

Explanatory Notes to Agenda Items of Annual General Meeting of Shareholders of PJSC ALROSA

Explanatory Note to Item 1:

Key performance indicators of ALROSA in 2020

2020 was marked by the COVID-19 pandemic and became a serious challenge for the whole world. The restrictions imposed to combat the new coronavirus infection led to a drop in demand for rough diamonds and diamond jewelry and minimized rough diamond and polished diamond trade at all global trading sites.

Against this background, the Company management has taken a number of measures to ensure the sustainability of the Group's activities, provide support to its customers and employees, carry out the current sales and production processes, maintain liquidity and solvency. These measures include:

- Cost reduction
- Suspension of work on some low-margin deposits
- Provision of flexible conditions for long-term contracts
- Expansion of digital sales channels
- Negotiations with suppliers on deferral of payments
- Attraction of additional borrowed funds (issue of bonds, attraction of bank credits)
- Optimization of the investment program, including the transfer of a number of projects

Due to the measures taken, ALROSA managed to ensure the sale of rough and polished diamonds in the amount of USD 2.8 billion in 2020 (–16% compared to 2019) while the total rough diamond sales market decreased by 29%. The weakening of ruble against US dollar somewhat softened the effect of a decline in sales, which resulted in a decrease of ALROSA Group revenue, taking into account income from subsidies, by 7% as compared to 2019 totaling RUB 221.5 billion.

Despite the forced suspension of work on some of the low-margin deposits, in 2020, ALROSA Group retained its position as the world leader in natural rough diamond recovery in physical terms – the volume of mining amounted to 30.0 million carats (–22% compared to 2019). The reduction in production helped stabilize rough diamond reserves and improve the Company's cash flow.

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. Prospecting work has begun in the Republic of Zimbabwe, the geography of prospecting for diamond deposits in Russia has been expanded to Krasnoyarsk Krai and the Tombinsk area in Yakutia. Projects to improve operational efficiency were launched and implemented, automation and digital transformation of production, sales and other directions continued, and the introduction of a new operating model for managing equipment maintenance and repairs with a focus on strengthening the reliability-oriented approach was launched. A significant event in 2020 was the creation of the ALROSA Jewelry Group. The new direction has made ALROSA the only company in the diamond market with a full production cycle, from geologic exploration to the creation of jewelry.

The financial results of ALROSA in 2020 were expected to be under pressure from external factors. EBITDA decreased by 18% to RUB 87.6 billion, EBITDA margin decreased from 45% to 40%. The net profit of ALROSA Group decreased by 49% and amounted to RUB 32.2 billion.

In line with its strategic plans, ALROSA continued the construction and maintenance of its production facilities. Capital investments of ALROSA Group (according to IFRS) in 2020 amounted to RUB 17.0 billion. In 2020, despite the difficulties, ALROSA retained the level of investments in geologic exploration. The increase in reserves amounted to 11.6 million carats.

The release of working capital in Q4 2020 mainly due to a decrease in stocks and an increase in advance payments from buyers, a reduction in the investment program made it possible to achieve an increase in free cash flow by 67% by 2019 to RUB 79.5 billion. Two bank loans totaling \$275 million and the remaining part of the 2010 Eurobond issue were repaid ahead of schedule. The Net Debt/EBITDA indicator at the end of 2020 decreased to 0.4 (0.7 in 2019).

Key targets set for ALROSA Group for 2020 have been fulfilled.

On April 14, 2021, the Audit Committee under the Supervisory Board of PJSC ALROSA preliminarily considered and recommended the Supervisory Board to preliminarily approve the Annual Report of the Company for 2020.

On April 27, 2021, the Supervisory Board approved the Annual Report of PJSC ALROSA for 2020 preliminarily and decided to submit it for approval by the Annual General Meeting of Shareholders.

Explanatory Note to Item 2:

The accounting (financial) statements of the Company are made in accordance with the current laws of the Russian Federation.

The accounting records of the Company are kept pursuant to the Federal Law of the Russian Federation on Accounting and the Accounting Regulations adopted thereunder and approved by orders of the Ministry of Finance of Russia.

On March 12, 2021, the Auditor provided an auditor's report on the financial (accounting) statements of PJSC ALROSA prepared in accordance with Russian accounting standards (hereinafter – accounting statements) for the year ended December 31, 2020. In the opinion of the Auditor, the accounting statements accurately reflect, in all material respects, the financial condition of the Public Joint Stock Company ALROSA as of December 31, 2020, as well as its financial results and cash flows for the year ended as of that date, in accordance with the accounting principles established in the Russian Federation.

Overview of the balance sheet

The balance sheet assets increased by RUB 127,239 million (+25%) mainly due to an increase in cash and deposit balances by RUB 100,939 million, an increase in the value of fixed assets by RUB 15,237 million as a result of the revaluation performed as of December 31, 2020, an increase in reserves by RUB 17,579 million mainly in terms of work in progress (ore and sands, rough diamonds and polished diamonds) due to the re-issuance of mineral licenses to the Company for the following deposits: the Nyurbinskaya pipe and the Botuobinskaya pipe, against the background of a reduction of debt on loans issued to subsidiaries (RUB –15,538 million).

Liabilities of the Company increased by RUB 117,250 million (+56%) mainly due to an increase in loans by RUB 91,743 million, an increase in accounts payable in terms of advance payments received for rough diamond products in the amount of RUB 16,982 million, an increase in deferred tax liabilities by RUB 8,434 million.

Capital and reserves of the Company increased by RUB 9,989 million (+3%) and amounted to RUB 311,199 million.

Overview of the profit and loss statement

Revenue decreased by RUB 15,722 million (–10%) compared to 2019. Q4 2020 saw a rebound in sales as a result of rising end consumer demand in the United States and China, following a decrease in volumes due to the impact of the coronavirus pandemic and the lockdown in Q2 2020.

The rough diamond segment revenue amounted to 88% of the total revenue in 2020 (82.3% in 2019) and decreased by 3% compared to 2019 to RUB 128,312 million.

Revenue from other activities decreased by RUB 12,192 million (–43%) compared to 2019, mainly due to a decrease in intragroup revenue under contracts with PJSC ALROSA-Nyurba for mining, sorting, processing and sales of rough diamonds due to the renewal of licenses for the Company.

The cost of sold products, works, services, commercial and administrative expenses decreased by RUB 690 million as compared to 2019 (–1%).

Other income and expenses in 2020 – loss in the amount of RUB 22,993 million; in 2019, the loss amounted to RUB 23,800 million.

Income from participation in other organizations decreased by RUB 8,297 million (–49%) due to a reduction in dividends from the Company's participation in Russian organizations.

Other income in 2020 increased by RUB 4,523 million (+26%) to RUB 21,682 million, mainly due to the income from the sale of shares in JSC NPF Almaznaya Osen and partial redemption of shares in the CEIF combined fund Kimberlit.

Other expenses in 2020 decreased by RUB 8,574 million (–16%) and amounted to RUB 44,895 million, mainly due to the change in the value of PJSC ALROSA-Nyurba shares quoted on the stock exchange to the market price determined in accordance with the established procedure by the trade organizer, in the amount of RUB +30,806 million against the background of a growth in exchange rate differences by (RUB –22,936 million).

Net profit dynamics

Net profit for PJSC ALROSA in 2020 amounted to RUB 12,264 million, having decreased by –54% compared to 2019.

An analysis of the change in net profit in 2020 compared to 2019 is presented in the following table:

	RUB, million
Net profit for 12 months of 2019	26,664
Decrease in gross profit	(16,755)
Exchange rate difference	(22,936)
Decrease in income from participation in other organizations	(8,297)
Revaluation of shares of PJSC ALROSA-Nyurba	30,806
Other	2,782
Net profit for 12 months of 2020	12,264

Overview of the statement of changes in equity

In 2020, the Company's equity and reserves increased by RUB 9,989 million to RUB 311,199 million.

The reserve fund amounting to RUB 737 million (0.2% of the total equity) was generated from the net profit according to the Articles of Association and is intended for covering of losses, redemption of bonds and repurchase of shares of the Company where no other funds are available, and may not be utilized for any other purposes.

The Company's authorized capital was formed according to the Articles of Association and amounted to RUB 3,682 million (1% of the total amount of equity).

The Company's authorized capital is divided into 7,364,965,630 ordinary registered shares with par value of 50 kopecks.

The Company's capital surplus in 2020 increased by RUB 12,992 million to RUB 106,367 million (34% of the total capital) due to the revaluation of fixed assets carried out as of December 31, 2020.

Retained profit decreased by RUB 3,003 million.

An analysis of the change in retained profit in 2020 compared to 2019 is presented in the following table:

	RUB, million
Retained profit for 12 months of 2019	203,416
Net profit for 2020	12,264
Transfer from capital surplus for retired fixed assets	4,040
Payments made under resolutions of the General Meeting of Shareholders, including dividends	(19,369)
Recovered dividends unclaimed by shareholders	62.6
Retained profit for 12 months of 2020	200,413

Overview of the statement of cash flow

Cash flow from operating activities in 2020:

Receipts amounting to RUB 170,352 million including RUB 158,226 from the sale of products, goods, works and services

Payments amounting to RUB 139,036 million including RUB 60,413 million of payment to suppliers (contractors) for materials, works and services; RUB 32,855 million in connection with employee compensation, RUB 21,412 million – payment of taxes, RUB 392 million – payment of income tax

Cash flow from investment activities in 2020:

Receipts amounting to RUB 139,477, including: – RUB 120,667 million from the repayment of granted loans and sale of debt securities; RUB 10,804 million – dividends, interest on debt financial investments and similar cash inflows from participation in other companies, RUB 1,936 million rubles – sales of fixed assets (excluding financial investments), RUB 2,154 – sales of other company shares,

payments amounting to RUB 145,460, including: RUB 19,307 million – in connection with the acquisition, creation, upgrading, reconstruction and preparation for the use of non-current assets, RUB 275 million – in connection with the acquisition of shares of other entities (participatory interests), RUB 125,859 million – in connection with the acquisition of debt securities and granting of loans to other persons.

Cash flow from financial activities in 2020:

Receipts: credits and loans received for the amount of RUB 245,413 million

Payments for the amount of RUB 198,724 million including payment of dividends and other profit distribution to shareholders amounting to RUB 19,354 million and RUB 179,370 due to repayment of credits and loans received.

The result of cash flow during the reporting period is RUB 72,022 million.

The balance of cash and cash equivalents as of the beginning and the end of the reporting period is RUB 10,705 million and RUB 85,819 million, respectively.

The free cash flow as a result of cash flow from operating activities less payments for acquisition, creation, upgrading, reconstruction and preparation for the use of non-current assets in 2020 is RUB 12,008 million (RUB 14,846 million in 2019).

Accrual and payment of taxes, duties and charges

In 2020, the taxes, duties and charges (hereinafter – taxes) and insurance premiums accrued and paid amounted to RUB 17,414 million and RUB 18,811 million, respectively.

As compared to 2019, the amount of paid taxes and insurance premiums paid decreased by RUB 21,474 million (53%).

Paid in 2020:

✓ The budget of the Republic of Sakha (Yakutia) received RUB 11,838 million, which is RUB 10,468 million less than in 2019.

✓ The federal budget received RUB 616 million, besides VAT to deduction amounted to RUB 7,290 million.

✓ RUB 13,648 million was transferred to extra-budgetary funds, local and other budgets, which is RUB 1,899 million less compared to the previous year.

The breakdown of taxes, duties and charges paid in 2020:

Item	2020		2019		Increase (reduction) compared to 2019	
	RUB, million	%	RUB, million	%	RUB, million	%
Mineral extraction tax (rough diamonds)	8,227	43.7	12,298	30.5	(4,071)	-33.1
Income tax	768	4.1	8,360	20.8	(7,968)	-90.8
Property tax	3,421	18.2	3,696	9.2	(275)	-7.4
Personal income tax	4,316	22.9	5,011	12.5	(695)	-13.9
Insurance contributions	8,878	47.2	9,805	24.3	(926)	-9.4
VAT	(7,291)	-38.8	620	1.5	(7,911)	-1276.0
Other taxes and payments	492	2.6	495	1.2	(4)	-0.8
Total:	18,811	100.0	40,285	100.0	(21,474)	-53.3

Dividends

Budget	for 2020 (following the results of 2019)		for 2019 (following the results of 2018)		Reduction 2020 vs. 2019	
	RUB mln %	%	RUB mln %	%	RUB mln %	%
Russian Federation represented by the Federal Agency for State Property Management	15,737	33.0	24,421	33.0	8,684	35.5
The Republic of Sakha (Yakutia) represented by the Ministry of Property and Land Relations of the Republic of Sakha (Yakutia)	11,913	25.0	18,486	25.0	6,563	35.5
Administrations of the municipalities of the Republic of Sakha (Yakutia)	3,812	8.0	5,916	8.0	2,104	35.5
Other	16,189	34.0	25,121	34.0	8,932	35.5
Total:	47,651	100	73,944	100	26,293	35.5
<i>per 1 share</i>	<i>6.47</i>		<i>10.04</i>			

On June 24, 2020, the Annual Meeting of Shareholders of the Company approved dividends based on the results of 2019 in the amount of RUB 19,370 million. Dividends per share amounted to RUB 2.63.

Dividends for the first half of 2019 were approved on September 30, 2019 by the Extraordinary General Meeting of Shareholders the Company in the amount of RUB 28,281 million, or RUB 3.84 per share. Thus, taking into account the dividends paid based on the results of activities for the first half of 2019, the total dividends for 2019 amounted to RUB 47,651 million, or RUB 6.47 per share.

On March 25, 2021, the Audit Committee under the Supervisory Board preliminarily considered this issue and recommended the Supervisory Board to propose to the Annual General Meeting of Shareholders of PJSC ALROSA to approve the annual accounting (financial) statements of PJSC ALROSA for 2020.

On April 27, 2021, the Supervisory Board of the Company decided to propose to the Annual General Meeting of Shareholders of PJSC ALROSA to approve the annual accounting (financial) statements of PJSC ALROSA for 2020.

Explanatory Note to Items 3 to 5:

On March 10, 2021, the Supervisory Board of the Company approved a new version of the Regulations on Dividend Policy, in which, in order to increase the flexibility of the Company in determining the amount of dividends, the intervals of values of the Net debt¹/EBITDA² indicator “0.0 to 0.5” and “0.5 and 1.0” were combined.

Therefore, the following Terms and Conditions for the Payment of Dividends to Shareholders apply:

¹ Net debt is an indicator determined in accordance with international standards for the preparation of consolidated financial statements (IFRS) as the amount of debt obligations less cash and cash equivalents, as well as bank deposits at each reporting date.

² EBITDA – the Group's profit or loss for the previous 12 months, adjusted for income tax expenses, financial income and expenses, share of net profit of joint ventures and associates, depreciation and amortization, impairment and disposal of fixed assets, profit or loss on disposal of subsidiaries, revaluation of investments, one-time effects.

- 1) Whether the Company has net profit and/or retained profit reflected in the accounting (financial) statements made under the accounting laws of the Russian Federation.
- 2) Not exceeding the current and forecast value of the Net Debt/EBITDA indicator of 1.5.
- 3) Absence of restrictions on the payment of dividends provided for by the legislation of the Russian Federation.

As well as the following principles for the payment of dividends to shareholders:

- 1) Dividends are paid annually, the basic frequency of payment of dividends being 2 times a year:
 - Based on the results of the Company's activities for the first half of the reporting year
 - Based on the results of the Company's activities for the reporting year (less previously paid dividends for the first half of the reporting year)
- 2) The amount of dividends is determined based on the amount of the FCF³ of the Company and the corresponding value of the Net Debt/EBITDA indicator at the end of the first half of the year or year:
 - If the value of the Net Debt/EBITDA indicator at the end of the corresponding period is less than 0.0, the amount of semiannual dividend payments can be at least 100% of the FCF for the corresponding half of the reporting year.
 - If the value of the Net Debt/EBITDA indicator at the end of the corresponding period belongs to the range of 0.0 to 1.0 (excluding 1.0), the amount of semiannual dividend payments can be from 70 to 100% of the FCF for the corresponding half of the reporting year.
 - If the value of the Net Debt/EBITDA indicator at the end of the corresponding period belongs to the range of 1.0 to 1.5, the amount of semiannual dividend payments can be from 50 to 70% of the FCF for the corresponding six months of the reporting year.
- 3) The minimum value of dividend payments has been determined as follows: the amount of funds allocated for the payment of dividends for the reporting year must be at least 50% of the Company's net profit for the corresponding year, calculated on the basis of consolidated financial statements prepared in accordance with IFRS.

In accordance with the Company's IFRS consolidated financial statements for 2020 (the auditor's opinion was presented on March 01, 2021), the FCF amounted to RUB 87,779 million in the second half of 2020; the IFRS net profit in 2020 amounted to RUB 32,245 million; the Net Debt/EBITDA indicator amounted to 0.4 at the end of 2020.

In order not to exceed the Net Debt/EBITDA indicator value of 1.0 at the end of 2021 (corresponds to the upper level of the target debt range of the Company), the Supervisory Board recommended that the General Meeting of Shareholders decide to allocate 80% of the FCF for the second half of 2020 for the payment of dividends. In absolute terms, the amount of dividends payable for the second half of 2020 can amount, taking into account the rounding of the amount of dividends per share upwards to a kopeck, to RUB 70,261,772,110.20, which is equivalent to dividend payments in the amount of 9 (nine) rubles 54 (fifty-four) kopecks per one placed registered share of the Company with a par value of 50 (fifty) kopecks, as well as equivalent to 80.04% of the FCF for the second half of 2020 and exceeds 50% of the net profit under IFRS, which amounts to RUB 32,245 million. This amount of dividends will be the maximum amount of dividend payments ever paid by the Company for half a year, see Table 1 for information.

Period	1st half of 2018	2nd half of 2018	1st half of 2019	2nd half of 2019	1st half of 2020	Amount offered 2nd half of 2020
Amount, RUB	43,674,246,186	30,270,008,739	28,281,468,019	19,369,859,607	0	70,261,772,110

In accordance with Paragraph 2.1 of the Company's Regulations on Dividend Policy, the condition for dividend payment shall be the availability of net profit and/or retained profit with the Company, 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

³ Free cash flow (FCF) – cash flow from operating activities, determined in accordance with international standards for the preparation of consolidated financial statements (IFRS), less cash flow used to finance capital investments (under item "Acquisition of fixed assets" of the consolidated statement of cash flow under IFRS standards).

March 12, 2021), the Company's net profit in 2020 amounted to RUB 12,263,828,000.00, the retained profit of past years (as of January 01, 2021) amounted to RUB 188,148,864,000.00, the aggregate of which is sufficient for the dividend payout amounting to RUB 70,261,772,110.20.

The issue of recommendations on the amount of dividends was preliminarily considered at the meeting of the Audit Committee on April 14, 2021.

On April 27, 2021, the Company's Supervisory Board decided to recommend to the Annual General Meeting of Shareholders to adopt a resolution on the distribution of profit following the results of 2020 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 resolution.

Explanatory Note to Item 6:

The remuneration to members of the Company's Supervisory Board is paid on the ground of a resolution of the General Meeting of Shareholders. The amount of remuneration paid is determined by a resolution of the General Meeting of Shareholders.

The Regulations on Remuneration to Members of the Supervisory Board of PJSC ALROSA stipulate that the remuneration (basic and additional remuneration) shall not be paid to:

- The chairperson and members of the Supervisory Board who are recognized as governmental or municipal officials as per the applicable laws of the Russian Federation

- The chairperson and members of the Supervisory Board holding a public office of the Russian Federation, public office of a constituent entity of the Russian Federation, a municipal office, an office with a state service of a constituent entity of the Russian Federation or an office with a municipal service (hereinafter – public offices and the state service offices)

- Members of the Supervisory Board who are at the same time the sole executive body or a member of the collective executive body of the Company

Thus, according to the Regulations, the remuneration (basic and premium) may be paid only to professional attorneys and independent directors that are members of the Company's Supervisory Board.

The remuneration to members of the Supervisory Board is calculated in accordance with the Regulations on Remuneration to Members of the Supervisory Board of PJSC ALROSA.

Remuneration is paid for participation in the work of the Supervisory Board (basic remuneration) and for performing the functions of the Chairman of the Supervisory Board, senior independent director, as well as for chairmanship and/or membership in committees under the Supervisory Board (additional remuneration).

The remuneration of each member of the Supervisory Board for participation therein is calculated based on the total number of meetings of the Supervisory Board held during the previous corporate year as of March 31 this year, and the number of meetings of the Supervisory Board attended by such a member.

An additional remuneration for the membership and/or presidency with committees under the Supervisory Board shall be calculated separately for each committee. The amount of a premium payable to each member of a committee for the membership and/or presidency with committees under the Supervisory Board is calculated based on the total number of meetings of the Committee held during the previous corporate year as of March 31 this year, and the number of meetings of the Committee attended by such a member.

In the corporate year 2020-2021, the following professional attorneys and independent directors were members of the Company's Supervisory Board:

1. Maria Vladimirovna GORDON
2. Evgenia Vassilievna GRIGORIEVA
3. Andrey Ivanovich DONETS
4. Kirill Alexandrovich DMITRIEV
5. Dmitry Vladimirovich KONOV
6. Alexey Petrovitch NOSKOV
7. Vladimir Valerievich RASHEVSKY

8. Oleg Romanovich FEDOROV

Given the structure of the members' involvement in the Supervisory Board's activities as well as their additional duties as senior independent directors related to the management of the Supervisory Board's committees and membership therein, the total remuneration is RUB 65,775,000.00. The calculation of remuneration (basic and additional) is indicated in the annex to the explanatory note.

On April 14, 2021, the HR and Remunerations Committee under the Supervisory Board considered this matter preliminarily and recommended to the Supervisory Board to approve it. On April 27, 2021, the Supervisory Board recommended to the Annual General Meeting of Shareholders to adopt a resolution on the payment of remuneration to the Members of the Supervisory Board of PJSC ALROSA for the corporate year 2020-2021 in the amount and in the manner determined under the Regulations on Remuneration to Members of the Supervisory Board of PJSC ALROSA.

Explanatory Note to Item 7:

The remuneration to the members of the Company's Auditing Committee is paid on the ground of a resolution of the General Meeting of Shareholders. The amount of remuneration paid is recommended by the Supervisory Board and determined by a resolution of the General Meeting of Shareholders.

According to the Regulations on Remuneration and Compensation to Members of the PJSC ALROSA Auditing Committee, the remuneration may be paid to members of the Auditing Committee for participation in the work of the Auditing Committee and performance of additional duties related to chairing the Auditing Committee.

The remuneration shall not be paid to the chairperson and members of the Auditing Committee who are government or municipal officials under the applicable laws of the Russian Federation and to the chairperson and members of the Auditing Committee payments to whom by commercial entities are limited or banned by the applicable laws.

In the corporate year 2020-2021, the Auditing Committee of the Company consists of 5 elected members: 3 of them are government officials; 1 was not a government officials for the entire corporate year; 1 resigned.

Thus, Alexander Vladimirovich Markin has the right to receive a remuneration for his work as a member of the Auditing Committee.

The actual amount of remuneration for each member of the Auditing Committee shall be calculated by the chairperson of the Auditing Committee and shall be considered preliminarily at the meeting of the Supervisory Board.

Given the structure of involvement in the activities of the Auditing Committee, the amount of remuneration is RUB 1,776,644.00. The calculation of remuneration is indicated in the annex to the explanatory note.

On April 14, 2021, the HR and Remunerations Committee under the Supervisory Board considered this matter preliminarily and recommended to the Supervisory Board to approve it. On April 27, 2021, the Supervisory Board recommended to the Annual General Meeting of Shareholders to adopt a resolution on the payment of remuneration to the members of the Auditing Committee of PJSC ALROSA for the corporate year 2020-2021 in the amount and in the manner determined under the Regulations on Remuneration and Compensation to Members of the Auditing Committee of PJSC ALROSA.

Explanatory Note to Items 8, 9:

Election of Members of the Supervisory Board of PJSC ALROSA (hereinafter – the Company) and members of the Auditing Committee of the Company is conducted annually and falls within the

jurisdiction of the General Meeting of Shareholders of the Company (sub-clauses 4 and 9, clause 1, Article 48 of the Federal Law on Joint Stock Companies).

The Company's shareholder(s) collectively holding at least two per cent of the Company's voting shares, have the right to propose nominees to the Company's Supervisory Board and Auditing Committee within 75 days after the end of the financial year (Chapter 1, Article 53 of the Federal Law on Joint Stock Companies, and Clause 12.5.1. of the Articles of Association of the Company).

On March 19, 2021, the Supervisory Board of the Company considered, in due time, the candidates proposed by the Company's shareholders, and resolved to add them to the list of nominees to the Supervisory Board and the Auditing Committee to be elected at the Annual General Meeting of Shareholders.

Considering the above, the Company's General Meeting of Shareholders is requested to elect members of the Company's Supervisory Board and the Auditing Committee for the 2021-2022 corporate year.

Explanatory Note to Item 10:

According to the applicable laws, the accounting (financial) statements of PJSC ALROSA (hereinafter – the Company) and the consolidated financial statements of ALROSA Group should be audited annually. For such an audit, an independent auditor is engaged on a competitive basis.

In pursuance of Federal Laws dated 26/12/1995 No. 208-FZ On Joint Stock Companies, dated 30/12/2008 No. 307-FZ On Auditing Activities, dated 27.07.2010 No. 208-FZ "On Consolidated Financial Statements", and in accordance with clause 20.2 of the Articles of Association of PJSC ALROSA (hereinafter – the Company), in 2019 in the manner prescribed by Federal Law dated 05/04/2013 No. 44-FZ On Contractual System in Procurement of Goods, Works, Services for National and Municipal Purposes, the Company held an open tender in electronic form "For the right to conclude an agreement to conduct a compulsory audit of the accounting (financial) statements of PJSC ALROSA, prepared in accordance with the Russian legislation, and the consolidated financial statements of ALROSA Group, prepared in accordance with International Financial Reporting Standards, based on the results of 2019-2021".

The Company has concluded an agreement with the winner of the specified open tender in electronic form, AO PricewaterhouseCoopers Audit, valid for three years (2019 to 2021) dated 17/05/2019 No. 163.

The terms of this agreement establish that in relation to the obligations of the parties related to the compulsory audit for the period from 01/01/2021 to 31/12/2021, they come into force from the date of the adoption by the annual General Meeting of Shareholders of the Company of resolutions on the approval of the auditor of the Company for the year 2021.

The Supervisory Board of the Company on April 27, 2021, upon the preliminary recommendation of the Auditing Committee under the Company's Supervisory Board dated March 25, 2021, considered this issue and made a decision to recommend to the Annual General Meeting of Shareholders of the Company to approve PricewaterhouseCoopers as the auditor of PJSC ALROSA for a compulsory audit of the accounting (financial) statements of PJSC ALROSA prepared in accordance with the Russian legislation and the consolidated financial statements of ALROSA Group prepared in accordance with International Financial Reporting Standards for the year 2021.

Explanatory Note to Items 11 to 14:

It is proposed to amend the Regulations on the Supervisory Board and the Regulations on the Executive Committee in order to introduce the best corporate governance practices on the use of electronic signatures when signing documents by members of the Supervisory Board, members of the Executive Committee (including questionnaires during absentee voting of the Supervisory Board,

committee, Executive Committee, special opinions, written votes, statements, etc.) (hereinafter – the documents) in the corporate system Areopad, which is allowed by law.

Currently, documents are signed by members of the Supervisory Board and the Executive Committee (hereinafter – the collegial bodies) by their own hands. Signing with an electronic signature is offered as an additional way to sign by one's own hand.

The procedure for holding meetings (absentee voting) of the Supervisory Board and the Executive Committee is determined by the Articles of Association or an internal document approved by the meeting of shareholders (clause 1 of article 68, clause 1 of article 70 of the Federal Law On Joint Stock Companies), in connection with which the Regulations on the Supervisory Board (clause 3.1.4) and the Regulations on the Executive Committee (clause 3.2.) shall be supplemented with the following rules on the use of electronic signatures by members of the Supervisory Board and the Executive Committee for signing documents in the corporate system Areopad: the following activities can be carried out using the electronic system to ensure the activities of collegial bodies:

- Voting of members of the collegial body on the agenda of absentee voting by filling in questionnaires and signing them with an electronic signature

- Signing by electronic signature of written votes, requirements, statements, inquiries and other documents related to the performance of the functions and obligations of members of the collegial body

Signing the above documents with an electronic signature is recognized as equivalent to paper documents signed with a personal handwritten signature.

It is proposed to amend the Regulations on Remuneration to Members of the Supervisory Board in accordance with the recommendations of the Corporate Governance Code of PJSC ALROSA regarding the payment of remuneration to members of the Supervisory Board. It is advisable to change the wording of clauses 2.2.2., 1.5. and 1.7. of the Regulations on Remuneration to Members of the Supervisory Board of PJSC ALROSA (hereinafter – Regulations on Remuneration).

According to clause 2.2.2 of the Regulations on Remuneration, the amount of the basic part of the basic remuneration (S_{base}) is set based on the Company's revenue for the financial year, and is as follows:

Revenue amount	S (base)
Over RUB 200 billion	RUB 6 million
Over RUB 30 billion	RUB 4 million
Over RUB 10 billion	RUB 2 million

It is proposed to establish the amount of the basic part of the remuneration as RUB 6 million.

The annual revenue of PJSC ALROSA, calculated on the basis of the consolidated financial statements prepared in accordance with IFRS, amounted to RUB 200 billion and above from 2014 to the present:

2020,	RUB 217.128 billion
2019,	RUB 232.856 billion
2018,	RUB 293.870 billion
2017,	RUB 269.706 billion
2016,	RUB 314.336 billion
2015,	RUB 224.524 billion
2014,	RUB 207.159 billion

Thus, amending clause 2.2.2 of the Regulations on Remuneration regarding the exclusion of referencing to the annual revenue shall not entail an actual change in the amount of remuneration, but at the same time shall ensure that PJSC ALROSA complies with the recommendations of the Corporate Governance Code for this parameter.

According to clauses 1.5, 1.7 of the current version of the Regulations on Remuneration, if PJSC ALROSA has no net profit (profit to the distribution), remuneration of the members of the Supervisory Board is not determined and is not paid; the total amount of remuneration (including additional remuneration) to members of the Supervisory Board cannot exceed 10% of the Company's net profit.

It is proposed to amend the wording of these clauses of the Regulations on Remuneration, establishing that the decision to pay remuneration to Members of the Supervisory Board of PJSC ALROSA and to determine the amount of remuneration shall be adopted by the General Meeting of Shareholders, taking into account the recommendations of the Supervisory Board and the possibility for

the General Meeting of Shareholders to make a decision on non-payment of remuneration to Members of the Supervisory Board or payment of remuneration to them in an amount less than the amount calculated in accordance with the Regulations (if at the end of the financial year there exist negative factors associated with the deterioration of the financial situation of PJSC ALROSA).

It is proposed to amend the Corporate Governance Code in connection with the renaming of the Strategic Planning Committee as the Strategy and Sustainable Development Committee (Resolution of the Supervisory Board dated 15/02/2021, Minutes No. 01-317-PR-NS) to be included in clause 5.3.8 of the Corporate Governance Code of the Company of the corresponding amendments in terms of the name and tasks of the Committee.

On April 27, 2021, the Supervisory Board preliminarily reviewed the draft amendments to the internal documents and recommended the Annual General Meeting of Shareholders of the Company to approve the proposed amendments to the internal documents of the Company.