**Explanatory Note to items 11-15 of the Agenda of the Annual General Meeting of Shareholders of PJCS ALROSA**

In accordance with the Articles of Association of PJSC ALROSA (hereinafter – the Company), approval of internal documents regulating the activity of the Company's bodies, as well as internal documents on remuneration and compensation to members of the Supervisory Board, falls within the jurisdiction if the General Meeting of Shareholders.

Approval of amendments by the General Meeting of Shareholders of the Company to the Articles of Association is necessary to ensure that the Articles of Association comply with the changed laws on joint stock companies, and comply with recommendations of the Code of Corporate Governance, recommended by the Bank of Russia of April 10, 2014 N 06-52/2463 (hereinafter – the Code) and the Code of Corporate Governance of the Company approved by the Annual General Meeting of Shareholders of the Company of June 30, 2016 (Minutes N 34) with amendments approved by the resolution of the Annual General Meeting of Shareholders of the Company of June 30, 2017 (Minutes N 35) (hereinafter – the Company's Code), as well as to exclude outdated clauses of the Articles of Association and to eliminate errors/misprints in the Articles of Association.

1) To ensure compliance of the Articles of Association with the laws on joint stock companies.

In accordance with the Federal Law of July 29, 2017 N 233-FZ "On Amendments to the Federal Law On Joint Stock Companies and Article 50 of the Federal Law On Limited Liability Companies", the list of documents submitted to shareholders and procedure for their providing have been changed. At the same time, there is the distinction of the information provided on demand of:

- Any shareholder (regardless of the number of shares owned);
- A shareholder holding at least 1 percent of shares (information on major transactions and relate party transactions, minutes of meetings of the board of directors (supervisory board), as well as appraisers' reports on property value, in respect of which the major transactions or related party transactions are made);
- A shareholder holding at least 25 percent of shares (minutes of the Executive Committee and accounting documents).

Besides, the current Federal Law clarifies the list of information, which has to be stored by a joint stock company.

The relevant amendments are proposed to be made in respect of Articles 21 and 22 of the Articles of Association.

2) To ensure compliance of the Articles of Association with the Code.

According to the recommendations of Clause 170 of Part B of the Code and clause 5.7.4 of the Company's Code, resolutions on the following issues should be adopted by a

majority vote of all elected members of the Supervisory Board (not by a majority vote of those who are present at a meeting):

1) approval of priority business areas and a financial and business plan of the Company;
2) approval of the dividend policy of the Company;
3) making a decision on listing of the Company's shares and (or) the Company's securities convertible into its shares;
4) determining the price of material transactions of the Company and approval of such transactions;
5) submission for consideration by the General Meeting of Shareholders of proposals on the Company's reorganization or liquidation;
6) submission for consideration by the General Meeting of Shareholders of proposals to increase or reduce the share capital of the Company, determination of the price (value) of the property to be contributed as payment for additional shares being placed by the Company;
7) submission for consideration by the General Meeting of Shareholders of issues relating to amendments to the Articles of Association, approval of material transactions of the Company, delisting of the Company's shares and (or) securities of the Company convertible into its shares;
8) consideration of material issues relating to activities of legal entities controlled by the Company;
9) adoption of recommendations relating to a voluntary or mandatory offer obtained by the Company;
10) adoption of recommendations relating to the amount of dividends payable on shares of the Company.

The relevant amendments are proposed to be made in respect of Clause 12.1 of the Articles of Association.

3) To exclude outdated clauses of the Articles of Association and to eliminate errors/misprints in the Articles of Association.

3.1. To exclude information about branches and representative offices from the Articles of Association.

The Federal Law of June 29, 2015 N 210-FZ "Amendments to Certain Legislative Acts of the Russian Federation and Recognition of Certain Provisions and Legislative Acts of the Russian Federation as Invalid":

1) excludes the obligation of joint stock companies to disclose information on branches and representative offices in their articles of associations;
2) excludes rights to introduce amendments to articles of associations regarding establishment and liquidation of branches and representative offices from the jurisdiction of boards of directors (supervisory boards).

Thus, since July 1, 2015, amendments regarding establishment of branches and representative offices may be introduced to the articles of association only by a general meeting of shareholders.

At the same time, decision-making on establishing or liquidating branches and representative offices is still within the jurisdiction of the board of directors (supervisory board) of a joint stock company.

In connection with the abovementioned, in practice, there are situations when a lot of time passes between decision-making on establishing or liquidating branches and representative offices by the Company's Supervisory Board and introducing corresponding amendments to the Company's Articles of Association. During this period, the Articles of Association of the Company with regard to the information on branches and representative offices are considered irrelevant.

Since information on branches and representatives is indicated in Uniform State Register of Legal Entities, exclusion of Clause 5.4 from the Company's Articles of Association will not reduce the level of shareholders or third parties awareness.

3.2. Elimination of errors/misprints in the Articles of Association

The current version of the Articles of Association contains orthographic mistakes, errors in the numbering of clauses and errors in references to clauses.

In order to correct errors, it is proposed to introduce the corresponding amendments to the Articles of Association.

Draft amendments to the Articles of Association and table of revisions are enclosed.

According to the Code of Corporate Governance of the Company (subparagraph 2 of paragraph "b" of Clause 4.3.1), in order to increase the validity of decisions made by the general meeting, in addition to mandatory materials provided for by law, the Company additionally provides the shareholders with the position of the Supervisory Board on the agenda of the General Meeting of Shareholders.

Therefore, the Supervisory Board should be invited to propose to shareholders to adopt resolution on approving amendments to the Articles of Association.

The Resolution on approving proposals to the General Meeting of Shareholders is adopted by a three-fourths majority vote of members of the Supervisory Board (subclause 4 of Clause 12.1.3 of the Articles of Association).

Amendments to **the Regulations on the Supervisory Board of PJSC ALROSA, the Regulations on the Executive Body of PJSC ALROSA, Regulations on the Auditing Committee of PJSC ALROSA** are proposed in order to increase the quality of communication among members of the Supervisory Board, Auditing Committee and the Company's management, to provide members of managing bodies with the immediate access to materials of meetings (absentee voting) and to enable to tackle issues remotely in online mode. Proposed amendments shall allow to implement and use electronic system of

business processes automation of plural bodies in work of the Company's managing bodies.

Amendments to the Regulations on Remuneration to Members of the Supervisory Board are prepared after analysis of the amount of remunerations to members of boards of directors in other companies, including with the state participation and aimed at strengthening of motivation of members and chairpersons in participating in the committees under the Supervisory Board. In connection with the higher volume of work it is proposed to set a premium for work in the committees under the Supervisory Board of 20% and to increase the premium for chairmanship of the committees under the Supervisory Board up to 30%.

As for the rest, the procedure for calculating the amount of remuneration to members of the Supervisory Board, including differentiated work evaluation depending on the form of participation of a member of the Supervisory Board in its work, implementation of decreasing coefficient, remained unchanged.

In addition to it, it is proposed to provide the possibility of remuneration payments to members of the Supervisory Board – non-residents of the Russian Federation in foreign currency at the rate of the Bank of Russia as of date of adopting a resolution on its payment by the General Meeting of Shareholders.

According to the Code of Corporate Governance of the Company (subparagraph 2 of paragraph "b" of Clause 4.3.1), in order to increase the validity of decisions made by the general meeting, in addition to mandatory materials provided for by law, the Company additionally provides the shareholders with the position of the Supervisory Board on the agenda of the General Meeting of Shareholders.

On April 28, 2018, the Supervisory Board included these items on the agenda of the Annual General Meeting of Shareholders of PJSC ALROSA and recommended the Annual General Meeting of Shareholders to approve the amendments to the internal documents of the Company.