

**Explanatory Note to items 3, 4,
5, 6 of the Agenda of the
Annual General Meeting of
Shareholders of PJCS
ALROSA**

When determining the amount of dividends recommended to the General Meeting of Shareholders of PJSC ALROSA (hereinafter, the Company) for distribution, the Company's Supervisory Board assumes that the funds allocated for dividends may not be less than 35% of net profit calculated based on the consolidated financial statements prepared according to the IFRS provided that the reserve fund is established in full in accordance with the Company's Charter (Regulations on Dividend Policy of PJSC ALROSA).

As per Cl. 2 Art. 42 of the Federal Law On Joint Stock Companies, the source of dividends is the Company's after-tax profit (net profit).

According to the accounting (financial) statements (auditor's report submitted on February 10, 2017) the Company's net profit amounted to RUB 148,657,464,938.

According to the consolidated financial statements of PJSC ALROSA and its subsidiaries prepared in compliance with the IFRS for a year ended on December 31, 2016 (auditor's review submitted on March 15, 2017), the net profit over the year amounted to RUB 133,471 million.

According to the Decree of the Government of the Russian Federation No. 705-r of April 18, 2016 concerning the allocation of dividends based on performance results for 2015 (the Decree), the following rules should be observed: the funds allocated for dividends may not be less than the larger of two amounts: 50% of the joint stock company's net profit (excluding the gain and loss from revaluation of traded securities of subsidiaries and associated profit tax) calculated based on the accounting (financial) statements of the joint stock company, or 50% of the joint stock company's net profit calculated based on the consolidated financial statements of the joint stock company.

In 2017, when determining the amount of dividends the Company uses the similar approach. The larger amount will be 50% of net profit based on the consolidated financial statements of the joint stock company. According to the consolidated financial statements of ALROSA Group prepared in compliance with the IFRS for 2016, net profit amounted to RUB 133,471 million. Distributable profit, less the profit from non-controlling interest (RUB 2,079 million) is RUB 131,392 million. Thus, 50% of RUB 131,392 million is RUB 65,696 million, that is 72.26% of the Company's net profit calculated according to the Russian laws, or RUB 8,9201 per share. When determining the dividend amount in order to avoid

fractional quantity of kopecks it is proposed to determine the dividend amount as RUB 8.93 that will amount to RUB 65,769,143,075.90 in absolute terms.

Considering the abovementioned, it is proposed to determine the amount of funds allocated for dividends according to the Company's performance in 2016 as RUB 65,769,143,075.90 in absolute terms, that is 50.06% of the Company's net profit, recognized in consolidated finance report prepared in compliance with IFRS, or 72.26% of the Company's net profit according to RAS.

Thus, the dividend per one outstanding ordinary registered share of PJSC ALROSA with par value of 50 kopecks will be 8 rubles 93 kopecks (RUB 65,769,143,075.90 is divided into the total number of 7,364,965,630 shares within the accuracy of one kopeck).

According to the Company's Charter the reserve fund shall be established in the amount of no less than 5% of the authorized capital, which is RUB 184,124,150 (5% from 3,682,483,000). According to the Company's accounting statements for 2016, the Company's reserve fund was established and fully formed.

In this regard it is proposed to distribute the net profit of PJSC ALROSA in the amount of RUB 148,657,465 thousand (excluding RUB 57,741,915,000.00 – revenue from adjustment of value of finance investments) based on the results of 2016, as follows:

- for dividend payment on shares – RUB 65,769,143,075.90;
- profit available to the Company before remuneration payment to the members of the Supervisory Board and the Auditing Committee – RUB 25,146,406,924.10.

The remuneration of the Supervisory Board members is determined as per the Regulations on Remuneration of Members of the Supervisory Board of PJSC ALROSA.

The Regulations on Remuneration of Members of the Supervisory Board of PJSC ALROSA stipulates that the remuneration (basic remuneration and premium) is not paid:

- to the chairperson and members of the Supervisory Board who are recognized as governmental or municipal officials – as per the applicable laws of the Russian Federation;

- to the chairperson and members of the Supervisory Board who are subject to statutory restriction or ban for receipt of any benefits from commercial companies;
- to the members of the Supervisory Board who are at the same time the sole executive body or a member of the collegiate executive body of the Company.

Thus, according to the Regulations, the remuneration (basic remuneration and premium) may be paid only to professional attorneys and independent directors - members of the Company's Supervisory Board.

The remuneration of each member of the Supervisory Board for participation therein is calculated based on the total number of meetings of the Supervisory Board held during the previous corporate year as of March 31 this year, and the number of meetings of the Supervisory Board attended by such a member.

For corporate year 2016-2017, the following professional attorneys and independent directors have been elected to the Company's Supervisory Board:

1. Petr Vyacheslavovich Alekseev, General Director, RIC JSC;
2. Maria Vladimirovna Gordon, Chief Emerging Markets Equity Portfolio Manager at Pacific Investment Management Co. (PIMCO) until 2014;
3. Oleg Viktorovich Grinko, Director, T-Sistema LLC;
4. Andrey Vyacheslavovich Zharkov, member of the Supervisory Board;
5. Valentina Ivanovna Lemesheva, Chair of the State Committee for Pricing Policy – Regional Energy Commission of the Republic of Sakha (Yakutia) until 2014.
6. Pavel Vasilievich Ulyanov, Director for Energy Business, RUSAL Global Management B.V;
7. Oleg Romanovich Fedorov, Adviser to the Head of the Federal Agency for State Property Management until 2014;
8. Alexey Olegovich Chekunkov, CEO, the Far East and Baikal Region Development Fund.

Given the framework for the members' involvement in the Supervisory Board activities as well as their additional responsibilities related to the chairmanship of the Supervisory Board and the chairmanship of its committees, the total remuneration is RUB 43,254,545.

According to the Regulations on Remuneration and Compensation of members of the Auditing Committee of PJSC ALROSA, the remuneration for the Auditing Committee members may be paid for participation in the operation of the Auditing Committee and performance of additional duties related to chairing the Auditing Committee.

The remuneration is not paid to the chairperson and members of the Auditing Committee who are recognized as governmental or municipal officials - as per the applicable laws of the Russian Federation.

For corporate year 2016-2017 the Auditing Committee of the Company consists of 5 elected members, 4 of them are governmental officials.

Thus, Marina Vitalyevna Mikhina is entitled to remuneration for work in the Auditing Committee (Adviser to the Head of the Federal Agency for State Property Management until 2016. Currently Deputy Head of Internal Audit Service, JSC OSK).

Upon preliminary recommendation of the Audit Committee under the Company's Supervisory Board on April 19, 2017, the Company's Supervisory Board considered the distribution of profit based on results of 2016, including the amount of dividend on shares of PJSC ALROSA and payment procedure, and resolved to approve the recommendations to the Annual General Meeting of the Company. In addition, the Supervisory Board of PJSC ALROSA considered the agenda item: payment of remuneration to the members of the Auditing Committee – non-governmental officials – for participation therein in the amount stipulated by internal regulations of PJSC ALROSA and resolved to approve the recommendations to the Annual General Meeting of Shareholders of PJSC ALROSA.

According to Sec. 1 Art. 48 of the Federal Law on Joint Stock Companies, the following items have been submitted for approval of the annual General Meeting of Shareholders of PJSC ALROSA:

- Approval of the allocation of profit by PJSC ALROSA following the results of 2016;
- On the amount of dividends, terms and form of their payment following the work results for 2016, and on setting the date as of which the persons entitled to receive dividends shall be determined;
- On paying remuneration for work in the Supervisory Board to its members who are non-civil servants, in the amount established by internal regulations of PJSC ALROSA ;

- On paying remuneration for work in the Auditing Committee to its members who are non-governmental officials, in the amount established by internal regulations of PJSC ALROSA.