Explanatory Note to Item 1 of the Agenda of the Annual General Meeting of Shareholders of PJSC ALROSA

In accordance with the article 88 of the Federal Law on Joint Stock Companies, the Annual Report of PJSC ALROSA (hereinafter – the Company) is subject to preliminary approval of the board of directors (supervisory board) of the company no later than 30 days before the date of holding the Annual General Meeting of Shareholders.

The Audit Committee under the Supervisory Board of PJSC ALROSA on April 9, 2018 preliminary considered and recommended the Supervisory Board to preliminary approve the Annual Report of the Company for 2017.

Key performance indicators of ALROSA for 2017.

In 2017, ALROSA Group maintained the position of the world leader in natural diamond production in physical terms – production volume amounted to 39.6 million carats, which is 6% higher than in 2016. Increase in production volume in the reporting year is due to an increase in the volume of ore processing in the underground mine Udanchny, an increase in the average grade of diamonds in the ore of Yubileynaya, Botuobinskaya, Arkhangelskaya and Karpinskogo-1 pipes, work resumption of the Processing Plant N 15 of Nyurba MPD.

In the reporting year, ALROSA Group continued the implementation of the strategy aimed at preserving the productive potential, gaining status of a recognized leader in the diamond mining industry, carrying out non-core assets disposal program, maintaining and expanding the resource base of Russia and Africa, increasing the productivity by means of innovation and enhancement of business processes.

Within the framework of the planned strategic initiatives, the Company continues construction and maintenance of existing underground mines, including replenishment of production assets and capacities. In 2017, capital investment of ALROSA Group (according to IFRS) amounted to RUB 26.9 billion, out of which about RUB 21.5 billion were spent on expansion and maintenance of production capacities.

In 2017, the Company continued investing heavily in geological exploration work, which allowed ensuring an increase in inventories of 57.8 million carats. In 2017, preparatory measures were taken to expand the presence in Africa, which will allow the Company to increase interest in Catoca Ltd. Mining Company and participate in joint development of Luele pipe.

The world diamond market situation upon the results of 2017 was characterized by an increase in trade activity and an increase in the demand for rough diamonds, and there was capacity utilization growth in the cutting and polishing industry. Volume of sales of the core product of ALROSA Group upon the results of 2017 amounted to 41.3 million carats, which is 3% higher than the results of 2016. However, the decrease in the average

price of sold gem-quality diamonds as a result of a change in the demand structure towards an increase in the segment of small-sized rough diamonds, as well as the strengthening of the ruble, had a negative impact on the Group's financial results of 2017.

Overall sales of rough and polished diamonds decreased by 5% by 2016 to USD 4,267 million. The strengthening of the ruble against the US dollar strengthened the effect of a decline in sales, which resulted in a decrease of a revenue of ALROSA Group by 13% as compared to 2016 and to RUB 275.4 billion taking into account the income from subsidies.

In 2017, adjusted EBITDA amounted to RUB 126.9 billion (-28% by 2016), profitability according to EBITDA decreased by 10 percentage points to the level of 46%. Unfavorable conjuncture of the foreign exchange market resulted in falling net profit by 41% to RUB 78.6 billion as compared to 2016.

Key targets set for ALROSA Group for 2017 are fulfilled.

On April 28, 2018, the Supervisory Board preliminary approved the Annual Report of PJSC ALROSA for 2017 and adopted a resolution to submit it for approval of the Annual General Meeting of Shareholders of the Company.

Taking into account the above-stated, the Annual report of PJSC ALROSA for 2017 is submitted for approval of the Annual General Meeting of Shareholders of the Company.