Explanatory Note to Items 3, 4 and 5 on the Agenda of the Annual General Meeting of Shareholders of PJSC ALROSA

On June 21, 2018, the Supervisory Board of PJSC ALROSA (hereinafter referred to as the Company) (Minutes No. A01/272-PR-NS) approved the changes in the parameters and conditions under a new revision of the Company's dividend policy such as:

1) Switching to the principle of dividend payout twice a year: following the results of the Company's performance in the first half year and following the results of a year;

2) Determining the amount of dividends on the basis of a free cash flow indicator (free cash flow from operations less the cost of investment (capital investment) to main production determined under IFRS, hereinafter referred to as the FCF) depending on a value of the Net Debt/EBITDA indicator;

3) Determining the minimum value of dividend payout providing that the current and predicted value of the Net Debt/EBITDA indicator does not exceed 1.5x.

The Company's Supervisory Board approved the new version of the Regulations on Dividend Policy considering the above amendments on August 6, 2018 (Minutes No. A01/276-PR-NS).

In connection with a change in the frequency of dividend payouts, following the results of the Company's performance in the first half of 2018, on September 30, 2018, the Company's shareholders approved the dividend payout (Minutes of the Extraordinary General Meeting of Shareholders No. 38) in the amount of RUB 43,674,246,185.90, which is an equivalent of dividend payout in the amount of five (5) rubles ninety-three (93) kopecks per an issued registered share of the Company with a nominal value of fifty (50) kopecks. The dividends paid amounted to 70.4% of the FCF in the first half of 2018 and exceeded the 50% value of the IFRS net profit.

In accordance with the Company's IFRS consolidated financial statements for 2018 (the auditor's opinion was presented on March 15, 2019), the FCF amounted to RUB 92,306,000,000.00, including RUB 30,260,000,000.00 in the second half of 2018; the IFRS net profit in 2018 amounted to RUB 89,217,000,000.00; the Net Debt/EBITDA indicator amounted to 0.4x.

The Company's financial performance in 2018 and the estimated figures under the Company's Consolidated Budget for 2019 enable the Supervisory Board to recommend to the General Meeting of Shareholders to decide to allocate 100% FCF for the second half of 2018 to the payment of dividends. In absolute terms, the amount of dividends to be paid in 2018 considering the dividends paid previously following the results of the first half of 2018, can equal RUB 30,270,008,739.30 with account of rounding the amount of dividends per a share upwards to a kopeck, which is an equivalent of dividend payout in the amount of four (4) rubles eleven (11) kopecks per an issued registered share of the Company with a nominal value of fifty (50) kopecks. Considering the dividends paid in the first half of 2018, the total amount of dividends can equal RUB 73,944,254,925.20, which is an equivalent of 80.11% of the FCF in 2018 and exceeds the 50% value of the IFRS net profit amounting to RUB 44,608,500,000.00.

In accordance with Paragraph 2.1 of the Company's Regulations on Dividend Policy, dividends shall be paid from the net profit and/or retained profit recognized in the accounting (financial) statements made under the accounting laws of the Russian Federation. According to the accounting (financial) statements (the auditor's opinion was presented on February 11, 2019), the Company's net profit amounted to RUB 29,307,611,000.00, the retained profit of past years amounted to RUB 195,047,334,000.00, the aggregate of which is sufficient for the dividend payout amounting to RUB 73,944,254,925.20.

On April 23, 2019, the Supervisory Board decided to recommend to the General Meeting of Shareholders to adopt a decision on the distribution of profit following the results of 2018 and the retained profit of past years including the amount of dividends on the shares of PJSC ALROSA and the payment procedure thereof under the draft decision.