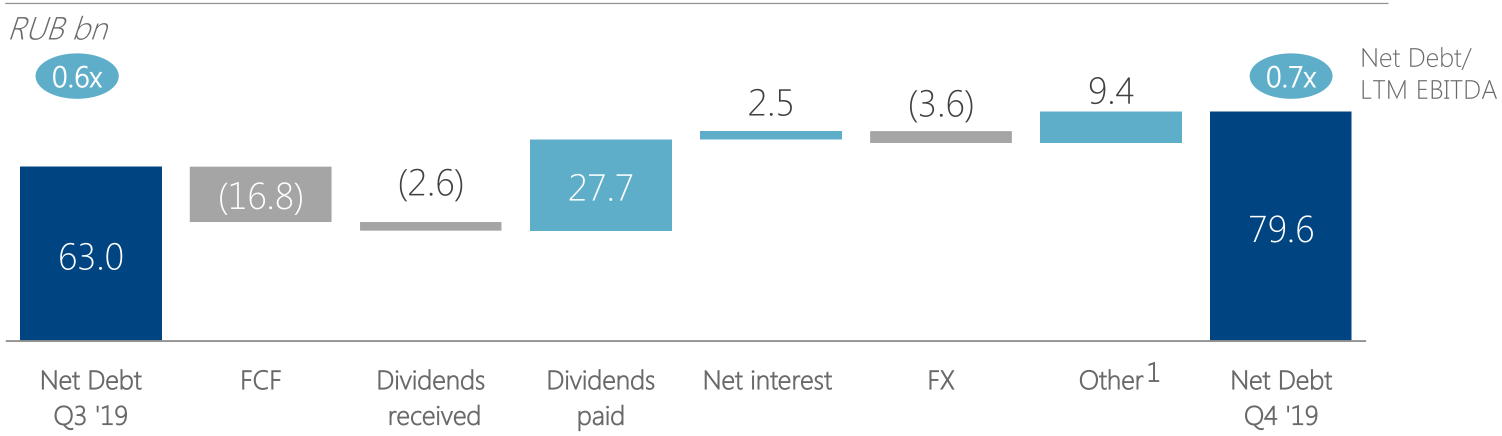

*Source: Company data and analysis.*

1. *Including lease obligation (RUB 5.7 bn, which includes initial recognition, repayment and FX)*
2. *Based on EBITDA and Net Debt denominated in rubles*
3. *Excluding lease obligation (RUB 5.7 bn, which includes initial recognition, repayment and FX) and amortization of discount*

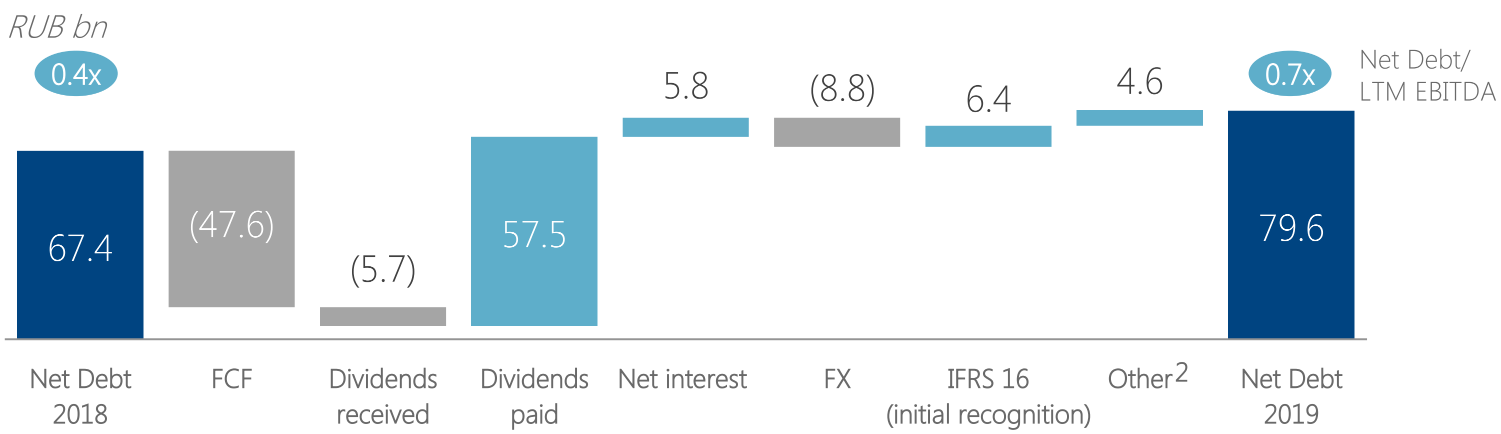
# NET DEBT ANALYSIS

- Q4 '19 net debt in RUB increased by 26% qoq to RUB 79.6 bn driven by:
  - (-) free cash flow (-RUB 16.8 bn)
  - (+) dividends paid (+RUB 27.7 bn)
- 2019 net debt in RUB increased by 18% driven by:
  - (-) free cash flow (-RUB 47.6 bn)
  - (+) dividends paid (+RUB 57.5 bn)
  - (+) initial recognition of lease obligations under IFRS 16 Leases implemented from 1 January 2019 (+RUB 6.4 bn)

Q4 Net Debt bridge




2019 Net Debt bridge



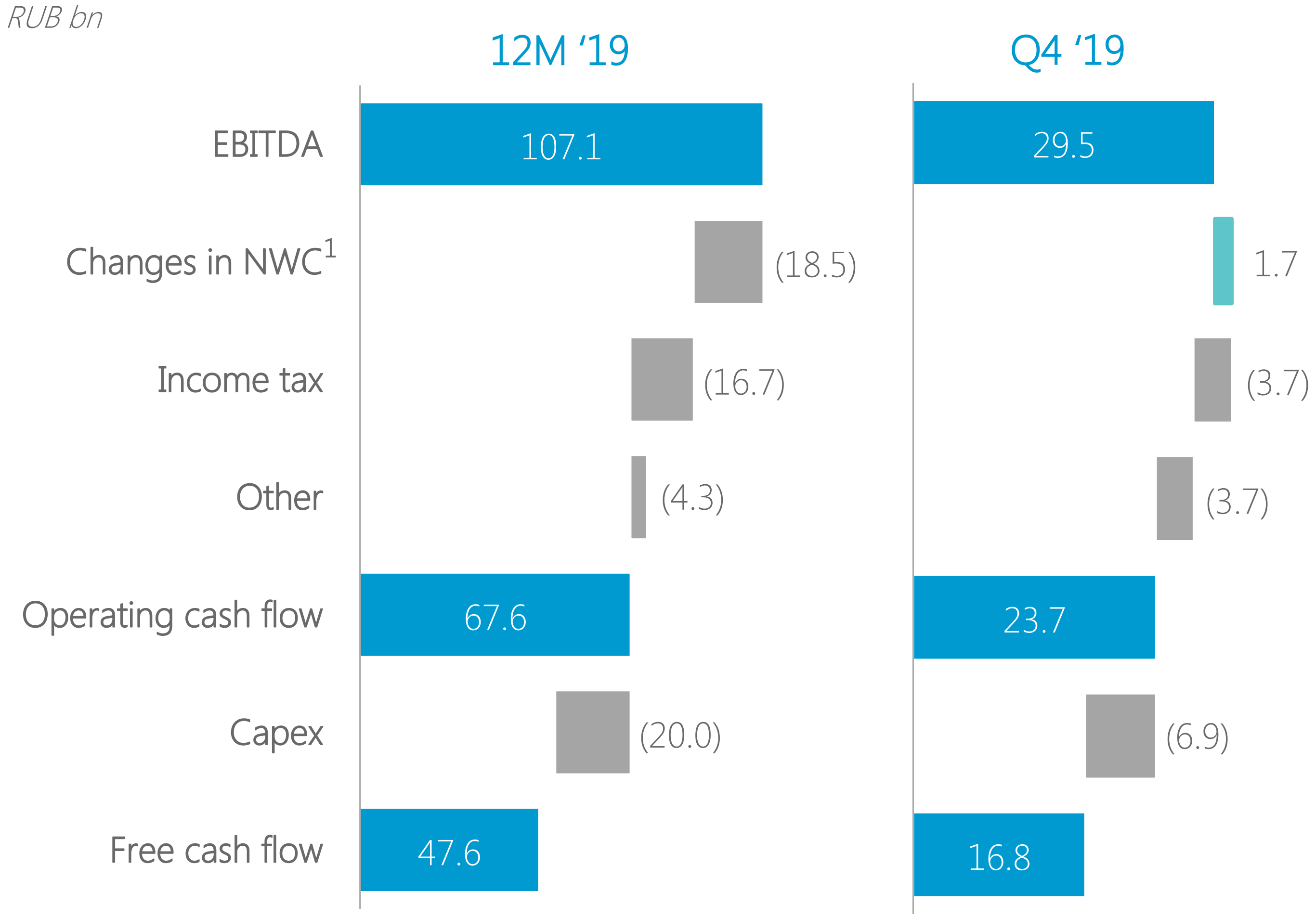

*Source: Company data and analysis.*

1. *Includes acquisition of Kristall Group for RUB 1.3 bn and consolidation of its debt of RUB 7 bn.*
2. *Includes acquisition of Kristall Group for RUB 1.3 bn and consolidation of its debt of RUB 7 bn. Also includes sale of non-core assets for RUB 3.7 bn.*

# FREE CASH FLOW

- **'19 FCF down to RUB 47.6 bn** (vs. RUB 92.3 bn in 2018) due to:
  - (+) Profitability decrease by 31% yoy
  - (-) Working capital growth by RUB 18.5 bn (from RUB 82.3 bn in 2018) mainly due to increase of diamond inventories by RUB 16.2 bn due to excess production over sales volumes
- **Q4 FCF increased to RUB 16.8 bn** (vs. RUB 2.5 bn in Q3) due to:
  - **(+) Profitability increase by 40% qoq** (-10% yoy)
  - **(+) Working capital release by RUB 1.7 bn** (excl. non-cash effect from Kristall consolidation) (vs RUB 11.9 bn build-up in Q3) mainly due to:
    - -RUB 4.1 bn – seasonal decline in materials (end of navigation period)
    - +RUB 3.2 bn – seasonal growth of ores/sands stocks at alluvials
    - +RUB 2.4 bn – increase in diamond inventories
    - -RUB 1.8 bn – decrease in receivables as domestic sales went down
    - -RUB 1.4 bn – other factors (less than RUB 0.7 bn each)
  - **(-) Other (-RUB 3.7 bn)** incl. contributions to Pension Fund (-RUB 2.4 bn)
- **Non-cash impact of Kristall acquisition on NWC (+ RUB 6.4 bn):**
    - +RUB 8.1 bn – diamond inventories
    - +RUB 0.6 bn – materials
    - -RUB 2.1 bn – trade and other receivables
    - -RUB 0.2 bn – trade and other payables

## EBITDA to Free cash flow bridge



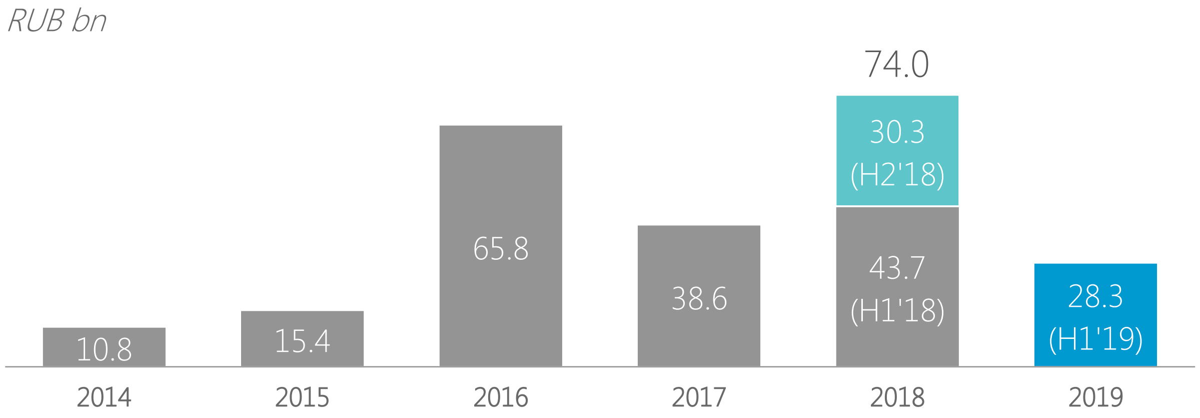

*Source: Company data and analysis.*

*1. Changes in net working capital excluding non-cash effect from Kristall Group consolidation*

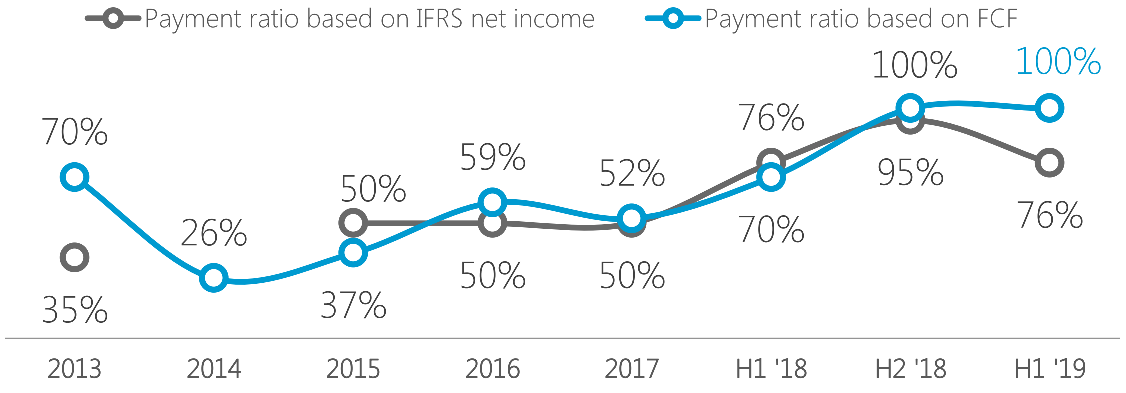
# DIVIDENDS

- In 2019, ALROSA paid RUB 57.5 bn of dividends for H2'18 and H1'19 with payout ratio of 100% FCF
- ALROSA's dividend policy adopted in 2018: FCF-linked with the payout ratios depending on the level of Net debt/LTM EBITDA ratio

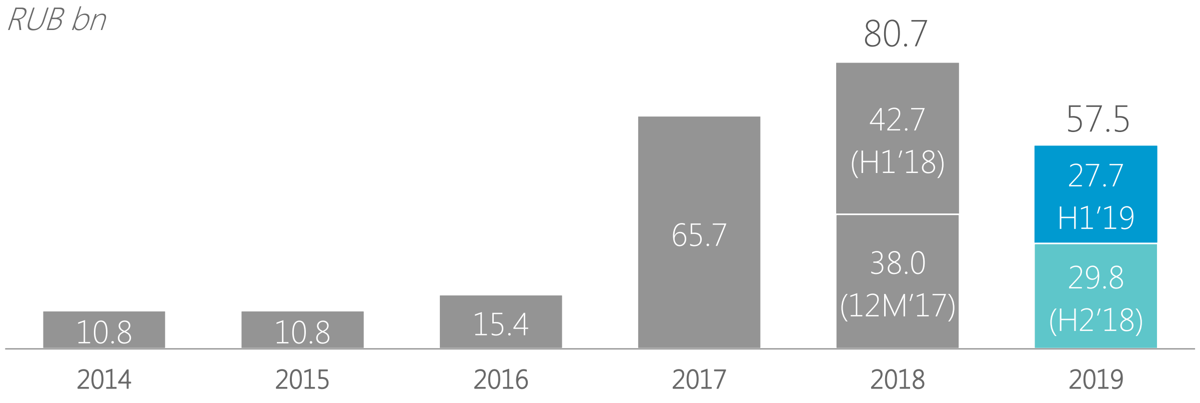
## Dividend accruals




## Dividend payout ratios




## 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

- Long-term fundamentals of the industry remain strong – diamond jewelry demand continues to expand as real disposable income grows
- Rough diamond market, after a significant destocking in 2019, gradually reaching supply-demand balance
- Supply of the rough diamonds continues to decrease as deposits deplete

## Company performance

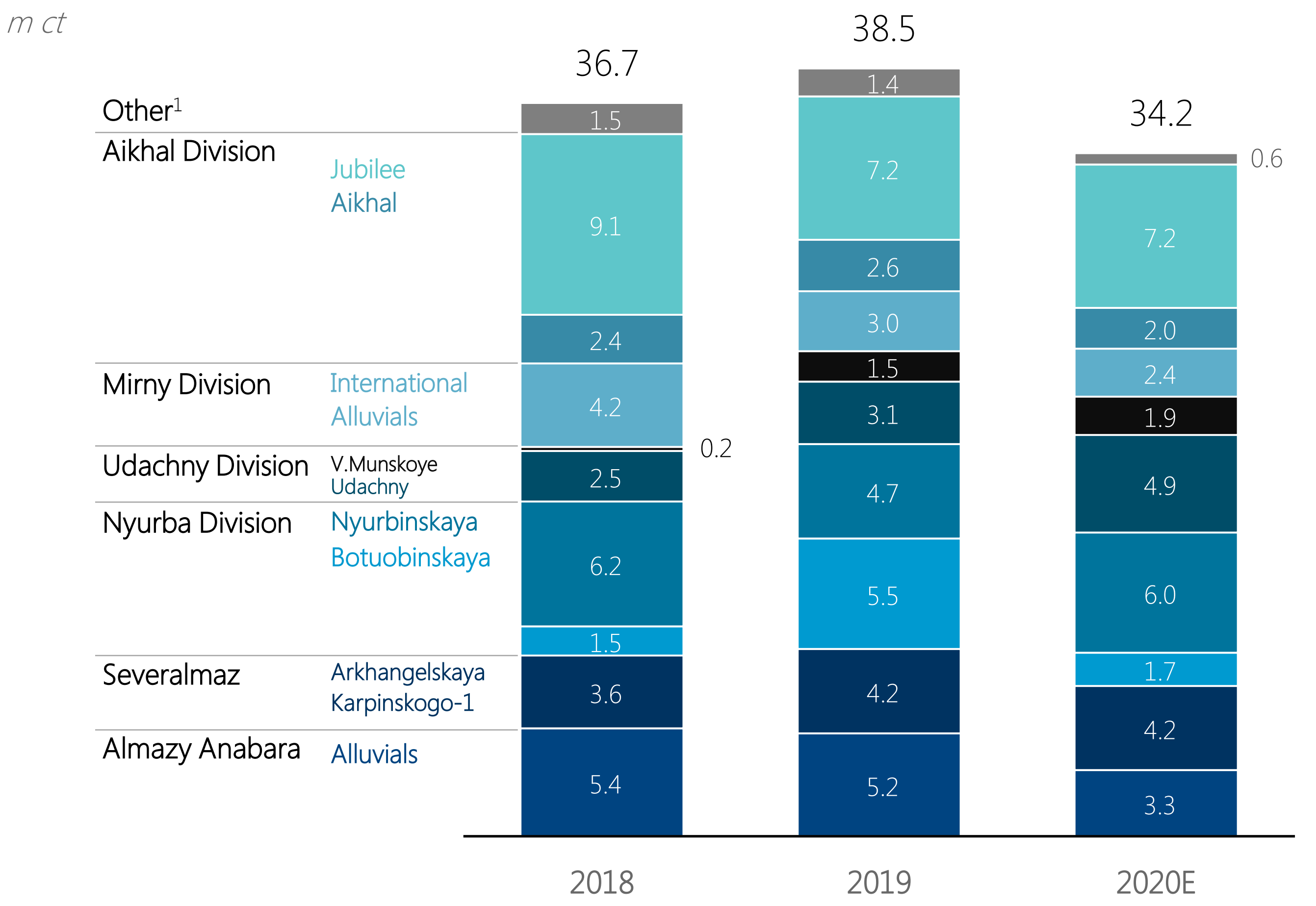
- 2020 production is expected to decrease to 34.2 m ct (see p. 18)
- 2020 sales are expected to recover from 2019 trough
- 2020 capex outlook revised down from RUB 26 bn to RUB 22 bn with no effect on operational performance (in 2019 capex was revised from RUB 29 bn to RUB 20 bn)

*Source: Company data and analysis.*

# 2020 PRODUCTION OUTLOOK

- 2020 output was reduced downward in response to the market situation
- Development of new projects/debottlenecking vs 2018:
  - **V.Munskoye deposit (Udachny Division):** +c.2.0 m ct – full ramp-up by '20
  - **Udachny UG 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
- Decline in diamond output:
  - **Jubilee (Aikhal Division):** -c.2 m ct starting from '21 (due to production at kimberlites with a lower grade)
  - **International UG mine (Mirny Division):** decrease in '18-'22 due to mining and geological conditions

2020 production outlook



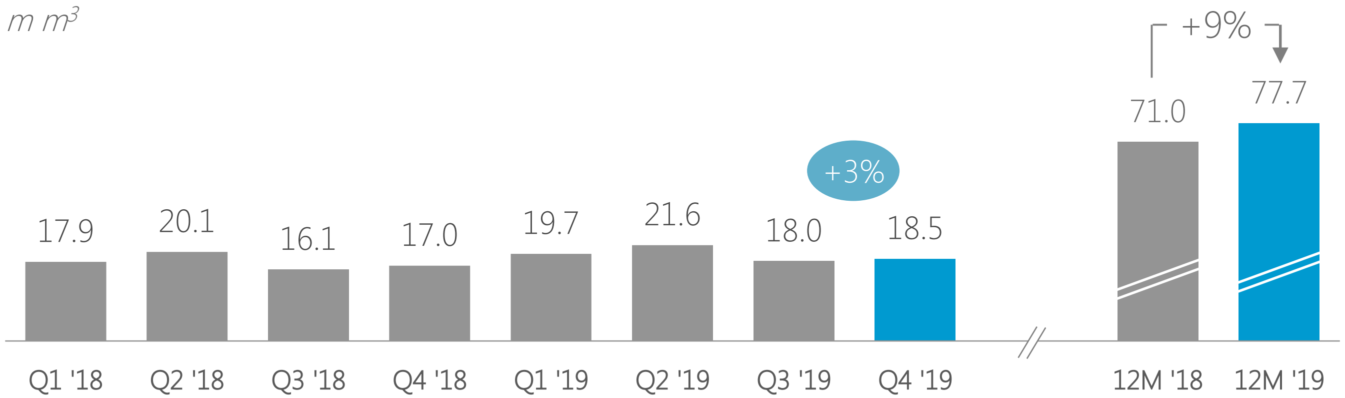

*Source: Company data and analysis.*
*1. Other includes marginal production at Komsomolskaya and Zaria pipes of Aikhal Division, Zarnitsa pipe and alluvials of Udachny Division.*

# APPENDIX

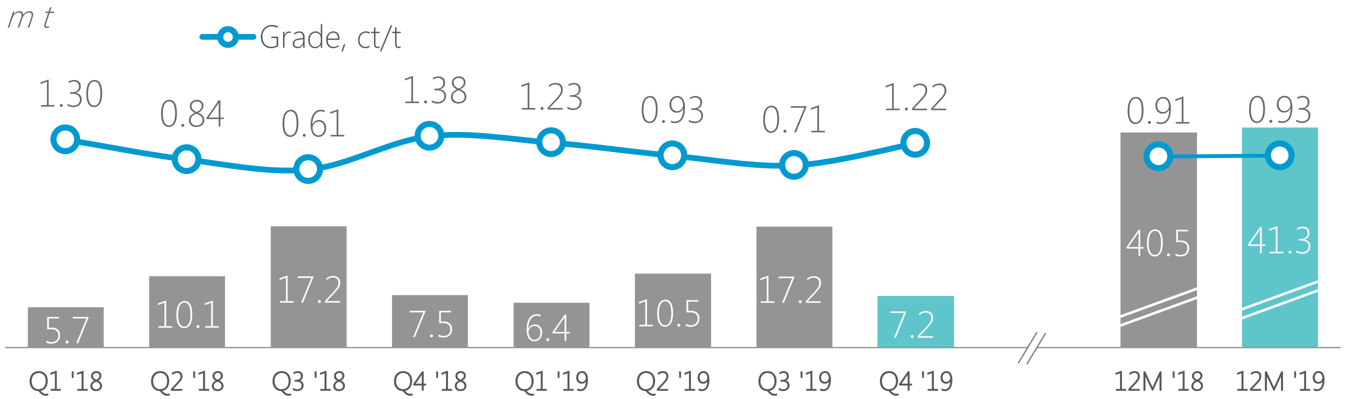
# ALROSA PRODUCTION (1/2)

- **Q4 '19 ROM[1] ore up by 3% qoq** to 19 m m³, mainly due to a seasonal increase in preparatory pre-mining operations at Almazy Anabara
- **On a yoy basis, ROM ore increased by 9% both in Q4 '19 and 12M '19** (to 77.7 m m³), driven mostly by the V.Munskoye deposit launch (Oct'18) and implementation of design solutions at the Arkhangelskaya pipe (Severalmaz) (cutback for pit deepening)
- **Q4 '19 processed feedstock seasonally down by 58% qoq (-3% yoy)**
- Ore and gravels processing in **12M '19 increased 2% yoy to 41.3 mt** on ramp-up of production at V.Munskoye deposit and increased productivity at Nyurba Division and Udachny's processing plants
- **Q4 '19 average grade was 12% down yoy on** lower share of high-grade ore processing at the Aikhal and International underground mines. A qoq increase of 72% was due to seasonality

Q4 run-of-mine ore was up by 9% yoy




Ore and sands processing goes down 58% qoq

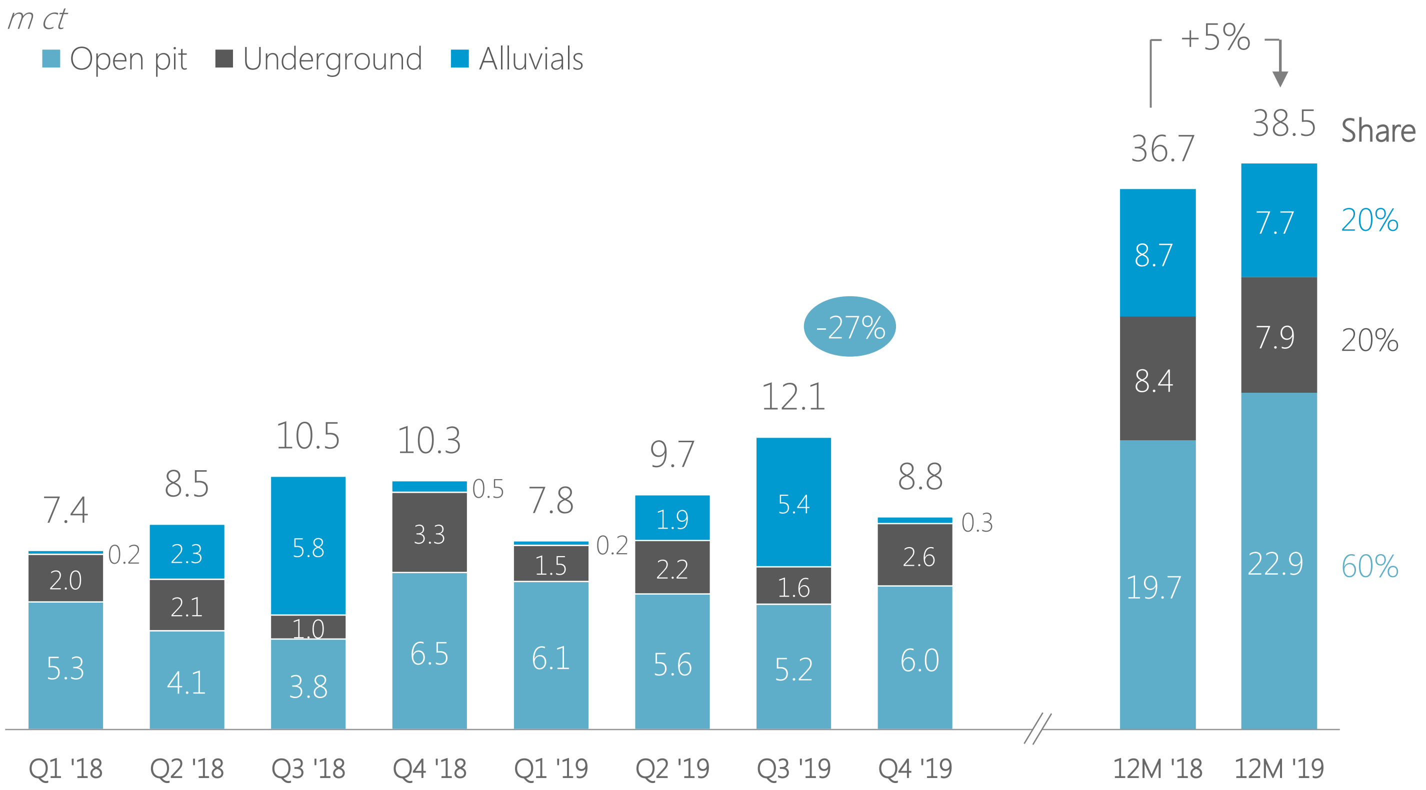



*Source: Company data and analysis.*
*1. ROM – run of mine*

# ALROSA PRODUCTION (2/2)

- Q4 '19 diamond output decline by 27% qoq to 8.8 m ct, mostly due to seasonal suspension of operations at alluvial deposits
- Q4 '19 output was down 15% yoy driven by a drop in diamond production at the Jubilee pipe and the International underground mine
- 12M '19 diamond output grew 5% yoy driven by:
  - +4.2 m ct - increase in ore processing at the Botuobinskaya pipe and productivity gains
  - +1.3 m ct - launch of production at V.Munskoye deposit
  - +0.6 m ct – growth from the Udachnaya underground mine as a result of a scheduled ramp-up to design capacity.

Diamond production was down by 27% qoq

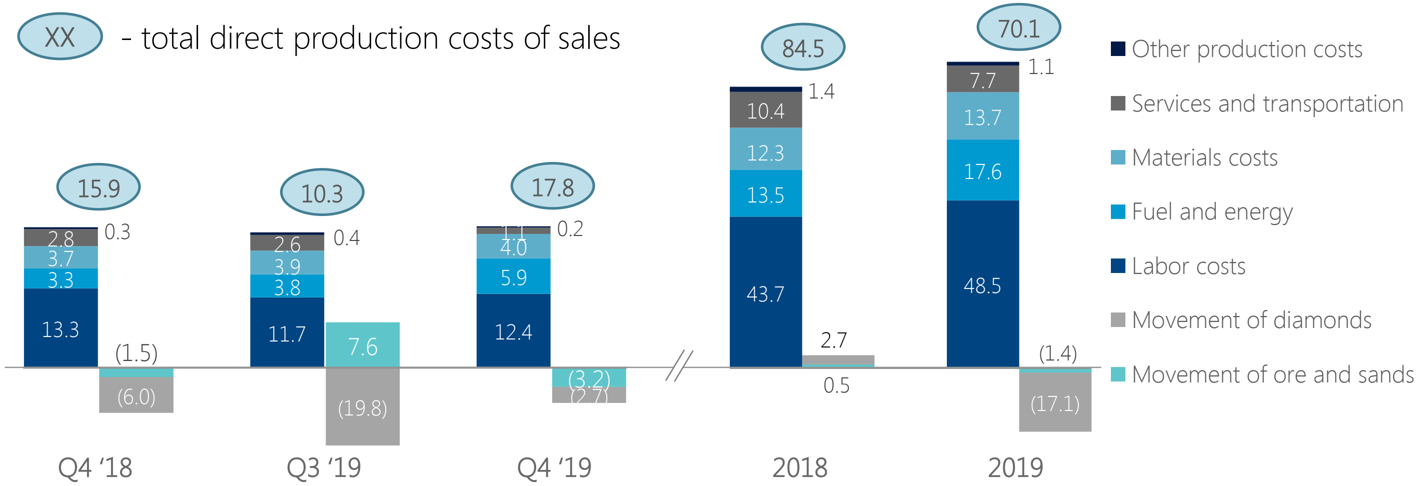



*Source: Company data and analysis.*

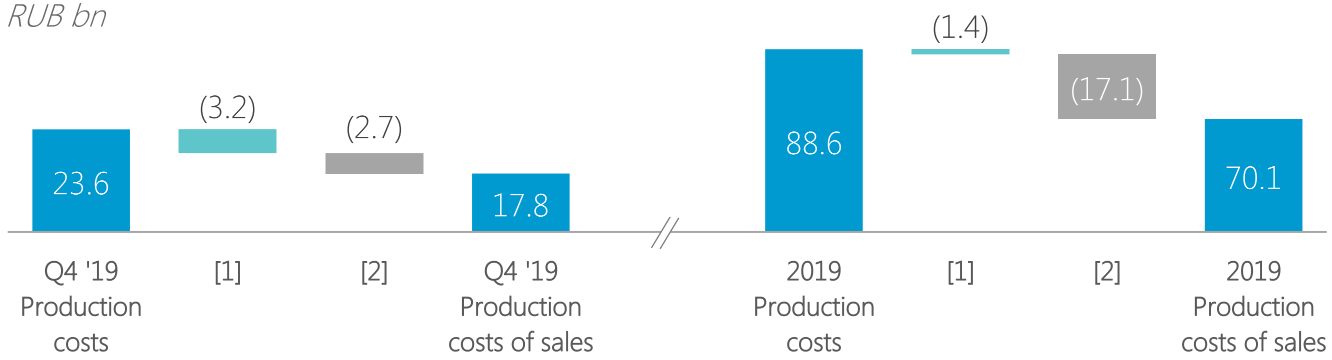
# PRODUCTION COSTS DYNAMICS AND BREAKDOWN

- **Q4 '19 production costs were up by 72% qoq** driven by:
  - (-) movement in diamonds stock due to sales exceeding output
  - (+) movement in ores & sands stock as its output exceeded processing volumes
  - **(+) labor costs by +5%** due to annual remuneration payment
  - **(+) fuel & energy +54%** on prices and volumes growth
  - **(-) services & transport costs down -59%** on IFRS 16 "Leases" effect
- **Q4 '19 production costs were up by 11% yoy** driven by:
  - (-) movement in diamonds stock due to sales exceeding output
  - (-) movement in ores & sands stock as its output exceeded processing volumes
  - **(-) labor costs -7%** on optimization
  - **(+) fuel & energy +78%** on change in captive energy sales scheme, and fuel prices/volumes growth
  - **(-) services & transport costs down -61%** on IFRS 16 "Leases" effect
- **12M '19 production costs were down 17%** due to:
  - (-) movements in diamonds stock mainly as sales lagged output
  - **(+) labor costs +11%** on capacity up & indexation
  - **(+) fuel & energy +30%** on change in captive energy sales scheme, and fuel prices/volumes growth
  - **(+) materials +12%** on capacity growth/price inflation & remuneration
  - **(-) services & transport costs down -61%** on IFRS 16 "Leases" effect

## Direct production related costs of sales up by 72% qoq (in RUB bn)




## Production cost adjusted for inventory movements

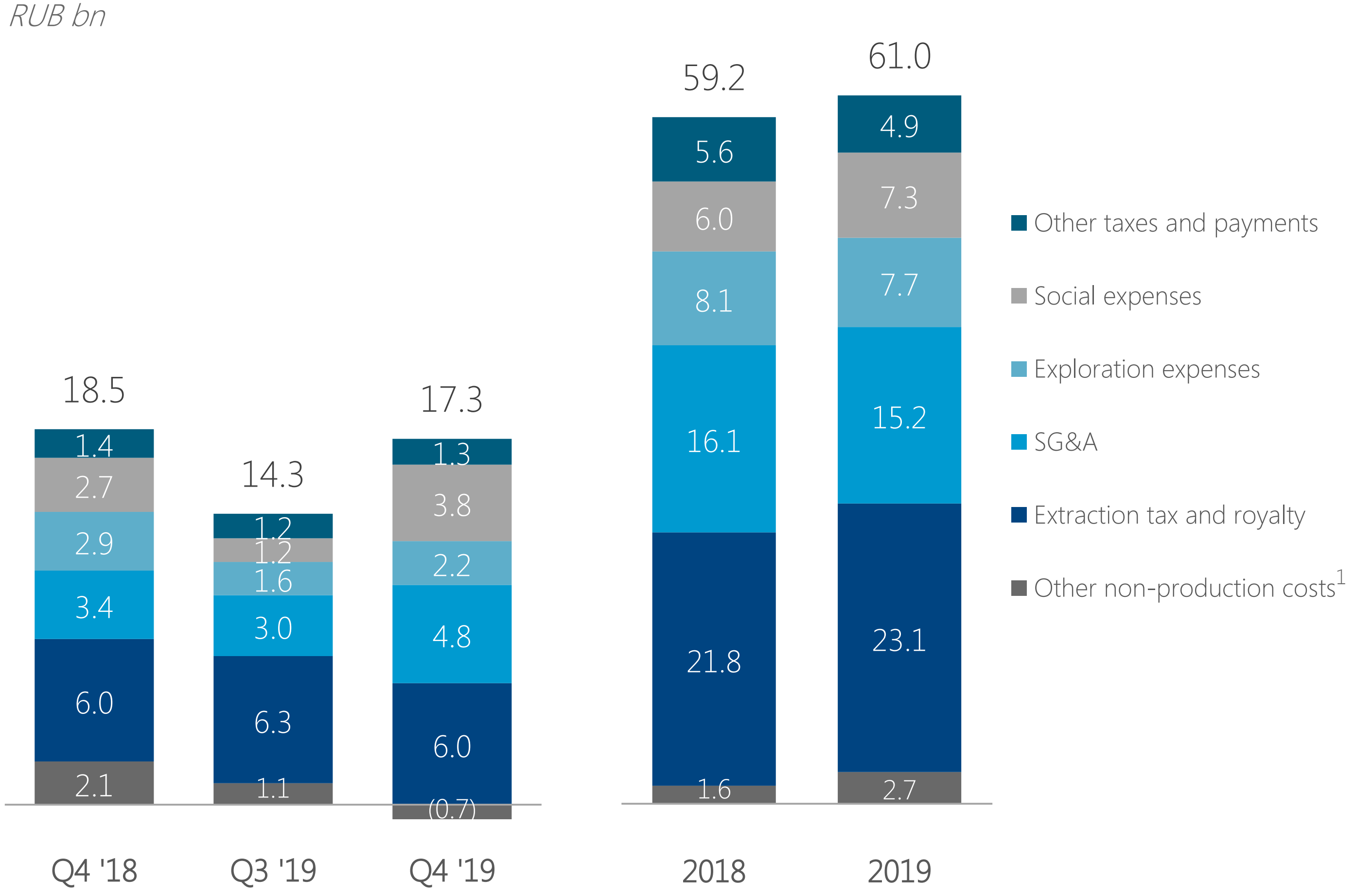



*[1] – Movement in inventory of ore and sands*
*[2] – Movement in inventory of diamonds*

# NON-PRODUCTION COSTS DYNAMICS AND BREAKDOWN

- **Q4 '19 non-production costs were up by 21% qoq** to RUB 17.3 bn mostly due to:
  - (+) social expenses grew 3.3 times driven by increase of charity expenses and maintenance of local infrastructure (+RUB 2.6 bn)
  - (+) increase of SG&A expenses by 61% (+RUB 1.8 bn)
  - (-) decrease of other non-production costs due to increase of other operating income (-RUB 1.8 bn)
- **Q4 '19 non-production costs were down by 6% yoy** mostly due to:
  - (-) decrease of other non-production costs by RUB 3.2 bn due to increase of other operating income
  - (+) increase of SG&A expenses by 44% (+RUB 1.5 bn)
  - (+) increase of social expenses by 41% (+RUB 1.1 bn)
- **12M '19 non-production costs were up 3%** due to:
  - (+) increase of social expenses by 22% (+RUB 1.3 bn) driven by increase of charity expenses and maintenance of local infrastructure (+RUB 1.1 bn)
  - (+) increase of extraction tax expenses by 6% (+RUB 1.3 bn) due to decrease in volume of diamonds extracted and FX rate impact on weaker RUB

## Non-production costs were up by 21% qoq




*Source: Company data and analysis.*

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

# IFRS 16 "LEASES": CHANGES IN ACCOUNTING STANDARD

- ALROSA adopted IFRS 16 "Leases" from 1 January 2019
- ALROSA leases buildings, transport and plant and equipment
- IFRS 16 "Leases":
  - Removes distinction between operating and finance leases
  - Results in operating leases being recognised on balance sheet
  - Short term, variable payment and low-value leases will remain off-balance sheet and continue to be recorded as operating expenses
  - Lease cash costs moved from EBITDA to balance sheet, replaced by depreciation and discount unwind in Income Statement
  - Applied on a modified retrospective method without restatement of comparatives

## Impact on 2019 Financial Statement

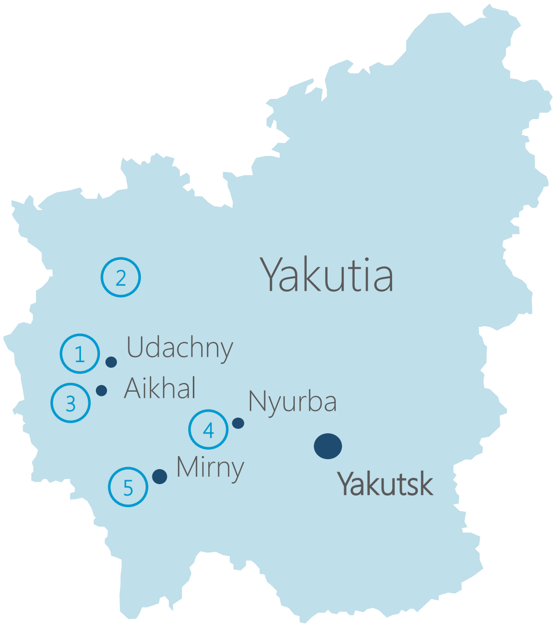
| Balance Sheet | Income statement | Free Cash Flow |
|---|---|---|
| Right-of-use assets: **+RUB 8.3 bn** | EBITDA: **+RUB 1.4 bn** | Free Cash Flow **+RUB 1.4 bn** due to transfer of lease payments from CFFO[2] to CFF[3] |
| Total debt (lease liabilities): **+RUB 5.7 bn** | Net Profit: **+RUB 0.4 bn** | No impact on Net Cash Flows |
| Provision for reimbursable repair and maintenance: **+RUB 2.5 bn** | | |

*Source: Company data and analysis.*

1. *Cash flow from operating activities*
2. *Cash flow from financing activities*

# KEY INVESTMENTS PROJECTS

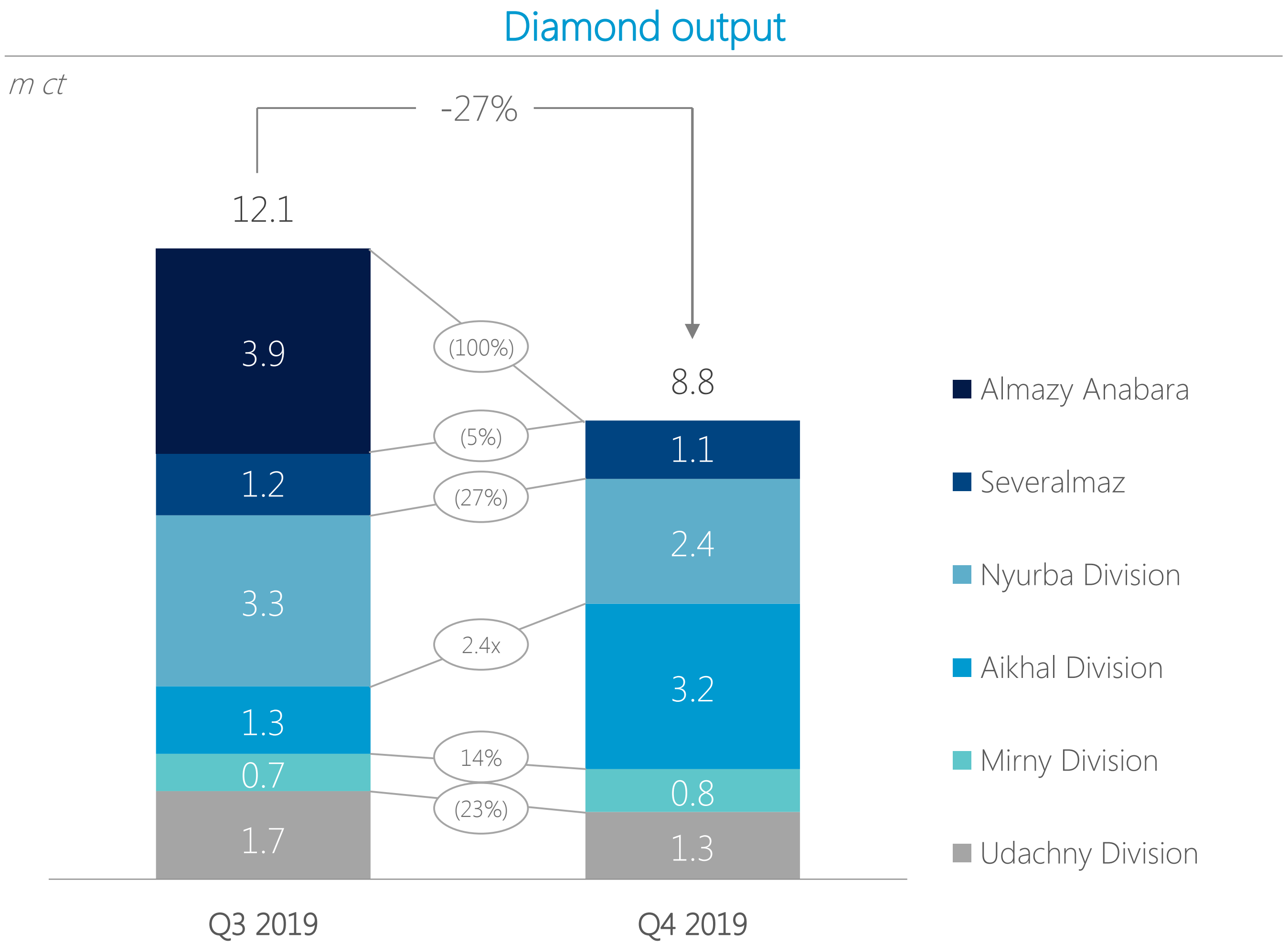
| | 1 Udachny UG mine | 2 VM[1] deposit | 3 Maiskaya pipe | 4 VG[2] deposit |
|---|---|---|---|---|
| Type of mining | Underground | Open-pit | Open-pit | Alluvials |
| Production start | 2014 | 2018 | 2025 | 2024 |
| Ramp-up | 2021 | 2019 | 2027 | 2025 |
| Target ore output pa, m t | 4.0 | 3.0 | 0.3 | 1.1 |
| Target production pa, m ct | 5.6 | 1.8 | 1.2 | 0.4 |
| Total CAPEX, RUB bn | 63.9 | 20.0 | 5.6 | 2.3 |
| *Invested share* | *86%* | *92%* | *5%* | *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

- Key drivers of diamond production decrease in Q4 '19 (-27% qoq) mainly due to seasonal suspension of production at alluvial deposits
- Drivers affecting Q4 '19 performance:
  - Almazy Anabara - seasonal suspension of production
  - Nyurba Division – output was down by 27% due to seasonal suspension of production at alluvial deposits



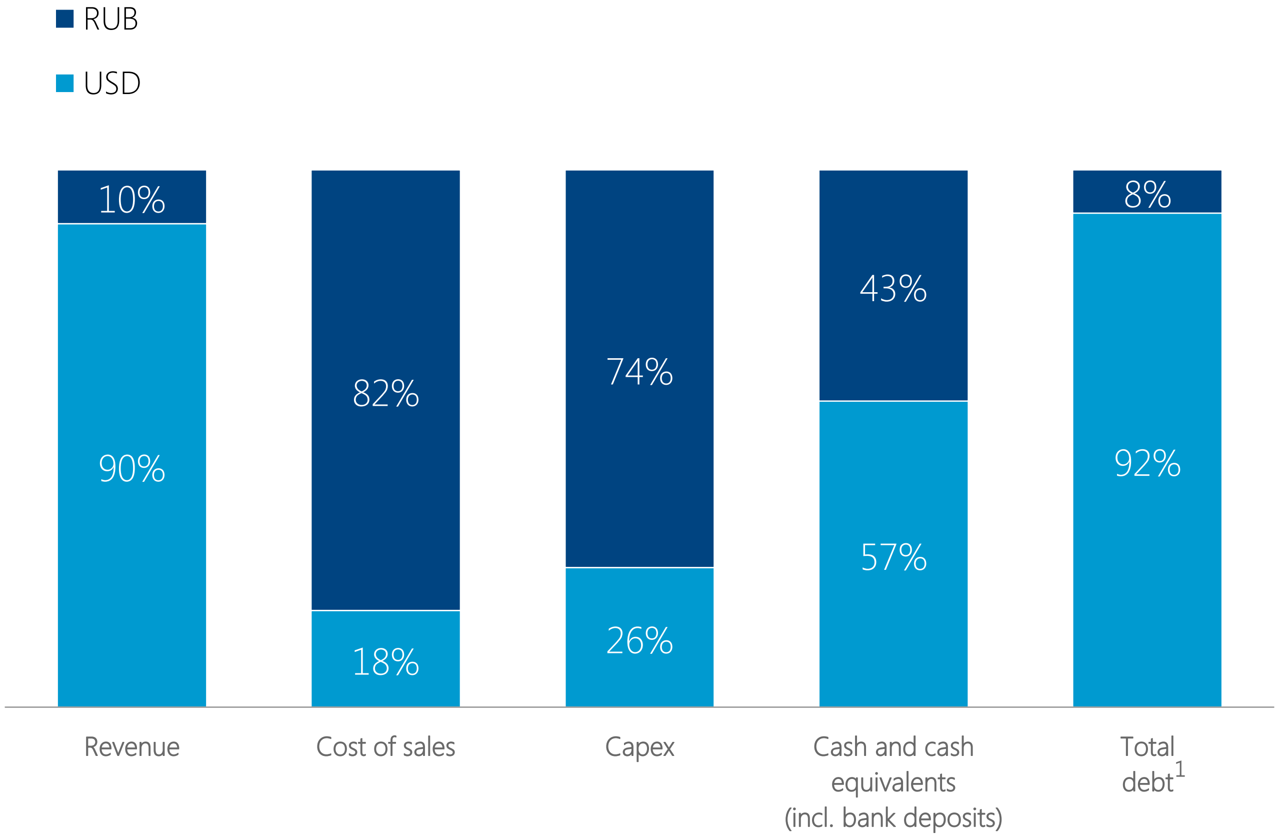

*Source: Company data and analysis.*

# FX RATE

- ALROSA is an exporter with 90% of revenue denominated in USD
- Major portion of costs and capex is denominated in RUB, 92% 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 – +/-1.40%
  - cost of sales – +/-0.29%
  - EBITDA – +/-2.80%
  - capex – +/-0.40%

## Financial metrics breakdown by currency

*% of metric's total, 2019*

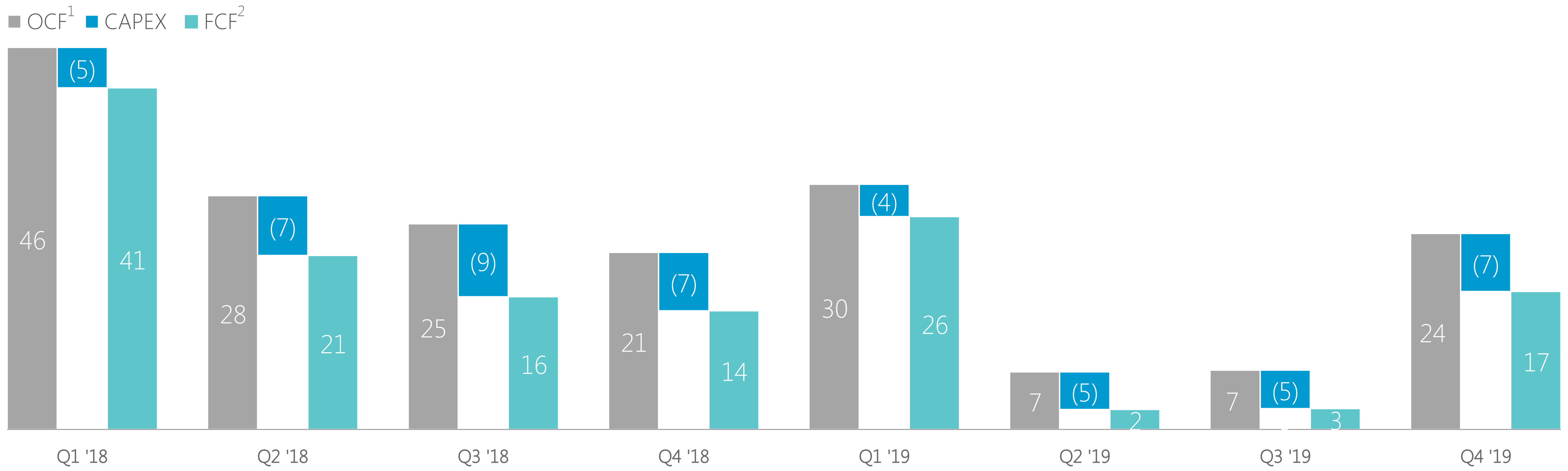



*Source: Company data and analysis.*
*1. Excluding lease obligation (RUB 5.7 bn)*

# 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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