

Explanatory Note on Agenda Item of the Extraordinary General Meeting of Shareholders of PJSC ALROSA

Explanatory Note to Item 1

The Regulations on the Dividend Policy of PJSC ALROSA (hereinafter the Company), approved by its Supervisory Board on March 10, 2021, determine the following conditions of payment of shareholder dividends:

1) net profit and/or retained profit recognized in the accounting (financial) statements prepared in accordance with the Russian accounting standards;

2) the current and forecast Net Debt¹/EBITDA² ratio does not exceed 1.5;

3) no restrictions on the payment of dividends stipulated by Russian law;

and the following principles of payment of dividends to shareholders:

1) annual payment of dividends with the following payment frequency as the basic option to pay dividends on outstanding shares:

based on the Company's performance for the first half of the reporting year;

based on the Company's performance for the reporting year (less previously paid dividends for the first half of the reporting year);

2) the amount of dividends is calculated based on the amount of the FCF³ of the Company and the corresponding Net Debt/EBITDA ratio at the end of the first half of the year or year:

if the Net Debt/EBITDA ratio 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 Net Debt/EBITDA ratio at the end of the corresponding period falls within the range of 0.0 to 1.0 (excluding 1.0), the amount of semiannual dividend payments can be 70 to 100% of the FCF for the corresponding half of the reporting year;

if the Net Debt/EBITDA ratio at the end of the first half of the year or year falls within the range of 1.0 to 1.5, the amount of semiannual dividend payments can be 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 IFRS consolidated financial statements.

The results of the Company's activities for H1 2023 and the absence of net debt make it possible to allocate RUB 27.77 billion for interim dividend payments, which is equivalent to 50% of profit for H1 2023 (under IFRS) and complies with the Regulations on the Dividend Policy of PJSC ALROSA.

Under section 2.1 of the Regulations on the Dividend Policy, the condition for dividend payment to shareholders is the Company having net profit and/or retained profit recognized in the accounting (financial) statements prepared in accordance with the Russian Accounting Standards. Under the Russian Accounting Standards, the Company's net profit for H1 2023 totaled RUB 44,094,240,811.77, which is sufficient to make dividend payments totaling RUB 27,765,920,425.10.

The item "Payment of dividends for the first half of 2023, amount, terms and form of payment of dividends and the date as of which the persons entitled to dividends are to be defined" was included in the agenda of the Extraordinary General Meeting of Shareholders of PJSC ALROSA as proposed by the Supervisory Board.

¹ The Net Debt is an indicator determined to the International Financial Reporting Standards (IFRS) as the amount of debt obligations less cash and cash equivalents as well as bank deposits at each reporting date.

² EBITDA is 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, and one-time effects.

³ Free cash flow (FCF) is the cash flow from operations determined under the International Financial Reporting Standards (IFRS) less the cash flow used to finance capital investments (under the item "Acquisition of fixed assets" on the consolidated statement of cash flow under IFRS).

Under Article 48 of the Federal Law on Joint Stock Companies, a resolution on payment (declaration) of dividends must be adopted by the General Meeting of Shareholders. The resolution must determine the amount of dividends on shares of each category (type), the method of their payment, the procedure for payment of dividends in nonmonetary form (if so decided), and the date on which persons entitled to receive dividends are to be defined.

The resolution must be adopted on the recommendation of the Supervisory Board. The dividend amount must not exceed that recommended by the Supervisory Board.

On 26 August 2023, the Supervisory Board decided to recommend that the Extraordinary General Meeting of Shareholders adopt a resolution on the amount of dividends on PJSC ALROSA shares and the procedure for their payment, based on the draft resolution.

Given the above, the General Meeting of Shareholders is invited to decide on the amount of dividends on PJSC ALROSA shares and the payment procedure.