

**Explanatory Note to
Item 13 of the Agenda
of the Annual General
Meeting of
Shareholders of PJSC
ALROSA**

Approval of amendments by the Annual General Meeting of Shareholders of PJSC ALROSA (hereinafter, the Company) to the Charter, Regulations on the General Meeting of Shareholders, Regulations on the Supervisory Board and the Code of Corporate Governance is necessary to ensure that the Company's documents comply with the changed laws on joint-stock companies and the Code of Corporate Governance recommended by Letter No. 06-52/2463 of April 10, 2014 of the Bank of Russia (hereinafter, the Code) and as well as to exclude information about the postal address from the Charter, to appoint a new address of the Company's Moscow Office in the Regulations on the General Meeting of Shareholders, to eliminate various reading in the Charter and ensure compliance of the documents.

1) To ensure compliance of the Charter and internal documents with the laws on joint-stock companies.

In accordance with the Federal Law No. 343-FZ dd. July 3, 2016 "On amendments to the Federal Law On Joint Stock Companies and the Federal Law On Limited Liability Companies regarding major transactions and related party transactions" the procedure for major transactions and related party transactions was changed on January 1, 2017. Furthermore, consent to a transaction or its subsequent approval was introduced instead of prior approval.

The Supervisory Board took note of the report of the Company's management on amendments to the law regarding major transactions and related party transactions on December 20, 2016 (minutes No. A01/250-PR-NS). Besides, plan of measures to ensure compliance with the new procedure for the execution of major transactions and related party transactions was approved, including drafting amendments to the Charter, Regulations on the General Meeting of Shareholders, Regulations on the Supervisory Board, Code of Corporate Governance.

The appropriate amendments have been prepared and proposed to be included in the Company's documents.

In addition to the specified terminological amendments, in order to ensure compliance of the Company's documents with other amendments in the legislation on joint-stock companies it is proposed to:

- To align the first paragraph, Cl. 11.2.2 of the Charter with the first paragraph, Cl. 4, Art. 83 of the Federal Law On Joint Stock Companies (in the version of the Federal Law of July 3, 2016 No. 343-FZ) by changing the number of votes required for the shareholders' meeting to adopt a resolution on the consent or subsequent approval of

related party transactions – the majority of all shareholders not interested in transaction are replaced by majority of all shareholders not interested in transaction participating in voting

- To align subparagraph “d”, Cl. 11.4.1.2 of the Charter with subparagraph 11, Cl. 1, Art. 48 and Cl. 2, Art. 50 of the Federal Law On Joint Stock Companies (in the version of the Federal Law of June 29, 2015 (the version of July 3, 2016) No. 210-FZ) by excluding issues of profit distribution, including payment (declaration) of dividends, and the Company’s losses based on results of reporting year from issues not subject to consideration at the general meeting of shareholders in absentia.

- To align subparagraph 14, Cl. 12.1.1 of the Charter with Cl. 10, Art. 3 of the Federal Law of June 29, 2015 (in the version of July 3, 2016) No.210-FZ, which excluded from the Federal Law On Joint Stock Companies Cl. 5, Art. 12 (amendments to Charters regarding establishment of branches and representative offices and their liquidation are carried out on the basis of decision of board of directors). It is proposed to exclude from the competence of the Supervisory Board the possibility of introducing amendments to the Charter related to establishment or liquidation of representative offices.

- To align paragraph 18, Cl. 5.4.5 of the Regulations on the General Meeting of Shareholders with Cl. 3, Art. 52 of the Federal Law On Joint Stock Companies (in the version of the Federal Law of July 3, 2016 No.343-FZ) by supplementing the list of materials subject to shareholders’ mandatory consideration during preparation for the general meeting of shareholders with information on shareholder agreements, signed within the year prior the date of meeting, the Supervisory Board’s reports on large transactions, reports on executed related party transactions during the reporting year.

2) To ensure compliance of the Charter and internal documents with the Code

It is proposed to supplement the Charter and Regulations on the General Meeting of Shareholders with regulations as stipulated in the Federal Law On Joint Stock Companies that establish the shareholders’ opportunity to register for participation in a meeting at Internet site specified in notification on holding meeting and to fill out voting ballots on website. The recommendation is contained in the Code (Cl. 20, section B) – joint stock companies are recommended, if there are appropriate technical conditions, to create systems allowing shareholders to participate in voting by electronic means; particularly, in order to create the most favorable conditions for shareholders participation in general meeting, it is recommended that the company provides shareholders with the possibility of filling out voting ballots in electronic form.

3) To exclude information about postcode in postal address from the the Charter

In accordance with Cl. 2, Art. 54 of the Civil Code of the Russian Federation location of a legal entity is determined by the place of its state registration in the territory of the Russian Federation by specifying the name of location (municipal formation). According to Cl. 5, Art. 54 of the Civil Code of the Russian Federation, Cl. 1, 3, Art. 11 of the Federal Law On Joint Stock Companies location of a joint stock company is specified in its Charter. In accordance with these requirements, the location of the Company is indicated in the first paragraph, Cl. 2.2 of the Charter: 6 Lenina St., Mirny, Republic of Sakha (Yakutia), Russian Federation.

The postal address of the Company: 6 Lenina St., Mirny, Republic of Sakha (Yakutia) 678174 is indicated in the second paragraph, Cl. 2.2 of the Company's Charter.

The legislation does not require specifying postal address in the Charter. At the same time, similar information must be contained in the Unified State Register of Legal Entities (subparagraph "c", Cl. 1, Art. 5 of the Federal Law On State Registration of Legal Entities and Individual Entrepreneurs).

The necessity to exclude information about postcode in the postal address is conditioned by the fact that in connection with periodic¹ changes in address objects, this postcode does not coincide with the postcode specified in the Unified State Register of Legal Entities (678174 – Charter, 678175 – Unified State Register of Legal Entities). The discrepancy is due to the fact that information about the Company's address in the Unified State Register of Legal Entities changes automatically without the Company's application in connection with address objects renaming (reassignment) when aligning the Company's address with the address data of the federal informational address system (the copy of the letter of the Federal Tax Service of the Republic of Sakha (Yakutia) of May 25, 2016, outgoing No. 12-16/06412@ is attached).

Such discrepancy entails risks of delays in obtaining permits, renewals, reissued licenses.

In this regard, it is proposed to exclude postcode from the Company's postal address.

4) To appoint a new address of the Company's Moscow Office in the Regulations on General Meeting of Shareholders.

In paragraph 3, Cl. 3.1 and paragraph 2, Cl. 4.2 of the Regulations on General Meeting of Shareholders it is proposed to change postal address to which shareholders' proposals on agenda issues of annual meeting and on candidates to the Supervisory Board of the Company may be sent, as well as the postal address to which demands for convening an extraordinary meeting may be sent.

¹ For example, postcode was changed in 2014 in accordance with the Letter (Outgoing No. 56.5.1.5-183 of March 12, 2014) post office of Mirny head post office of the Federal Postal Service Administration of the Republic of Sakha (Yakutia) – branch of the Federal State Unitary Enterprise Russian Post, according to which the postal address of the Company is referred to the service area of the post office in Mirny with the postcode 678174 (prior to that postcode 678170 was indicated in the Charter of the Company).

In connection with the Company's Moscow Administration relocation to the new office, it is recommended to replace the address (1st Kazachy Lane, 10-12) specified in the Regulations with the new office address (Ozerkovskaya Embankment, 24)

5) To eliminate various reading in the Charter and to ensure compliance of the documents it is proposed to:

- to supplement subparagraph 9, Cl. 11.2.3 of the Charter, which approval within the competence of the General Meeting of Shareholders is made only upon proposal of the Supervisory Board with the Code of Corporate Governance of the Company.

In this case subparagraph 9, Cl. 11.2.3 of the Charter shall be aligned with the altered by the Annual General Meeting of Shareholders on June 30, 2016 (Minutes No. 34) version of the subparagraph 19, Cl. 12.1.2 of the Charter, according to which approval of the Code of Corporate Governance is referred to the competence of the General Meeting of Shareholders.

- to exclude subparagraph 10, Cl. 11.2.3 from the Charter.

According to subparagraph 10, Cl. 11.2.3 of the Charter the decision for dividend payment including determination of size and form of dividends, procedure of payment in non-monetary form, setting date as of which persons entitled to dividends is adopted by the General Meeting of Shareholders only upon proposal of the Supervisory Board. At the same time, the approval of proposals to the General Meeting of Shareholders on the issues specified in Cl. 11.2.3 of the Articles of Association is conducted by a majority of $\frac{3}{4}$ votes of the members of the Supervisory Board (subparagraph 4, Cl. 12.1.3 of the Charter).

According to subparagraph 11, Cl. 12.1.1 of the Charter recommendations on size, form of dividends and procedure of payment in non-monetary form, as well as setting the date as of which persons entitled to dividends are adopted by the simple majority of the members of the Supervisory Board, participating in a meeting (absentee voting).

It is proposed to eliminate this discrepancy by excluding subparagraph 10 from Cl. 11.2.3 of the Charter. Thus, approval of recommendations on dividends by simple majority of the members of the Supervisory Board, participating in a meeting (absentee voting) will remain in the Charter.

- to supplement subparagraph 2, Cl.12.1.2 of the Charter with indication that election of chairmen of committees under the Supervisory Board is within the competence of the Supervisory Board.

Thereby, subparagraph 2, Cl. 12.1.2 of the Charter shall be aligned with Cl. 5.8.5 of the Code of Corporate Governance of the Company, approved by the Annual General Meeting of Shareholders on June 30, 2016 (Minutes No. 34), and with the regulations on committees under the Supervisory Board, according to which committees' chairmen are elected by the Supervisory Board.

- to supplement Cl. 3.1 of the Regulations on the General Meeting of Shareholders with paragraph 5 on the right of shareholders not registered in the shareholder register, to

submit proposals to agenda of shareholders' meeting and to propose candidates also by introducing appropriate directives (instructions) to a person that maintains their stock right (nominee holder).

The supplement is proposed in order to align the Regulations on the General Meeting of Shareholders with the Company's Charter (sentence 2, paragraph 3, Cl. 11.3.1.2).

- to supplement Cl. 4.9 of the Regulations on the General Meeting of Shareholders with paragraph 2 stating that if a request to convene an extraordinary shareholders' meeting is received by the Company from persons not registered directly in the shareholder register that instructed a person maintaining their stock right, the Supervisory Board's decision to convene a meeting or refusal to convene a meeting shall be sent to such persons not later than three days from the date of its adoption.

The supplement is proposed in order to align the Regulations on the General Meeting of Shareholders with the Company's Charter (paragraph 6, Cl. 11.3.2.4).

Draft amendments to the Charter, the Regulations on the General Meeting of Shareholders, the Regulations on the Supervisory Board, the Code of Corporate Governance of the Company and the tables of revisions are attached.

The issue was previously considered by the Strategic Planning Committee under the Supervisory Board of PJSC ALROSA on March 24, 2017 and it is recommended for approval.

Taking into account the foregoing, the Supervisory Board is recommended to submit the following issues for consideration to the Company's Annual General Meeting of Shareholders. The decision on including the issues into agenda of the meeting is adopted by the majority of the members of the Supervisory Board who participate in the meeting (subparagraph 3, Cl. 12.1.1 of the Charter).

Annexes:

1. Extract from Minutes of the Supervisory Board No. A01/250-PR-NS dd. December 23, 2016.
2. Copy of the letter of the Federal Tax Service Administration of the Republic of Sakha (Yakutia) dd. May 25, 2016, outgoing No. 12-16/06412@
3. Draft amendments to the Charter.
4. Table of Revision of the Charter.
5. Draft amendments to the Regulations on the General Meeting of Shareholders.
6. Table of Revisions of the Regulations on the General Meeting of Shareholders.
7. Draft amendments to the Regulations on the Supervisory Board.
8. Table of Revisions of the Regulations on the Supervisory Board.
9. Draft amendments to the Code of Corporate Governance.
10. Table of Revisions of the Code of Corporate Governance.