



АЛРОСА  ALROSA

ALROSA 1Q 2012 IFRS Results Conference Call Summary

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Corporate Participants

Igor Kulichik

CFO – ALROSA

Ayaal Golub

Head of Capital Markets – ALROSA

Presentation

Igor Kulichik

Dear ladies and gentlemen, my name is Igor Kulichik, I'm the Chief Financial Officer of ALROSA. On behalf of the company I would like to welcome you to the presentation of our results for the first quarter of 2012. Firstly, I'd like to make a few administrative announcements. Our results will be delivered by myself, and Mr Ayaal Golub who is our Head of Capital Markets, Mrs Anastasia Misharina, who is our Head of IFRS Department, and Mr Sergei Mezhokh, also representing the Capital Markets Department. We will be delivering the results using the presentation that was uploaded to our website and is also accessible through the webcast. At the end of the presentation myself and our team will be ready to answer your questions. Now let me give you brief highlights of our results for the first quarter of 2012. Please turn to page three of our presentation.

First quarter of this year has seen general recovery in the diamond market as witnessed by both price and sales volumes. Our sales in the first quarter of 2012 came not only almost two times higher than in the fourth quarter of 2011, which, as you may remember, was a challenging quarter for the whole industry, but also 4% higher than in the first quarter of 2011 which was a strong quarter in itself. Production went according to our plan for 2012 and we feel confident that we will be able to achieve our production target for the year, which is close to the levels of 2010 and 2011.

Rebound in prices both for gem and non-gem quality diamonds also helped us to achieve very strong revenues which grew by 22% and 26% as compared to the fourth quarter and first quarter of 2011 respectively and were equal to 37.2 billion roubles. Strong revenues and prudently managed costs resulted in solid EBITDA of 16.2 billion roubles and EBITDA margin of 44%.

Another important development of the quarter for us was the planned re-purchase and consolidation of Gas assets. We spent approximately 33 billion roubles on this and financed these operations by issuance of European Commercial Papers. Total amount of the issuance was 1.3 billion US dollars. Approximately 1.1 billion was used for Gas assets repurchase and the rest for general corporate purposes. Largely as a result of ECP issuance, our total debt increased by approximately 31 billion roubles, however I'm proud to say that we managed to maintain comfortable leverage of 1.9 times EBITDA and stable financial position with ample liquidity, which also continued to grow.

With this let me pass on to Ayaal Golub who will tell you more about our operational performance.

Ayaal Golub

Thank you. Hello everyone, my name is Ayaal Golub, and I would give you an update on our operations and financials in 2012. Please turn to page four of our presentation.

Our production continues to be stable as in 2010 and 2011. Relative decreases and increases are largely driven by the effect of planned maintenance works. More specifically, in the first quarter of 2012 production was equal to 8.1 million carats which was just 3% lower than in the fourth quarter of 2011.

A few words on the performance by key operational units. The ore from Aikhal underground mine and Komsomolskaya pipe was not processed due to planned maintenance works at the processing plant. Production at International mine in the first quarter of 2012 was higher than in the first quarter of 2011 and in the fourth quarter of 2011 as it continues to process ore mined in previous periods to compensate for scheduled plant maintenance works at Aikhal underground mine and Komsomolskaya pipe. Production at Udachniy pipe continues to decrease due to gradual phasing out of open pit operations and transformation into an underground mine. Production volumes at Nyurbinskaya pipe decreased by 17% and 10% as compared to the first and fourth quarter of 2011 respectively, due to planned temporary processing of lower quality ore.

Now, a few words on sales. Please turn to slide five. In the first quarter of 2012 diamond revenues reached 34.5 billion roubles which represented a 27% increase over both first and fourth quarters of 2011. The increase was driven by recovered sales volumes and increased prices. In gem-quality segment prices went up 5% compared to the fourth quarter of 2011 to reach 184 US dollars per carat and sales volumes stabilized at 6.1 million carats. Important to note that gem-quality diamonds accounted for 64% of total sales volumes in carats and 98% in value. In non gem-quality diamonds sector, prices increased 66% compared to the fourth quarter 2011 to reach approximately 9 US dollars per carat and volumes stabilized as well.

Let's continue with financial results review on the next slide. As it was highlighted earlier, our revenues for the first quarter of 2012 stood at 37.2 billion roubles, which is an increase of 22% over the fourth quarter of 2011 and 26% increase over the first quarter of 2011. The increase came as a result of growth of both sales volumes and prices. Strong revenues and prudently managed costs resulted in solid EBITDA of 16.2 billion roubles and EBITDA margin of 44%. Net profit returned to positive territory in the first quarter of 2012 and reached 12.7 billion roubles – level similar to the first quarter of 2011. Net profit margin also stayed close to the level of the first quarter of 2011. As highlighted by Mr Kulichik at the beginning of the presentation, the Company maintained comfortable leverage and liquidity. We will discuss that in greater detail later in the presentation

Let's continue with slide seven, where I will give a brief overview of quarterly evolution of revenues and EBITDA. ALROSA was able to increase revenues and EBITDA in the first quarter of 2012 as both demand for diamonds and pricing were able to recover from the negative effects of the fourth quarter of 2011. Our

profitability as measured by EBITDA margin also showed strong recovery as we kept our cost base under control. You can see that in greater detail on next slide.

In general, our cost structure remained the same except for the contribution of depreciation: labor related expenses constitute roughly 41% of costs, depreciation - 21%, fuel and energy – 14% and extraction tax – 9%. As for depreciation: increased depreciation charges came as a result of reserves and resources reclassification according to international standards. Worth adding that we plan to publish reserves and resources statement in accordance with international standards in the third quarter of 2012. Production costs grew 12% as compared to first quarter of 2011 from 16 to 18 billion roubles driven by planned increase of compensation expenses of personnel and increased depreciation charges as discussed above.

Let's move to Investment Program and CAPEX – slide nine, please. Total CAPEX for the Company reached almost 7 billion roubles in the first quarter of 2012 out of which 2.4 billion were directed at expansion, which was dominated by investment into development of underground mines at Udachniy, Mir and Aikhal and as well as ramp-up of operations at Severalmaz's open pits. As for maintenance expenses, in the first quarter of 2012 they stayed at the levels of first and fourth quarters of 2011.

Moving to our debt portfolio – slide ten, please. As it was mentioned earlier, in the first quarter of 2012 we raised approximately 1.3 billion US dollars in the form of European Commercial Papers for the purposes of repurchase and consolidation of the Gas assets as well as for general corporate purposes. Technically we issued three series of ECP with maturity 7 - 12 months and interest rates of 3.75 - 4.25 percent. The paper is nominated in US dollars so we may see some fluctuations in our rouble based balance sheet as the rouble fluctuates against dollar. As a result, our leverage increased to 1.9 times as at the end of the first quarter of 2012 as compared to 1.5 times at the end of 2011. We continue to believe that this is a comfortable level for us and do not expect further significant growth in our leverage. I also want to share with you some most recent information on our debt portfolio as some time has passed since the quarter end. So our total debt as of June 2012 stands at: 3,970 million US dollars and average interest rate across our portfolio is 6.57 percent. Currently the structure of our debt portfolio is weighted towards public debt instruments, accounting for 90% of the portfolio. In addition, I would like to say that, as of today, 58% of ALROSA's debt portfolio has mid- and long-term maturities. As for the short term debt, we explore several options and will provide you with an update in a due course.

Thank you for your attention and with that let us open the session for your questions.

Questions and Answers

Tatiana Boroditskaya – *UBS, London*

Good afternoon, gentlemen. Thank you very much for your presentation. Could you please shed some light on your expectations to raise any additional debt this year?

Igor Kulichik

At the moment the total debt of the company is approximately US\$4 billion. Until the end of the year we plan to decrease this amount by approximately US\$1.2 - 1.3 billion to the amount of US\$2.7 - 2.8 billion. The source for this decrease will be cash from the sale of gas assets as well as cash from operations. If we don't implement plans to sell gas assets by the end of the year, we will potentially enter capital markets to restructure the short term debt that we have in our portfolio.

Tatiana Boroditskaya

Thank you. Just one quick follow-up question. Can you please clarify in relation to the sale of gas assets, at what stage is this sale?

Igor Kulichik

At the moment we still continue the negotiations with Zarubezhneft. We also have two other potential candidates for the acquisition for these assets. And at the moment I would estimate the probability of the sale of the gas assets by the end of the year as 50/50. In any case, till the end of the year Geotransgaz will connect the assets to the Gazprom pipeline and will start selling gas.

Des Kilalea – *RBC, London*

I have a few questions. Could you give us any update on what inventory in carats and/or dollars may be held by the Gokhran? And then the capital spending, roubles or dollars, which you anticipate you would see for the balance of this year?

Sergei Mezhokh

Thank you for your questions. As for the inventory held by Gokhran, of course we do not know, because it is a state secret but we can recall that in 2009 Gokhran bought from Alrosa diamonds for around US\$900 million. And as far as we know, Gokhran has not sold their stock. As for our capex estimation for 2012, we expect them to stay at the level of 2011, maybe a small increase.

Des Kilalea

Just another question. We've heard from all the other diamond miners that since the end of the first quarter, prices have been weaker. Can you give us any indication what you have seen?

Sergei Mezhokh

We see on the market today that pricing is staying stable at the level of first quarter 2012. Our general price estimation for 2012 is that prices will remain on the level of the first quarter 2012.

Rodney Thomas – *Citigroup, London*

I have a couple of questions. My first is about the gas assets and so specifically if you don't end up selling them this year and the gas ends up being produced starting in the beginning of next year, could you give us any guidance on either the volumes or the EBITDA that these mines might produce or both? And then my second question relates to if you can provide any comment as to the intentions of the Russian State Property Office, which I believe is the Russian Government owner of the stake in Alrosa and what you understand those intentions might be? Thank you.

Igor Kulichik

Starting from the gas assets development, I will give you some numbers for the next four years. Total capex amount for these four years is expected to be US\$400 million. After reaching the expected production level, both enterprises are expected to generate US\$380 million of annual revenues with EBITDA margin at the level of 70%. So we expect these enterprises to fully pay back the investment in the year of 2018 or 2019. But we still hold by an opinion that these are non-core assets for ourselves and our intention to sell them doesn't change. As for the privatization plans, we have nothing to comment on so far. There is only a decision by the Government of the Russian Federation to include Alrosa into the list of enterprises that should be privatized by the year 2017. We have nothing more specific than that so far. We don't have the time schedule for privatization and don't know the form that this privatization will take place. To the best of our knowledge, there is one suggestion on the form of privatization that is currently within the Government of the Russian Federation, and namely this is a position which was agreed between the Russian state, the Board of Directors of Alrosa and Yakutia government, which assumes privatization described as 7% by Russian Federation and 7% by Yakutia Government.

Oleg Petropavlovskiy – *BCS, Moscow*

Could you please give us some guidance on second quarter diamond selling volumes and also I am interested in the average selling price for the second and maybe the third quarter. And the most interesting question is your expectations for the breakdown between gem and non-gem diamonds for this year and maybe for the medium term perspective.

Sergei Mezhokh

As for our sales volumes, we expect them to stay stable at the level of the first quarter 2012. As for our prices estimation, we expect prices for 2012 to stay at the level of the first quarter 2012 and as for the split between gem and non-gem diamonds, we expect it to be the same as it is today.

Dmitry Chernyadyev – *Alfa Capital, Moscow*

I have a question about the potential rumoured asset swap with Lukoil. Do you have any comments on this? The second question is about your current situation with Timir project with Evraz. Can you update us on the current situation and your plans with these assets?

Igor Kulichik

Firstly, we do not comment on the rumours. And in general, we would like to say that we are looking for the best potential acquirer for our gas assets, and in theory this can be Lukoil as well. As for Timir, everything still goes according to the plan. We plan to sell 51% of the project to Evraz. We plan to close this transaction in June/July 2012 and the slight delay was explained by several procedural questions as Evraz needs to get some approvals from the Russian State Property Fund.

Erik Danemar – *Deutsche Bank, Moscow*

A few follow-up questions. If possible I'd like to start on capex where you provided the expansion capex in the first quarter. I wonder if it would be possible for you to provide an approximate guidance for the remaining capex for the completion of these projects that you have singled out, the underground conversion at Mir and Aikhal, Udachniy and the expansion of the mines at Severalmaz and Karpinskiy 1; that's my first question. And while we're on capex, also just to clarify on the gas assets, you said 400 million in total, but also that it included spending this year, so just to clarify how much is left in terms of capex to be spent from where we are today. I also have two more questions, but I think we can get back to those after.

Sergei Mezhokh

Erik, thank you for your questions. Regarding our capex to gas assets, the major part of capex to gas assets for 2012 will be completed in the second half of 2012, so as of today there was little capex spent. Regarding your question about the remaining capex for our main expansion projects, I think it's better to follow up with our IR-team as it is a comprehensive question.

Erik Danemar

Thank you, that's absolutely fine. Just another detailed question, in terms of working capital, there was quite a build-up in receivables over the quarter. Could you comment on why that was and also if we should expect that to reverse or if it's a new level in terms of receivables that we should expect? Thank you.

Igor Kulichik

The receivables are basically affected by two factors. The first and the most important one is the prepayment for the materials that were purchased early spring, which happened due to seasonal factors of our business. We have to prepay a significant amount for oil, steel and concrete. All what we have prepaid for will be delivered to Yakutia during summer of 2012. The second major factor is related to the way we're dealing with our customers within the Russian Federation, so quite frequently we give a deferral period for our local customers to allow them to reimburse VAT. We do not give this deferral on a regular basis. Last time it

happened in 2009 and 2010, and this time it happened at the end of 2011 because of the volatility on the market that we've seen. But still it is unknown if we would see this in the second half of 2012.

Anastasia Gracheva – *UBS, Moscow*

I just have one more question about the industry. We heard that last year the Kimberley Process lifted the ban from Zimbabwe diamond exports and there is a possibility that volumes from this country on the global markets can increase potentially; can you somehow comment on this? I mean, as we understand, the price of diamonds from this country is pretty low and mostly due to the low quality of products which they supply, but is there any risk to the global supply/demand balance if we see a further increase of volumes from this country?

Igor Kulichik

We believe that the abundance of the available resources in Zimbabwe remains rumours. All statements that more than two billion carats in stock were accumulated there do not correspond to reality in any way. There are some diamond deposits in Zimbabwe, which are mainly alluvial, but their quality and size make us believe that it is nothing of significance, so we don't believe that they will have a significant effect on the market.

Anna Antonova – *Metropol, Moscow*

Could you please confirm your outlook guidance for this year? If I'm not mistaken it's an amount of 34.7 - 35 million carats. And could you please state your outlook guidance for the next year in terms of diamond volumes?

Sergei Mezhokh

Our general comment is that we expect production of 2012 to stay at the level of 2011. We expect that in long term our production will grow up to 40 million carats. And for 2013, we do not expect any significant changes compared to 2011 or 2010.

Ayaal Golub

Thank you very much. Goodbye.