

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

In accordance with Article 88 of the Federal Law on Joint Stock Companies, the Annual Report of PJSC ALROSA (hereinafter referred to as the Company) is subject to preliminary approval by 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 Company's Annual Report was considered preliminarily on April 15, 2019, by the Strategic Planning Committee under the Supervisory Board of PJSC ALROSA and on April 16, 2019, by the Audit Committee under the Supervisory Board of PJSC ALROSA, which recommended to the Supervisory Board to approve the Company's 2018 Annual Report preliminarily.

### Key performance indicators of ALROSA in 2018

In 2018, ALROSA Group maintained its position of the world leader in natural diamond production in physical terms — the production volume amounted to 36.7 million carats. A reduction in the production volume in the reporting year (-7% as compared to 2017) was mainly due to the suspension of production at Mir underground mine.

The situation in the global market of rough and polished diamonds in the first half of 2018 was generally favorable and the trading was active. In the second half year, the demand for rough diamonds slowed down. The volume of sales of main products by ALROSA Group declined by 8% and amounted to 38.1 carats following the results of 2018. However, a growth in the average price of gem diamonds sold, which was due to a shift in the structure of demand towards an increase in the share of large-sized rough diamonds, compensated the decline in the physical volume of sales and supported a 6% increase in the overall sales of rough and polished diamonds as compared to 2017 totaling USD 4,507 million. The weakening of ruble against US dollar strengthened the effect of sales volume growth, which resulted in a growth of ALROSA Group revenue by 9% as compared to 2017 totaling RUB 299.6 billion.

In the reporting year, ALROSA Group continued the implementation of its 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 in Russia and Africa. The Group started operational efficiency enhancement projects, continued its efforts to optimize the number of administrative and supporting personnel, and

reforming the geological surveying complex. It helped limit the growth of specific production costs per 1 m<sup>3</sup> of mining operations within 3% and reduce non-production costs by 6%.

The favorable market situation together with the efforts by the management to enhance business efficiency resulted in a 23% growth of adjusted EBITDA to RUB 156.0 billion and a 6% enhancement of EBITDA cost efficiency to 52%.

In line with its strategic plans, ALROSA is continuing the construction and maintenance of its production facilities. In 2018, capital investment by ALROSA group (IFRS) amounted to RUB 27.8 billion, almost a half of which (RUB 13.7 billion) was allocated to the expansion of production facilities including the construction of infrastructure facilities of Verkhne-Munskoe deposit commissioned in 2018.

In 2018, ALROSA continued investing in geological survey operations, which helped ensure an increase in inventories by 2.2 million carats.

The growth of cash flow from operations and a moderate level of investment in 2018 helped ALROSA Group to increase its free cash flow by 26% to RUB 92.3 billion. The debt load is at record lows; the Net Debt/EBITDA indicator declined from 0.7 as of the end of 2017 to 0.4 as of December 31, 2018.

Key targets set for ALROSA Group for 2018 have been fulfilled.

On April 23, 2019, the Supervisory Board approved the Annual Report of PJSC ALROSA for 2018 preliminarily and decided to submit it for approval by the Annual General Meeting of Shareholders.

Considering the above, the Annual Report of PJSC ALROSA for 2018 is submitted for approval by the Annual General Meeting of Shareholders.