
ALROSA

sustainability benchmark report





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Introduction

The bulk of the world's diamond mining industry is concentrated in nine countries, with a share of global production in physical terms as high as 99%. The world's largest producers of natural diamonds are Australia, Botswana, Canada, the Democratic Republic of Congo and Russia.

Russia ranks first in the world for diamond production. PAO ALROSA ("ALROSA") accounts for 97% of the total diamond production in Russia in physical terms and is the leading diamond-mining company in the world. ALROSA accounts for one third of the reserves and more than a quarter of the production in the global rough diamond market. ALROSA pursues a single-product strategy that focuses on exploration and production as the most attractive and high-margin segment in the rough diamond industry. ALROSA's core activities are concentrated in two Russian regions, the Republic of Sakha (Yakutia) and Arkhangelsk Region, as well as on the African continent.

Diamond mining companies historically pay considerable attention to issues of social responsibility. This is partly due to adherence to international business standards and partly because the industry's final product—diamond jewellery—has a significant reputational and emotional component.

This benchmarking study compares ALROSA's generally accepted sustainability indicators with those of its peers.

The section on benchmarking methodology describes the principles of ALROSA's peers and generally accepted criteria for benchmark selection.

The section on benchmarking results presents detailed information about each benchmarking criterion and several conclusions.

The closing statements present the overall conclusions regarding the benchmarking results.

The section on sources of information presents the main sources of sustainability reporting data.



¹ Bain&Company – The Global Diamond industry 2016 report

² Please see the following link: <http://eng.alrosa.ru/operations/key-facts-about-alrosa/>

Benchmarking methodology

Peer selection

We analysed the production volumes of key market players in order to determine the peers to include in this benchmarking study. We took into consideration the volume of diamond carats produced for 2014, 2015 and 2016. Based on ALROSA's market research on rough diamond mining, these companies include ALROSA, De Beers, Rio Tinto, Dominion Diamond and Petra Diamonds, which together account for about of 73.6% of the rough diamonds produced in the world (please see Figure 1 below).

We believe that some “small” rough diamonds producing companies should also be included in order to make the benchmarking more market oriented. Based on our market knowledge, we decided to include Gem Diamonds and Lucara Diamond.

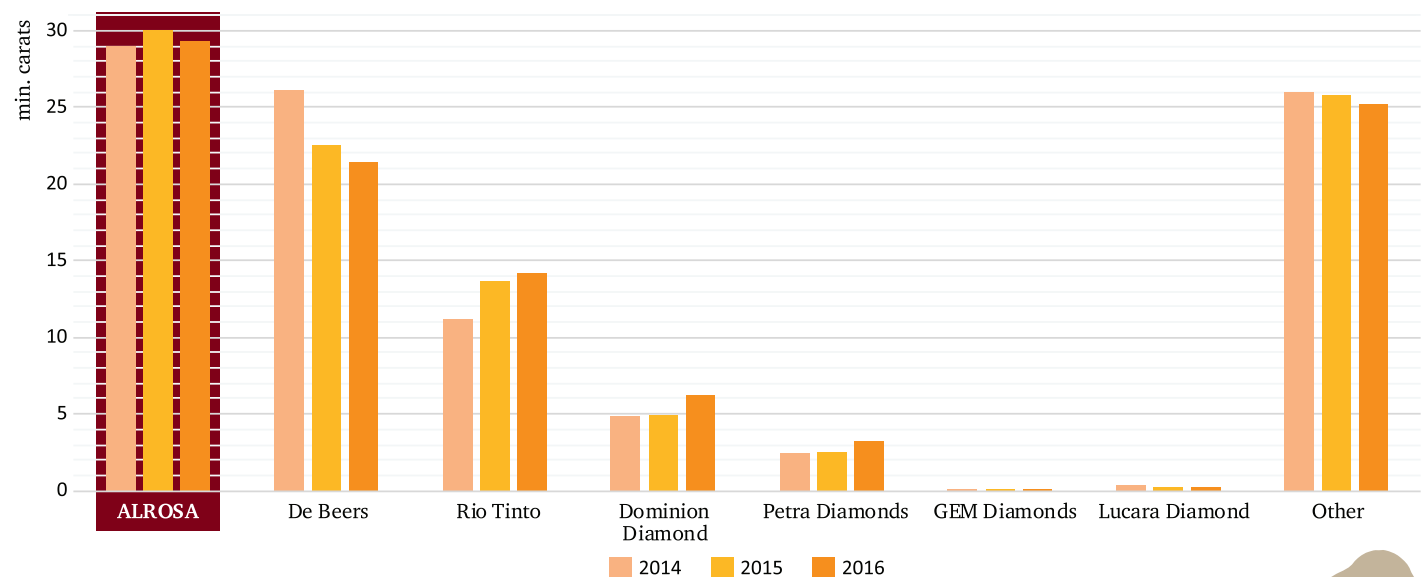
These seven major diamond-mining companies are all members of the Diamond Producers Association and together are responsible for about 75% of the world's diamond production. They are publicly listed companies operating under the utmost scrutiny.

Dominion Diamond maintains operations at two diamond mines: Diavik and Ekati. Diavik is operated by a Rio Tinto subsidiary, while Rio Tinto handles sustainability reporting for the mine. Dominion Diamonds reports on Ekati's sustainability indicators separately. Unfortunately, we could not find enough sustainability reporting data for the Ekati mine. For this reason, we excluded Dominion Diamond from our research.

Additionally, in order to make the benchmarking process more representative, we decided to add the following leading gold mining companies for comparison: Barrick Gold, Gold Field, New Mont, Polymetal (the second-largest Russian gold mining company) and Goldcorp. We believe that gold mining companies provide the best comparison for diamond mining companies, due to the technological processes involved.

Figure 1. Rough diamonds production

Rough diamonds production, 2014-2016



³ <http://www.diamondproducers.com/about-dpa/members>

Benchmarking criteria and data selection

Our research is based on generally accepted indicators, including statements from the GRI Sustainability Reporting Standards (Global Reporting Initiative), ICMM (International Council on Mining and Metals), FTSE4Good and DJSI (Dow Jones Sustainability Indices). We performed a selection of the most prevalent sustainability indicators reported by the companies included in the scope of our research. We should highlight that these companies are not obligated to comply with GRI Sustainability Reporting Standards or other indicators and companies may disclose their own indicators. Considering this, we restricted our research to the following criteria:

1. Share of women in the total workforce
2. Employee turnover
3. Investment in local communities
4. Energy consumption intensity (Scope1, Scope2, Total)
5. Water consumption intensity
6. GHG emission intensity
7. Environment expenditures

Financial metrics such as revenue are derived from the official accounting reports under the IFRS or GAAP standards.

We used only publicly available data from the companies' websites and official reports in order to comply with the transparency principle.



⁴ GRI is an international independent organization that helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others.

⁵ ICMM has developed a series of position statements to augment our ICMM 10 Principles for sustainable development. These statements include a number of mandatory requirements that members must implement.

⁶ The FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices.

Benchmarking results

This section presents the results of our study. The results for each indicator are presented with a short description of the indicator and the methodology used in our calculations.

Share of women in the workforce

The number of women in a company's total personnel is an important indicator of how workers' rights are observed.

Most countries have declared equal opportunities for men and women, and it is even enshrined in the legislation of many countries. However, the problem of female employment remains relevant not only in developing but also in developed nations. Trade unions and non-governmental organisations report that women are mainly employed in the service sector, rarely become managers and typically receive lower salaries than men. Due to established stereotypes, it is difficult for women to get jobs in the engineering and technology sectors. In addition, it is known that many employers are reluctant to hire women because they believe that women will spend too much time on maternity leave, after

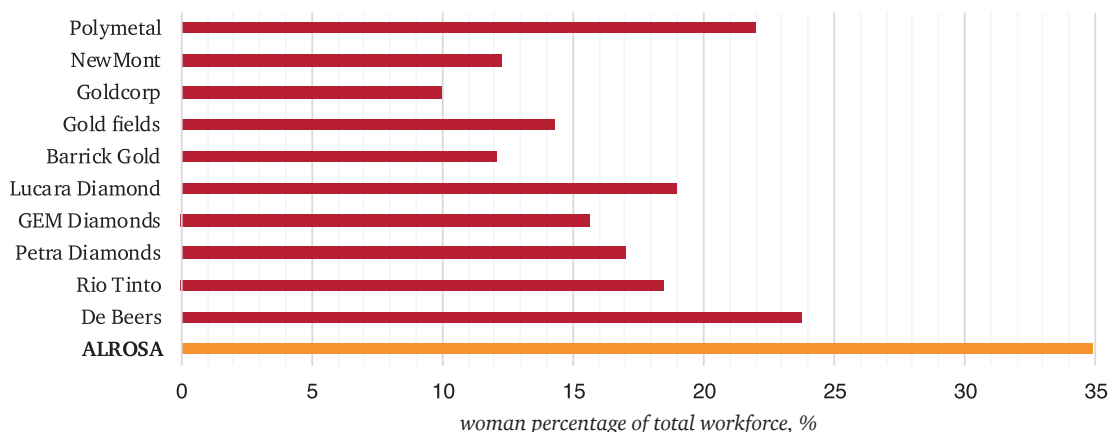
which they will be more occupied with their children than with their job responsibilities.

This indicator was calculated as the percentage of women in the total workforce, as reported by the companies. We took the arithmetical mean of the results for 2014-2016. Please see the results in Figure 2 below.



Figure 2. Share of women in the workforce

Average share of women in the workforce, 2014-2016



* Rio Tinto's overall share of women in the workforce is taken to comparison, because it does not report investment breakdown by product branches.

** Barrik Gold's data on women in the workforce are available only for 2016.

We would like to highlight the results demonstrated by ALROSA (34.9%). Traditionally, men have outnumbered women in the mining industry. In the Russian Federation, for example, women are barred by government regulations from certain professions in the mining industry, including underground work in mining, underground construction, metalworking, ore mining, etc. However, ALROSA employs women in mining-related professions at the Yakutniiproalmaz University, the Almazavtomatika R&D Centre, medical centres and management departments, as well as in other positions.

Employee turnover

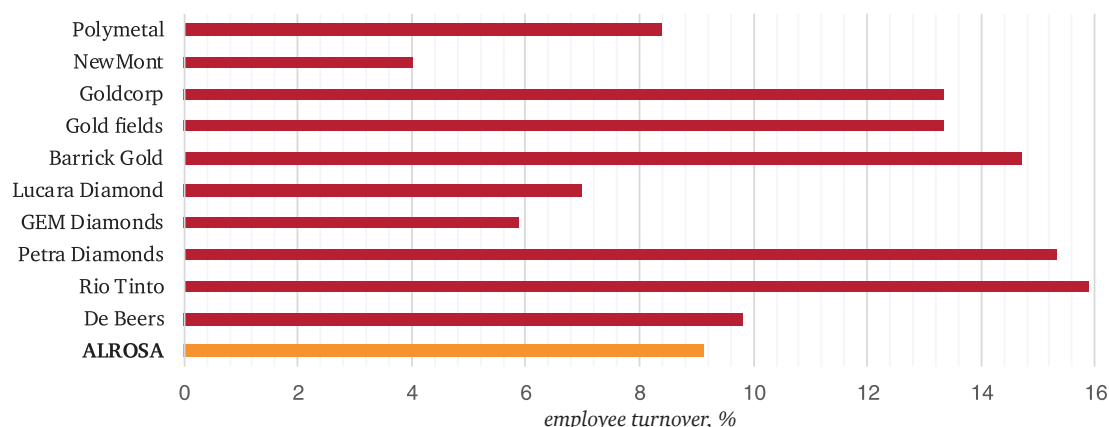
Employee turnover is an important indicator for a company. A high level of fluidity indicates a threat to the stability and the integrity of an organisation and is linked with significant costs. One of the main causes of employee turnover is lack of company's social policy efficiency.

High turnover often means that employees are dissatisfied with their jobs, face unsafe or unhealthy conditions or underperform due to unrealistic expectations and inappropriate processes and tools.

This indicator was calculated as the percentage of voluntarily dismissed employees in the total workforce, as reported by the companies. We took the arithmetical mean of the results for 2014-2016. Please see the results in Figure 3 below.

Figure 3. Average employee turnover

Average employee turnover, 2014-2016



* Rio Tinto's overall share of women in the workforce is taken to comparison, because it does not report investment breakdown by product branches.

** Rio Tinto turnover data were available for 2015 and 2016.

*** De Beers turnover data were available only for 2015.

**** Barrik Gold turnover data were available only for 2016.

We should highlight that ALROSA (9.13%) is still ahead of its main peers De Beers and Rio Tinto in terms of employee turnover and is well within the average rate. ALROSA management is trying to improve the situation.

ALROSA is totally committed to improving the social and personal wellbeing of people by organising both corporate and voluntary initiatives. Over the years, ALROSA has developed a series of innovative and successful programmes. These have covered the rehabilitation and recreation (R&R) of employees and their families, health, culture and sports, housing and private pensions.

All programmes are designed to increase motivation, secure professional staff, and maintain good morale and a healthy climate across all operations.

ALROSA established an annual global people survey. The results of this survey are analysed and actions undertaken if applicable.





Investments in local communities

Among the standards for compiling social reporting, community spending includes the funds that companies allocate directly to the development of local communities, including in the following areas:

- Spending on social programmes for workers (in addition to salaries) and members of their families: As a rule, these programmes include the organisation of free sports, cultural activities and leisure, free medical care, construction and housing.
- Spending for public infrastructure: These programmes include kindergartens, schools, hospitals, cultural recreation centers and communal facilities.
- Spending on programmes to improve the lives of the local population: The programmes include the provision of clean drinking water or medicine.
- Spending on philanthropic projects.

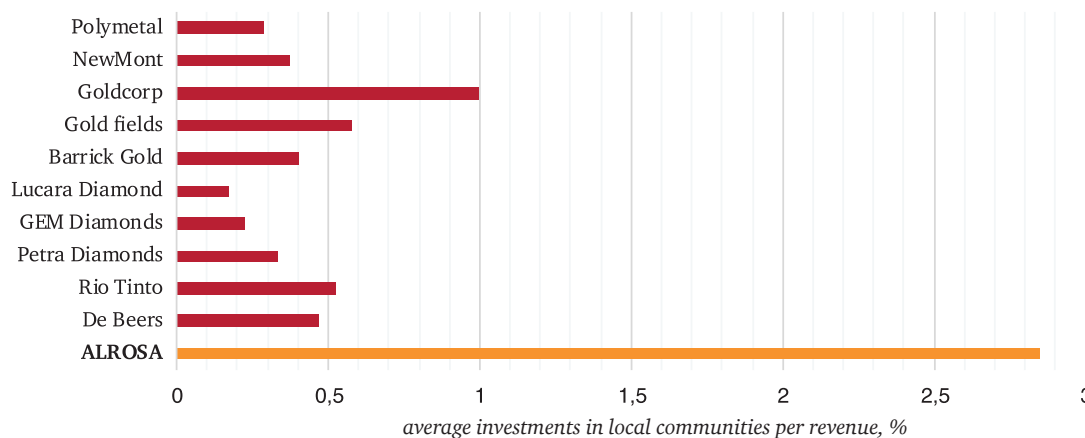
Social reporting standards are not mandatory and companies can include different expenditures on their investment in local communities.

As noted above, these are activities that directly create an enabling environment and improve the quality of life in the area of presence. They do not include purchases from local suppliers or taxes paid to local budgets, since such funds will reach the local economy indirectly and not immediately, but after a certain period.

We calculated this indicator as the percentage of investment in local communities of the company's total revenue (in millions of USD). We took the arithmetical mean of the results for 2014-2016. Please see the results in Figure 4 below.

Figure 4. Average investments in local communities

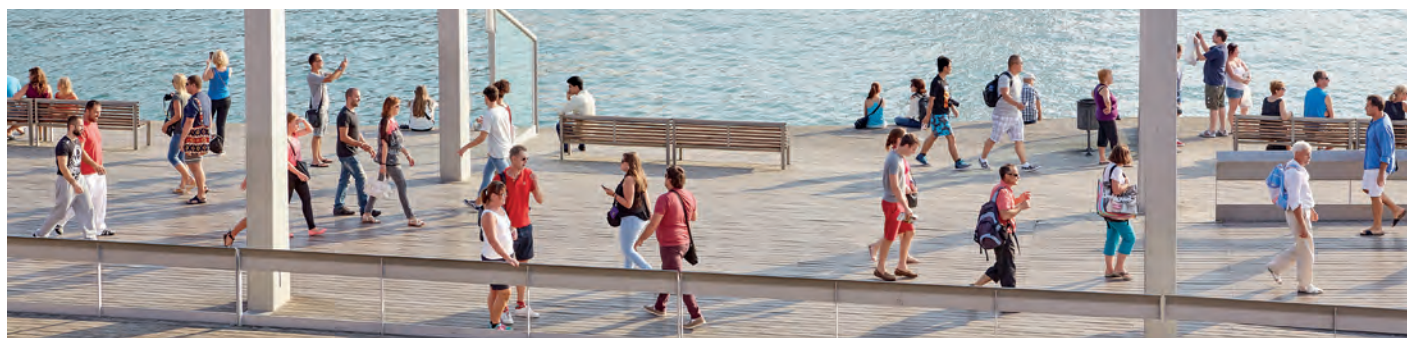
Average investments in local communities, 2014-2016



* Rio Tinto's overall share of women in the workforce is taken to comparison, because it does not report investment breakdown by product branches.

We would like to highlight that ALROSA is ahead of all of its peers.

ALROSA reports community investment as investment in charity events and maintenance of social infrastructure (infrastructure maintenance, charity, medicine, education and other expenditures).



Energy consumption intensity

The energy intensity of production is one of the key issues in the global controversy over environmental protection. First, most of the energy in the world today is produced from finite resources (for example, from burning coal) that will eventually run out. Second, the burning of coal or natural gas generates greenhouse gases, and sometimes pollutes the air with other emissions. Therefore, companies are seeking to reduce their energy consumption and receive as much as energy as possible from clean sources.

We took into account direct and indirect energy:

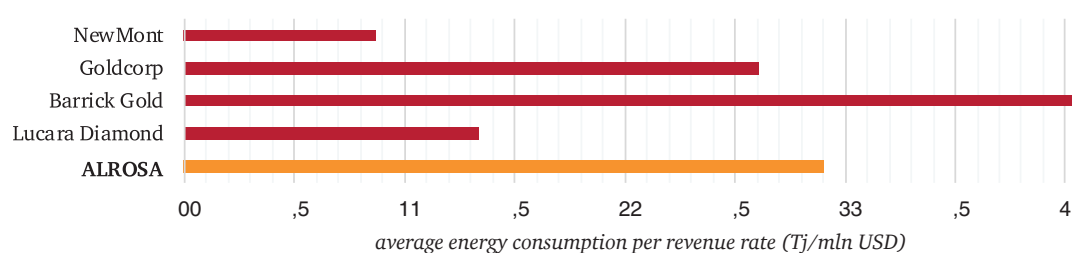
- Scope 1: energy produced independently (for example, energy produced from one's own combined heat power plant);
- Scope 2: energy purchased from a third party (for example, electricity purchased from a power generating company).

We calculated Scope1, Scope2 and total energy consumption intensity. We could calculate Scope1 and Scope2 energy intensity for only a limited number of companies, because not all companies disclose their Scope1 and Scope2 consumption.

We calculated energy intensity as the amount of energy consumption (in terajoules) divided by revenue (in millions of USD). We took the arithmetical mean of the results for 2014-2016. Please see the results in Figures 5, 6 and 7 below.

Figure 5. Average energy consumption intensity, Scope 1

Average energy consumption intensity, Scope 1 2014-2016

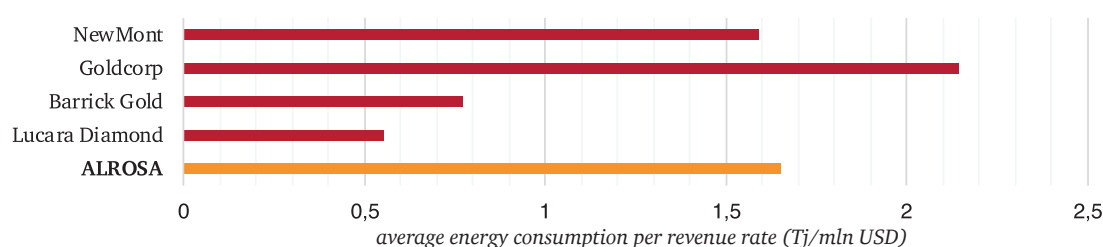


* Scope1 and Scope 2 data are not available for Rio Tinto, De Beers, Gem Diamonds, Polymetal and Gold Fields in their respective sustainability reports, because energy consumption is reported in total.

** Petra Diamonds energy consumption data are not available in the respective sustainability reports.

Figure 6. Average energy consumption intensity, Scope 2

Average energy consumption intensity, Scope 2 2014-2016

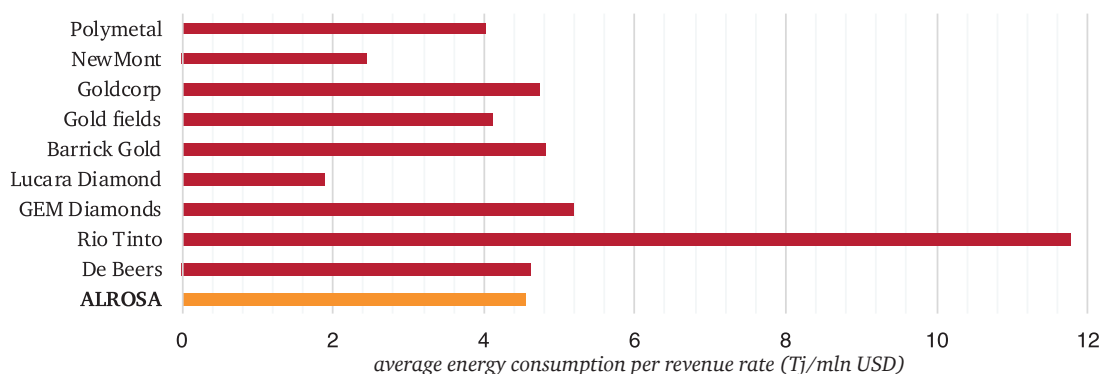


* - Scope 1 and Scope 2 data are not available for Rio Tinto, De Beers, Gem Diamonds, Polymetal and Gold Fields in their respective sustainability reports, because energy consumption is reported in total.

** Petra Diamonds energy consumption data are not available in the respective sustainability reports.

Figure 7. Average energy consumption intensity, Total

Average energy consumption intensity, Total 2014-2016



* Petra Diamonds energy consumption data are not available in the respective sustainability reports.

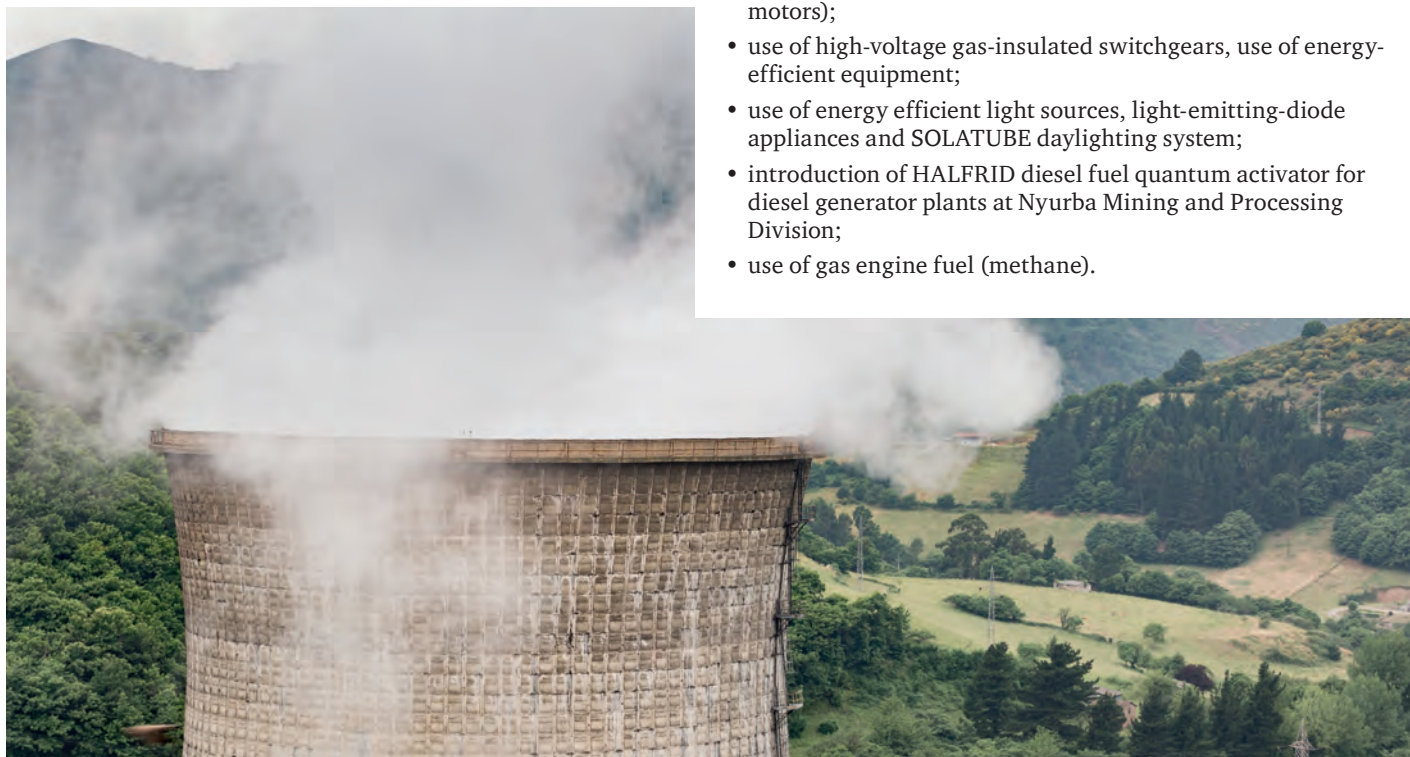
** Overall, Rio Tinto's energy consumption is taken to comparison, because it does not report its energy consumption breakdown by product branches.

*** De Beers does not report its energy total consumption. For De Beers, total energy consumption is taken from the Anglo American sustainability report.

We would like highlight that ALROSA is in line with overall industry trends.

Energy saving and energy resource optimisation (based on ALROSA's Energy and Energy Efficiency Programme for 2014-2016) make it possible for the company to reduce expenses and its negative environmental impact. Among the major projects implemented in this area, the following are worth mentioning:

- development of revolutionary direct-acting electric drive systems for machinery with abruptly variable load and momentum (switched reluctance motors, permanent magnet motors);
- use of high-voltage gas-insulated switchgears, use of energy-efficient equipment;
- use of energy efficient light sources, light-emitting-diode appliances and SOLATUBE daylighting system;
- introduction of HALFRID diesel fuel quantum activator for diesel generator plants at Nyurba Mining and Processing Division;
- use of gas engine fuel (methane).



Water consumption intensity

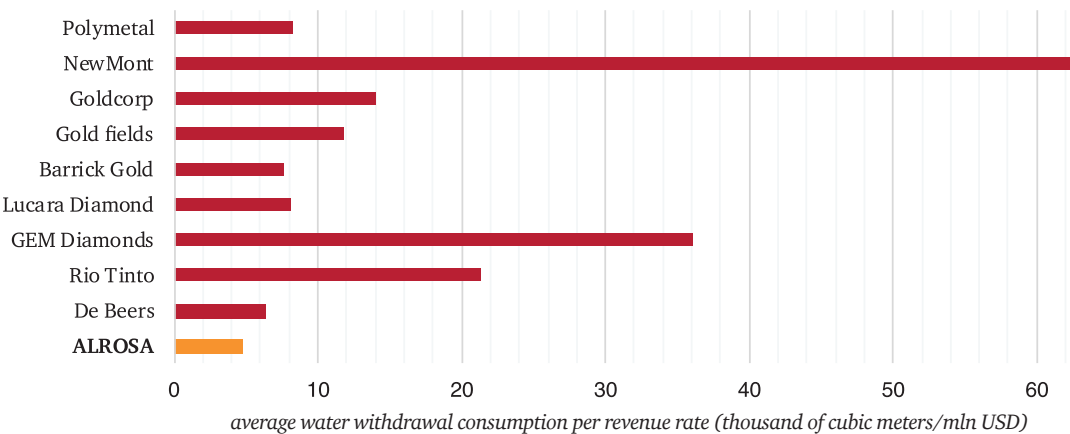
An important aspect of assessing a company’s environmental impact is its use of water. First, this is because a significant share of such water is taken from external natural sources (for example, from freshwater lakes). It should be noted that not all water used by companies is fresh and suitable for drinking. Many companies use seawater or saline groundwater in their production processes. Many companies use closed cycles of water supply, using once-withdrawn fresh water for production and repeatedly cleaning it and sending back to their processing lines.

However, not all companies in their reporting provide a breakdown of how much newly withdrawn fresh water they use to maintain their production processes. Therefore, for the purposes of this study, we used their total water withdrawal as the basic indicator.

We calculated water intensity as the amount of water consumption (in thousands of cubic metres) divided by revenue (in millions of USD). We took the arithmetical mean of the results for 2014-2016. Please see the results in Figure 8 below.

Figure 8. Average water withdrawal intensity

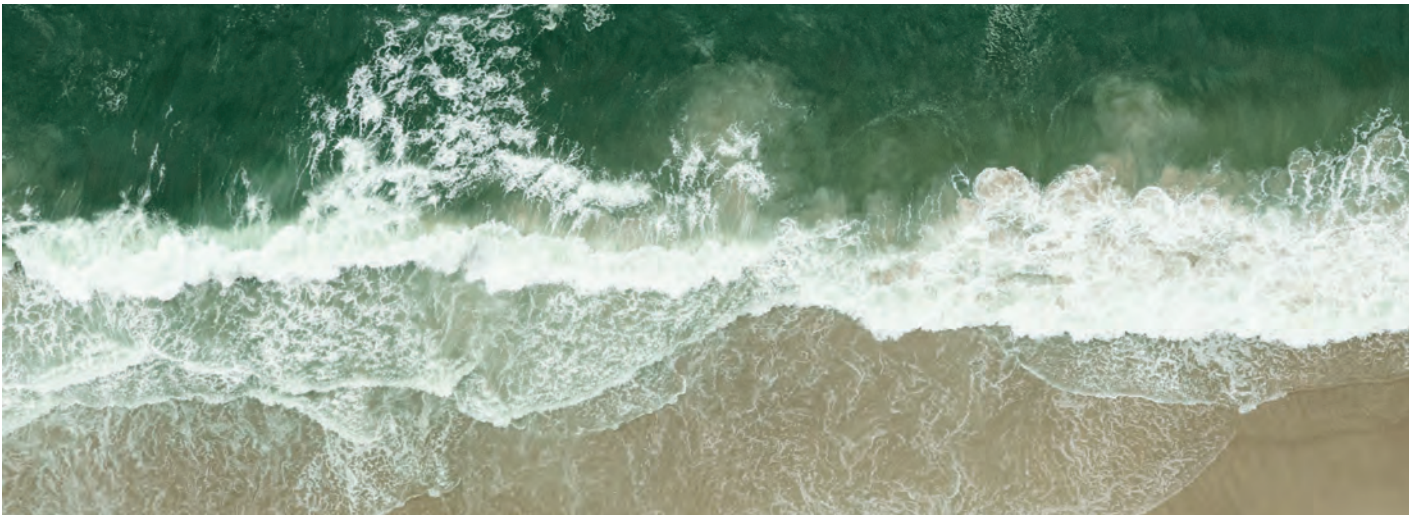
Average water withdrawal intensity, 2014-2016



* Rio Tinto’s water withdrawal is taken only for its Diamonds & Copper branch.

** Petra Diamonds energy consumption data are not available in the respective sustainability reports.

We would like to highlight that ALROSA is ahead of all its peers.



GHG emission intensity

Greenhouse gases produce one of the most dangerous human impacts on the environment. Accumulating in the atmosphere, they become an obstacle to the thermal radiation from the Earth on its way to outer space. Simply put, they do not let the planet cool down, causing a greenhouse effect (global warming).

Scientists view greenhouse gases as a set of compounds that seem harmless at first glance—water vapour, carbon dioxide, methane, nitrous oxide, ozone and fluorocarbon refrigerants. They are produced in large quantities every second, even by humans and animals during breathing.

We took into account direct and indirect GHG emissions:

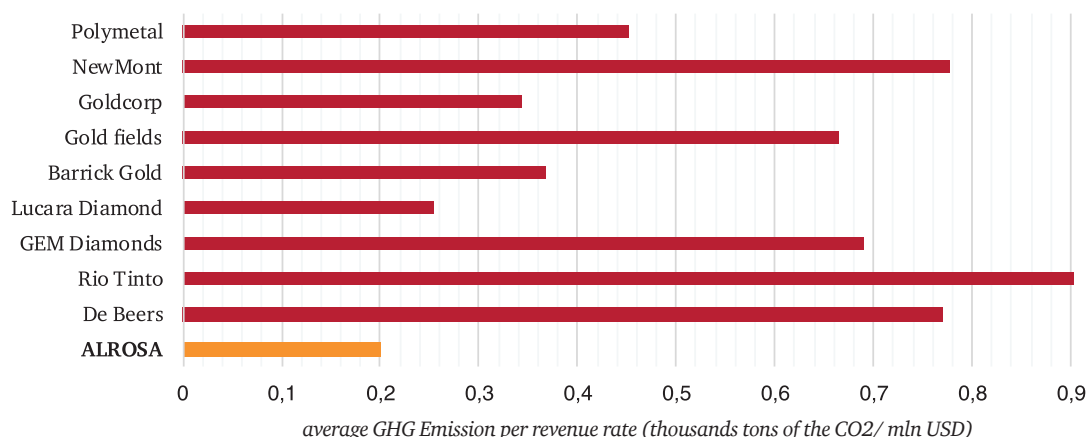
- Scope 1: direct emissions from owned or controlled sources;
- Scope 2: indirect emissions from the generation of purchased energy.

We could not calculate Scope 1 and Scope 2 energy intensity for all the companies, because not all of them disclose their Scope 1 or Scope 2 emissions, only totals. This is why we calculated total GHG emissions.

We calculated GHG intensity as the amount of GHG emissions (in thousands of tons of CO₂) divided by revenue (in millions of USD). We took the arithmetical mean of the results for 2014-2016. Please see the results in Figure 9 below.

Figure 9. Average GHG emission intensity

Average GHG emission intensity, 2014-2016



* Petra Diamonds energy consumption data are not available in the respective sustainability reports.



We would like to highlight that ALROSA is ahead of all its peers. ALROSA pays a great deal of attention to GHG emissions. The company has implemented innovative development and technological modernisation programmes and adopted a concept for energy saving and energy efficiency.

Among the measures taken that have led to a reduction of direct CO₂ emissions, it is worth mentioning the following:

- upgrading the heavy vehicles fleet at the Lensk production site, which led to a reduction in diesel fuel consumption;
- reducing fuel consumption by cutting the number of vehicles rented by the heating and water supply enterprise;
- decommissioning the boiler house at the airport in the town of Mirny;
- handing over the portable automatic boiler (town of Lensk) from the balance sheet of Mirny Automobile Roads Division to new ownership under the Lensk Town Heating and Electric Networks Enterprise LLC;
- reducing the consumption of natural gas at Mirny Mining and Processing Division, which is due to natural and climatic conditions.

Expenditures on the environment

Spending on the environment is divided into two main groups:

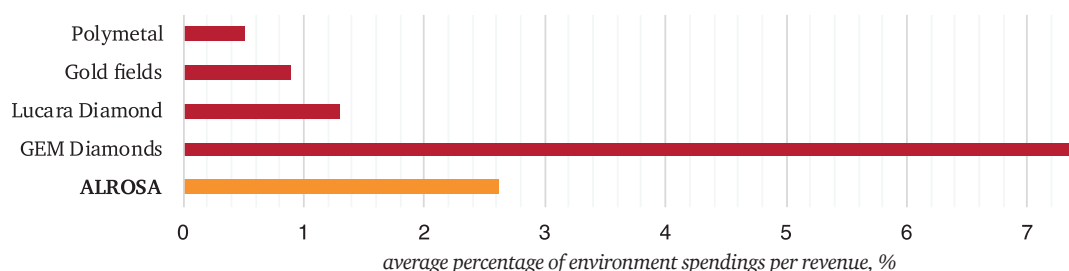
- Funds that are allocated to stop or at least minimise new damage: This might be the construction of a new system of water purification or the installation of air filters. As a rule, these costs are accounted for as part of capital expenditures.
- Funds that are allocated to remediate the impact that has already occurred or to organise monitoring and training: This might be spending on land reclamation or waste recycling). Such costs are accounted for as maintenance expenditures.

The heterogeneity of these expenditures makes them difficult to calculate. Not all companies summarise and disclose the volume of costs for protecting the environment in their reporting. Some companies consider them as part of capex and do not give a breakdown. Some companies publish these cost groups separately, leaving no explanation of how to sum them up correctly. Some companies simply do not publish these figures.

We calculated this indicator as the percentage of expenditures on the environment divided by revenue. We took the arithmetical mean of the results for 2014-2016. Please see the results in Figure 10 below.

Figure 10. Expenditures on the environment

Average expenditures on the environment, 2014-2016



* Expenditures on the environment for Rio Tinto, De Beers, Petra Diamonds, Barrick Gold, NewMont, and Goldcorp are not reported in the respective sustainability reports.

We would like to highlight that ALROSA is in line with overall industry trends.

ALROSA's main expenditures on the environment are allocated to the following programmes:

- research and development activities and to reduce negative human impacts on the environment;
- collection and treatment of wastewater;
- waste management;
- protection of ambient air and prevention of climate change;
- protection and rehabilitation of land, surface water and groundwater;
- investment in fixed capital in environmental protection:
 - construction of a flood-protection system in the Mir mine;
 - construction of a mine water reinjection and water drainage system (Yuzhnyi, Tyntaidachskiy);
 - reconstruction of a drainage water injection system in Levoberezhnyi and in the Yubileinyi quarry in Zarechnyi;
 - reconstruction of sewage treatment plants (biological treatment unit) in Udachnyi, Lensk and Aikhal;
 - construction of temporary storage for mine waste at the Udachnyi mine.



Closing statement

We performed corporate sustainability benchmarking on the selected, generally accepted indicators. Based on results presented in section on benchmarking results, we would like to summarise the main findings. Please see Table 1 below.

Table 1. Benchmark results

Nº	Criteria	ALROSA's position
1	Share of women in the total workforce	ALROSA has the best results compared to its peers.
2	Employee turnover	ALROSA is ahead of its main peers (De Beers and Rio Tinto) and is in line with overall industry trends.
3	Investment in local communities	ALROSA is ahead of its peers.
4	Energy consumption intensity (Scope 1, Scope 2, Total)	ALROSA is in line with overall industry trends.
5	Water consumption intensity	ALROSA is ahead of its peers.
6	GHG emission intensity	ALROSA is ahead of its peers.
7	Expenditures on the environment	ALROSA is in line with overall industry trends.

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