



Association of  
Institutional Investors (API)

# Research report on PJSC ALROSA

as of 09/30/2016



RESEARCH LABORATORY FOR BUSINESS COM-  
MUNICATIONS, NATIONAL RESEARCH UNIVERSITY  
HIGHER SCHOOL OF ECONOMICS

## Brief capital structure overview

The Company has the most interesting share capital structure in terms of corporate governance (CG), with real opportunities to balance the interests of all major groups of shareholders. All 3 groups (institutional investors, Russia's Federal Agency for State Property Management / Rosimushchestvo and Yakutia) are actively involved in the company management: for example, each group nominates and elects Supervisory Board members, implementing their CG approaches. The Company takes a progressive approach to the Supervisory Board (SB) formation: each group elected independent directors (INEDs) (three INEDs were elected by the Government, one by the Sakha Republic (Yakutia), and one by investors).

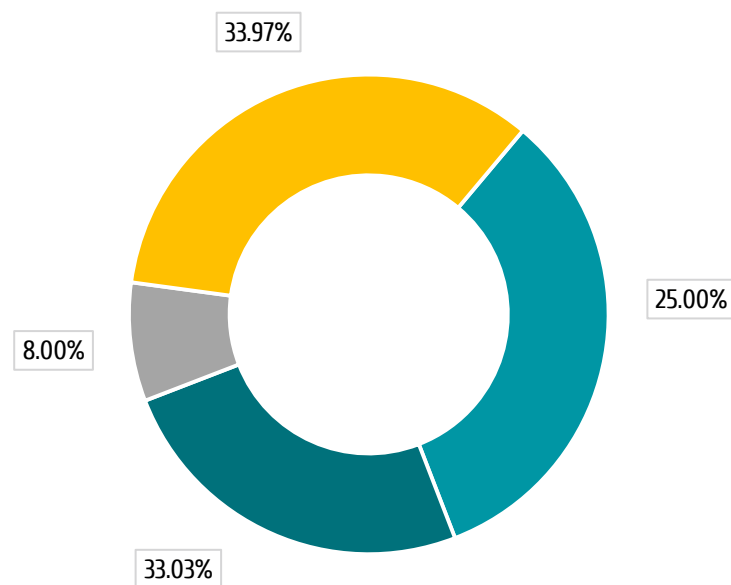
After the sale of the Government's 10.9% stake in July 2016, the free float exceeds the Government's interest. 5.7% shareholding is required to elect 1 INED, at least 6.3% per INED for 2 INEDs (prior to the SPO). After the SPO, at least 11.4% is required to elect 2 INEDs.

*At the 2017 AGM, the shareholders are expected to reform the Supervisory Board based on the post-SPO share capital structure. To preserve the current balance of power (the relationship between INEDs and directors representing shareholders), minority shareholders (institutional and portfolio investors) need to consolidate their votes to elect at least 2 INEDs (currently one is elected).*

## Corporate governance self-assessment

*According to the company, ALROSA complied with 65, partially complied with 11, failed to comply with 3 out of 79 principles and recommendations of the Corporate Governance Code in 2015.*

### Breakdown of voting shares



- Russian Federation (Rosimushchestvo)
- Ministry of Property Relations of Sakha (Yakutia)
- Local government authorities of the Yakutia's districts (uluses)
- Free-float



## Summary of CG practice

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- 5 of the 15 Supervisory Board members are independent (INEDs), *3 of them are extremely active and complement each other*, the senior INED properly coordinates the work of all INEDs with the management and the Government's representatives; INEDs often express their own meaningful opinions and do not always vote as proposed by the management; the Government's representatives respect their opinions; regional and federal officials sometimes disagree – INEDs' votes decide on the outcome of the voting then;
- corporate by-laws reflecting most of the CG Code recommendations were approved or re-approved at the AGMs in 2015–2016;
- according to the dividend policy, the Company normally earmarks at least 35% of the consolidated IFRS net profit for dividends;
- the SB has developed and approved a special procedure for preparing materials concerning related-party transactions proposed for approval at Supervisory Board meetings (*an exceptional case*);
- advanced information disclosure, including disclosure of material terms of most of approved related party transactions and individual voting for each Supervisory Board member;
- the list of reasons for recognizing Supervisory Board members' related-party interest in transactions is expanded: a Supervisory Board member qualifies as a party in interest if the member or his/her affiliate has managerial authority at the company's counterparty, even if being technically outside its executive bodies;
- major related-party transactions of controlling entities are subject to prior consideration by INEDs whose positions are included in SB materials;
- the company has created all conditions for the development of an independent internal audit system accountable to the Committee for Audit mostly composed of INEDs;

- (conditionally positive) the Articles of Association provide for the Supervisory Board's authority to manage quasi-treasury shares (proposals to agendas of GSMs and SB meetings, voting quasi-treasury shares at GSMs). The Company currently has no quasi-treasury shares, the SB must refrain from voting them should they appear.

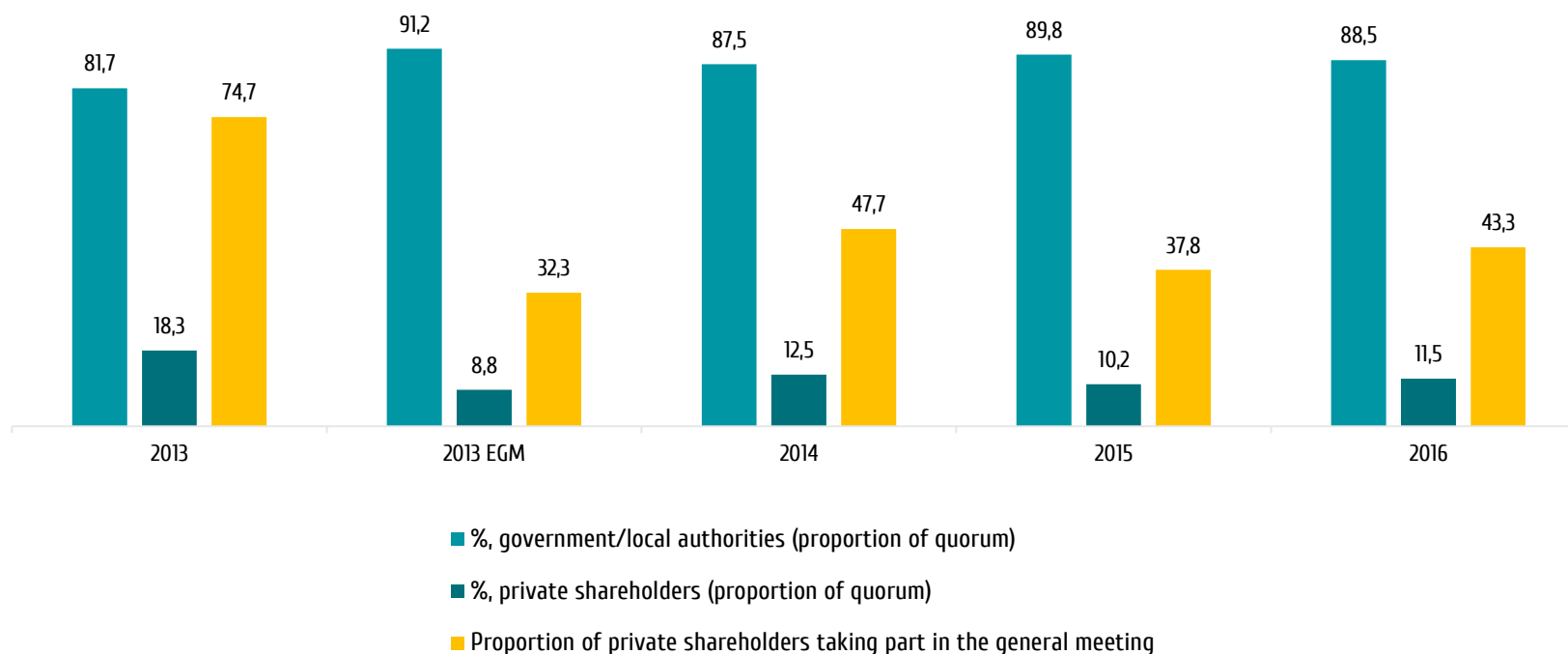
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- the Company does not disclose the top management remuneration system and the relation of payments to specific KPIs (disclosure of target and actual KPIs);
- according to INEDs, development of the long-term motivation system is taking too much time to complete; a system making a substantial part of the total management compensation contingent on the market cap is required;
- according to INEDs, there is a lack of attention from the SB to the Company's development strategy; meaningful annual strategic sessions involving the management and SB members are necessary (in our opinion, the acknowledgment by SB members of their insufficient involvement in strategy-related matters is rather a positive factor: the first case of SB members' self-criticism in our experience);
- due to the principal shareholder's (the Government of Russia) failure to nominate candidates to the Company's control and management bodies in due time (as was the case in 2015), the Company misses deadlines for the consideration of matters by the SB and is unable to timely disclose relevant information;
- information on the persons proposing agenda items for GSMs is not disclosed;
- the CGC recommendations for to set forth the need for a qualified majority of SB members or the majority of elected SB members' votes in the Articles of Association are only partially followed (4 of 10 key issues in terms of the Code were addressed).



## General shareholders meeting: activity and shareholder voting policies

In 2015-2016, over 85% of shareholders took part in GSMs, the participation ratio for portfolio and institutional investors was 40% of the free float. For 2 years, institutional investors have nominated and elected independent director Maria Gordon as a Supervisory Board member. The Government's representatives and the management welcome this practice. The key problem for institutional investors is nomination: not all investors are willing to undergo internal compliance procedures for candidate nomination purposes, many come across problems exercising their shareholder rights through foreign nominal holders where their shares are taken account of on a joint account with other clients. In this respect, shareholders highly appreciate the majority shareholder's (the Government) assistance in nominating independent directors. Voting at a GSM is much easier for shareholders than nomination of any candidate.



## Information on ALROSA shareholders according to Bloomberg data and disclosures by shareholders

Shareholder Name	Voting stake	Comment on voting
RUSSIAN FEDERATION	33.03	No voting policy, Rosimushchestvo votes as instructed by the Government of Russia.
SAKHA REPUBLIC	25	Voting policy is not available (not disclosed)
ADMINISTR. DISTRICTS OF SAKHA REPUBLIC	8	Voting policy is not available (not disclosed)
MASSACHUSETTS MUTUAL LIFE INS	2.72	Voting policy is not available (not disclosed)
LAZARD LTD	1.19	Commitment to ESG factors is disclosed and related approaches to voting specified, among others. The shareholder follows recommendations from proxy advisory firms. The standard approach assumes that the shareholder takes part in voting and votes, in particular, for independent directors. Voting is not publicly disclosed, the company publishes an aggregate report for the corporate season (year/quarter). No participation in nomination of candidates to the Board of Directors (BoD) / SB.
VANGUARD GROUP	1	At the 2016 AGM, the shareholder voted for the INED nominated by minority shareholders. The shareholder discloses its approaches to voting at GSmS as well as the way it voted in the last corporate season. The shareholder does not nominate BoD/SB candidates, but supports, according to the generally disclosed approaches to voting, the idea of nominating at least 20% of INEDs by a group of shareholders holding at least 3% of the company's shares in the preceding 3 years, for example. The shareholder follows recommendations from proxy advisory firms.
JPMORGAN AM/IM	0.95	The shareholder annually discloses the voting policy in various regions (North America, Europe, Middle East, Africa, Central America, South America, Asia). The voting takes into account recommendations of regional CG Codes. The actual voting data may be provided at the client's request within 7 years.
GENESIS ASSET MANAGERS LLP	0.86	The shareholder joined other shareholders in nominating and electing independent directors at the AGM in 2016. The shareholder publicly discloses the voting policy, its commitment to the UK Stewardship Code and actual voting results at the AGM in the last 5 years. Recommendations of proxy advisory firms are followed.
CAPITAL GROUP COMPANIES INC	0.81	The shareholder discloses the general voting policy and sometimes mentions the voting. Actual voting results are only disclosed as requested by the client.
BLACKROCK	0.76	The shareholder discloses both global corporate governance principles and regional approaches to voting and engagement with companies. Information on voting in the last corporate season is disclosed. The shareholder did not vote at the AGM in 2016. Recommendations of proxy advisory firms are followed.
NORGES BANK	0.63	At the 2016 AGM, the shareholder voted for an independent director nominated by minority shareholders. The shareholder discloses the voting policy and the way it actually voted in the last 4 years. The shareholder has so far not nominated BoD/SB candidates in Russia, unlike other countries. Recommendations of proxy advisory firms are followed.
EAST CAPITAL ASSET MANAGEMENT AB	0.47	ESG factors are taken account of in the investment policy; the shareholder actively nominates and votes on candidates, including active participation in ALROSA's general shareholders meetings. The shareholder is a signatory of PRI.



# General shareholders meeting: disclosure of information

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- the materials related to GSMs are disclosed in the English and Russian languages 30 days prior to such a meeting, according to the rules of corporate by-laws;
- the materials indicate the persons proposing candidates to the Supervisory Board and the Auditing Committee (AC);
- a list of amendments, including the rationale for changes, is attached to the Company's restated by-laws;
- the timeframe for proposing agenda items and candidates to the SB/AC is increased to 75 days, one of the longest deadlines among Russian companies;
- the annual report provides data on related party transactions approved by the Supervisory Board and the GSM in the reporting year, including information on the transaction counterparty, parties in interest and the corporate body approving the transaction.

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- the materials related to GSMs:
  - do not provide information on the proposed remuneration payable to auditors for audit and non-audit services and other material terms of the contracts with auditors, as well as details of the tenders for audit services, including tender participants and their bids, as required by clause 5.4.5 of the General Meeting of Shareholders Regulation, in the section of auditor-related information and in the explanatory note);
  - do not disclose information on the persons proposing GSM agenda items, except for candidates to the SB/AC;
  - do not provide meaningful explanations and the economic feasibility of allocating some of the net profit for corporate needs. The profit distribution is actually based on the Government's instructions and laws, as well as the requirement of the dividend policy (approved in 2013) to earmark at least 35% of the net profit according to IFRS standards for dividends.

## Notes on the results of voting at GSMs

A review of the 2015 general shareholders meeting (GSM) voting results revealed a substantial percentage of ballot papers recognized as invalid: 2.44% in the process of election of SB members (the cost of this package being RUB 16.6 billion as of 09/30/2016), 1.18% (RUB 7.5 billion) in the process of approving the restated Articles of Association and profit distribution. Given the cost of the packages, the errors were most likely committed either by portfolio investors when instructing the custodians or by the custodians when converting the client's instructions into the marks in the ballot paper. Such cases, anyway, pose risks of an adverse voting outcome for shareholders, for example, when SB members are elected (2.44% is almost one-half of the SB passing score).



# Supervisory Board

## SB Chairman

*Anton Siluanov*

(representing the Russian Federation),  
the Ministry of Finance of Russia;  
no shareholding in the Company;

## Chair of the Committee for Audit

*Maria Gordon\** (INED)

no shareholding in the Company;

## Senior independent director

*Oleg Grinko\** (INED)

Adviser to CEO on investments and external relations, PERESVET-  
Invest Group, no shareholding in the Company;

*Oleg Fedorov\** (INED)

Adviser to Head of Rosimushchestvo (on a voluntary basis)  
no shareholding in the Company;

## Chair of the Committee for HR and Remuneration

*Valentina Lemesheva* (INED)

no shareholding in the Company;

*Pavel Ulyanov* (INED)

Head of the Energy Business, RUSAL Global Management B.V., no  
shareholding in the Company.

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\* *The API was able to meet with 3 of the 5 INEDs.* Please find below the summary of SB members' comments including the API's expert opinion based on the results of these meetings. We appreciate the members' participation in the interview and believe that such annual meetings with investors, shareholders are extremely useful for assessing the SB performance and making decisions on the voting for SB candidates at GSmS, among other things.



## Supervisory Board (SB): domestic and international practice

SB activity aspect	Anglo American plc	Rio Tinto plc	Dominion Diamond Corporation	PJSC ALROSA
INEDs/total number of SB members	9 of 12 (no more than 13 under the charter)	9 of 12	6 of 9	5 of 15
Participation in meetings of SB and committees in 2015 (attendances/no. of meetings)	BoD: 6 meetings, two BoD members missing 1 meeting each. Audit and Remuneration Committees: 4/4, 3/3 (100% attendance)	BoD: 100% (9 meetings); Audit and Remuneration Committees: 100% attendance.	BoD: 100% participation in 31 meetings, except for 3 BoD members missing 1, 2 and 3 meetings, respectively. Committees: 100% participation	SB: 6 of 15 meetings were held in presentia. (Note: the attendance report contains contradictory figures). Audit and Remuneration Committees: 100%, with cases of participation in physical meetings through expressions in writing.
Remuneration of SB members, actual payments based on 2015 performance	Subject to revision every 5 years, 5% adjustment for inflation possible. Actual remuneration: £724 thousand to Chair of the BoD, £110-140 thousand to chairs of committees, £80 thousand to SB members.	Basic component: £750K to Chair of the BoD, £90K to BoD member, additional payment of £40K to INED, £35K to Chair of Audit Committee, £20K to Audit Committee member, £30K to Chair of Remuneration Committee, £15K to Remuneration Committee member. Actual: \$1,116K to Chair, \$218K-340K to members* data disclosed in US dollars	Basic component (2017): C\$80K to BoD member + C\$1,500 per meeting, C\$15K to Audit Committee member, C\$10K to Remuneration Committee member + C\$1,500 per committee meeting, additional payment of C\$20K to senior INED, initial grant in phantom deferred stock C\$50K (in case of BoD membership termination). Actual payments (2016): C\$116K-182K, (smaller payment to new SB members)	Basic component: RUB 4 million, bonus payments to SB Chair (+50%) and in the Committee (+20%). Deductions for non-attendance of meetings. Actual payments: RUB 3.4-6 million to each SB member entitled to remuneration.

\*The basic component of remuneration of members of PJSC ALROSA's Supervisory Board is below that of peers referred to above.





## Supervisory Board: practical activity aspects

*In the period under review* (2015, 9 months of 2016), the SB held 23 meetings, 8 of them (35%) in the form of joint attendance. *32% of all the agenda items addressed were related-party transactions for a total amount of more than RUB 6.4 billion and \$711 million*, including a loan agreement with Vilui Hydroelectric Station-3 in the amount of RUB 5.5 billion at a rate of 0.5% p.a. to be repaid by installments from 2016 to 2021, 2 BoD members voted "Against" (one of them being active re-elected INED) and 1 "Abstained".

*In this period, the Supervisory Board addressed the following significant issues:*

- reports and changes to the long-term management program to 2023 (2 issues);
- approval and adjustment of KPIs and the Company's consolidated budget (3 for each);
- remuneration of the management team (5);
- internal audit-related issues (7);
- charity (4 issues, including 1 of systemic relevance, namely, the efficiency of these expenses).

Independent directors (INEDs) confirm the need for the SB to pay closer attention to strategy development, including scenario forecasts. *The current Supervisory Board members have initiated an update of the company's strategy, to be completed in 2017.* Among other things, mandatory full-fledged "strategic sessions" for the management and SB members and more intensive marketing and research activities are being considered. In fact, the Supervisory Board addressed the long-term development program twice, one of the issues in absentia.

Of particular note is also the absence of disclosed information on the consideration of matters pertaining to the risk management system in the period under review, including related reports. The only thing mentioned is the approval of a risk management regulation.

The senior independent director has taken a more principled approach insisting that it is the Supervisory Board that should lay down the corporate strategy, rather than the management team and/or hired consultants. "Shaping a strategy is the prerogative and responsibility of the Supervisory Board - the consultants cannot draw up a strategy without the company, and the management team without the involvement of executors at the upper or lower level." One of the INEDs adds that the Company should have own proper information sources in addition to consultants.

In our opinion, this is one of the most active Supervisory Boards, as evidenced, among other things, by feedback from the INEDs appreciating the high activity and good preparation of SB members representing the Government, the Sakha Republic (Yakutia) and of INEDs themselves for SB meetings and their willingness to collaborate with the management team on a full scale at Committees and directly. *Due to a major replacement of SB members nominated by the Government in 2015, the SB needed a period of adaptation which ended in the 2015/2016 corporate year (the SB approved an inauguration program for newly elected SB members).*

*The SB Chair is committed to pragmatism in managing the Board*, hearing both representatives of the Sakha Republic and INEDs. Agenda items can be adjusted during consideration, the Chairman consistently takes appropriate action to resolve conflicts of interest, in case of imbalance in the interests and opinions of SB members. The number of convened physical SB meetings is sufficient, INEDs welcome the chairmanship of the Government's representative as their opinions are taken account of, even though many decisions are approved by a simple majority vote. There is no communication between the Chairman and the INEDs outside SB meetings, but *INEDs confirm that the Chairman responds almost immediately to their requests or proposals.*



## Supervisory Board: practical activity aspects

*The senior INED competently monitors and coordinates INEDs' activities, constantly interacts with the management so as to increase the overall performance.*

The Chair of the Committee for Audit (INED) especially noted the extremely high activity and proficiency of the senior INED Oleg Grinko and INED Oleg Fyodorov. *We also appreciate the extremely positive impression from the contacts with all three INEDs.* In 2015–2016, the INEDs visited the Company's main production facilities and major customers (site holders) in Europe and Asia. While yielding better understanding of process flows and business processes, this also contributed essentially to the development by the SB of a sales, marketing and motivation system for the Company. *We recommend that these INEDs engage in the Company's investor relations so as to demonstrate, among others, an effective SB and to present an independent opinion on the CG system efficiency.* According to the INEDs, no such practice currently exists at the Company.

The SB motivation, according to INEDs, is drastically lower. *SB members are not motivated to serve on the committees, decisions on payments are made at the AGM at the end of the year, not at the beginning.*

- The SB and the management team are considering a **long-term motivation system for the management** linked to the Company's stock price, but the preparation and approval process is clearly longer than expected (several years). In the meantime, the Company has a short-term remuneration system (up to 1 year) linked, among other things, to a list of financial performance results. INEDs highly appreciate the short-term motivation system, but understand the need for a long-term remuneration component.

*We note the Company's controversial practice of adjusting the KPIs and annual budget parameters relating to the reporting period 1 month before the reporting period ends.*

For instance, as part of the disclosure procedure, the SB considered adjusted KPIs and 2015 budget parameters on November 19, 2015! According to disclosed materials, the budget was adjusted to reflect changes in the diamond market environment and macroeconomic factors, including the inflation rate and exchange rates. ALROSA's diamond production guidance was confirmed at 38 million carats. Sales plans were revised based on the global diamond market activity. According to INEDs, some of the SB members opposed this practice. *Responding to our inquiry, the INEDs commented that the SB subsequently adopted the top management's proposal to motivate the Company's middle managers, but a decision was also made to reduce the bonuses payable to top managers* (members of the Management Board), assuming their joint partial responsibility for the Company's performance result. The need for such adjustments one month before the end of the reporting period remains an open question; in our opinion, the Company should better abandon this practice.

According to INEDs, no *benchmark* is used consistently for business planning, KPI determination and motivation purposes.

## Committee for Audit

The Committee for Audit is mostly composed of INEDs (3 of 5). Its Chair is also an independent director (INED).

- Despite the CGC recommendation to have a Committee for Audit composed entirely of INEDs, the Chair is comfortable with some of the members representing the major shareholders. All members of the Committee for Audit show adequate commitment.



## Committee for Audit (continued)

- According to the Chairman of the Committee for Audit, the approved work schedule of the internal audit department is extremely tight, with risks of underperformance given the current workforce and amount of financing. The committee suggests an independent audit of the internal audit system efficiency and separation of internal control.
- Our recommendation is to consider the Committee for Audit's participation in the hotline handling possible abuse issues.

## Committee for HR and Remuneration

The Committee for HR & Remuneration entirely consists of independent directors (INEDs).

The HR & Remuneration Committee has the standard scope of authority, the range of issues it considers is consistent with the general practice.

- Among other things, the HR & Remuneration Committee addressed performance assessment of SB members; according to INED information, an independent consultant was engaged for that purpose in 2014. The proposal of SB candidates for the following corporate year to the shareholders was not considered or formalized.

## Supervisory Board's best practices concerning related-party transactions

The SB has approved the requirements for the preparation of materials concerning related-party transactions submitted to the SB and the GSM for approval:

- the draft resolution should contain information on the parties to the transaction, the type of the contract, the subject and all material terms of the transaction, including the deadline for the performance of obligations under the transaction, the total amount (limit) and the price of the subject matter;
- rationale for the counterparty as the sole supplier; comparison of its prices for ALROSA with those offered to other consumers and/or calculation of the supplier's estimate profit rate.

The materials for a SB meeting should include the following:

a) information justifying the price of the transaction (a valuation report or results of a market price research, including information on the procurement procedure (bidders, final bids, description of the procurement procedure, main selection and assessment criteria, procurement identification data), or reasons for the omission of pro-

curement procedures or for non-competitive transactions (if any) and alternative transaction options, with documentary evidence attached);

b) information on the compliance of the transaction submitted to the SB for approval with the Company's consolidated budget;

c) economic effect of the transaction (profit, cost reduction, etc.), with relevant justification;

d) counterparty details (capital structure, share of transactions with ALROSA in the counterparty's total earnings, ROE);

e) information on the parties in interest in relation to the transaction;

f) minutes of the meetings held by SB committees which included preliminary consideration of the transaction.

Of special note is an expanded list of reasons for recognizing SB members' related-party interest in transactions: a SB member or his/her affiliate vested with managerial authority at the company's counterparty while being technically outside its executive bodies qualifies as a party in interest.



## Essential CG aspects

### Regulation on the SB activity

The Company's Articles of Association determine the structure of the SB authority, depending on the quorum required for decision-making.

Corporate by-laws (internal documents) do not require that the key issues be only considered at physical meetings, but formulate a number of issues where resolutions can only be passed by a qualified majority or a majority of all elected SB members. Most of such issues, however, are subject to "stricter" quorum requirements under the law. Dissenting opinions of SB members are attached to the related minutes of the SB meetings as integral parts. SB members have the right to propose alternative draft resolutions on issues considered.

The Company has approved an inauguration program for newly elected SB members (although the results of its implementation, if any, remain undisclosed).

### Engagement with external auditor

ALROSA selects external auditors through bidding. The SB and the Committee for Audit set the initial (maximum) price the Company is ready to pay for audit services. In 2016, JSC PricewaterhouseCoopers Audit won the bidding for the right to audit ALROSA's statements based on RAS (Russian GAAP) accounting standards in 2016-2018 (the cost of services is RUB 22.5 million, 64.4% of the initial bid price) and the consolidated financial statements of ALROSA Group based on In-

ternational Financial Reporting Standards (IFRS) in 2016-2018 (RUB 81 million, 75.2% of the initial price). In 2015, FBK audited ALROSA's RAS statements (the cost of services was RUB 8 million, plus RUB 2.9 million paid for the additional long-term strategy audit, RUB 3.4 million for the actuarial valuation), while JSC PricewaterhouseCoopers Audit audited the Company's IFRS statements (the cost of services was RUB 24.75 million).

ALROSA will not disclose the specifics of interaction between members of the SB Committee for Audit and auditors (holding Committee meetings or meetings with auditors without the management's representatives in attendance, principles of interaction during competitive auditor selection procedures, proportion of the cost of non-audit services in the total contractual obligations).

### Dividend policy

The Company has approved and officially disclosed (on the website) its dividend policy. The SB passes recommendations on the amount of dividends by a three-quarter majority vote. The basic principle the SB follows is that the Company should earmark at least 35% of the net profit under consolidated IFRS financial statements. In 2015, the dividend practice was based on the Government's instructions and met the target level of 50% of the consolidated profit, which brings the Company close to its foreign peers in terms of dividend payout.

<i>million USD / million £ / million USD / million rubles</i>	<i>Anglo American plc</i>	<i>Rio Tinto plc</i>	<i>Dominion Diamond Corporation</i>	<i>PJSC ALROSA</i>
2015 profit (incl. 2014 for Rio Tinto plc)	-5,624	5,661	67.09	30,674
2015 dividends (including interim dividends)	1,078	5,892	34.05	15,393
Payout ratio (the ratio of dividends to earnings)	-	104%	51%	50%

The Company, just like most of PJSCs in Russia does not pay interim dividends, as opposed to foreign peers.



## Essential CG aspects (continued)

### Charity & social responsibility

The Company operates in 9 regions of the Russian Federation, its headcount exceeds 30,000 employees.

According to the survey, *the SB pays due attention to these issues formulating its recommendations to the management on the charity process regulation*. The SB supports the management team in the development of social obligations to ensure stability among employees and in the region of operation. In 2015, ALROSA provided financial, patronage, sponsor and targeted support in the amount of **RUB 2,573.9 million**; RUB 81.7 million were spent under the program of regional development of the Sakha Republic's (Yakutia) uluses (districts) in 2015, RUB 208.5 million under the "Culture and Sports" program, RUB 245.4 million under the "Health" program, RUB 876.1 million under the

"Health Resort Treatment and Recreation" program (including RUB 717.1 million out of the Company's profit) and RUB 1,121.9 million under the "Housing" program.

In 2014-2015, ALROSA's expenses for anniversary celebrations (the 50th anniversary of the Mirninsky district, the 60th anniversary of Mirny town and the diamond mining industry, the 70th anniversary of Russia's Great Victory) exceeded RUB 1 billion.

#### Expenses incurred by conditional peers

- Anglo American plc: \$124.15 million under the "Corporate social investment" program in 2015.
- Rio Tinto plc: \$184 million under the "Communities and Social Performance" program in 2015.

### Disclosure of information on the management remuneration system at ALROSA's international peers

Approximate ratio of the CEO remuneration at ALROSA to peers in 2015	Anglo American plc	Rio Tinto plc	Dominion Diamond Corporation	PJSC ALROSA
Fixed component	42%	27%	35%	37%
Bonuses (annual)	32%	45%	16%	63%
Long-term	26%	28%	49%	0%

Disclosure: in 2015, members of the Company's Management Board received the following payments: RUB 229.1 million in salaries, RUB 396.3 million in premiums, RUB 103.7 million in compensations and other benefits. The annual report discloses the Company's key performance indicators; how they are pegged to the payments remains undisclosed. The motivation system is not described.



	<i>Anglo American plc</i>	<i>Rio Tinto plc</i>	<i>Dominion Diamond Corporation</i>	<i>PJSC ALROSA</i>
Disclosure, all payment, incl. in the form of stock, estimates of future payments	CEO, CFO, CTO	CEO+CFO (including calculations) + 8 key managers, without calculations	6 top managers	Members of collective executive body in aggregate, including sole executive body (CEO)
KPIs influencing the short-term (annual) variable remuneration component (incl. the KPI relative weight, if any)	50% and higher: EPS; under 50%: individual KPIs linked to the strategy, less reduction if safety targets are not met.	Safety 20%, base profit 12.5%, adj. base profit 12.5%, FCF 12.5%, adj. FCF 12.5%, individual component: 30% (Business transformation, Development functions, Cost and capital reductions, performance delivery, Leadership and engagement)	Safety 24%, turnover ratio reduction 10%, EBITDA 33%, actual production / target 16.5%, cost per tonne produced 16.5%, individual component: 25%	N/a Based on annual report: TSR, increase in dividends, adjusted EBITDA margin, ROE, net profit, production, revenue, cost of sales/revenue, accident, net debt/EBITDA
KPIs influencing the long-term variable remuneration component	50%: ROCE, 50%: TSR of leading peers in industry and UK	TSR in relation to Euromoney Global Mining Index, TSR in relation to Morgan Stanley Capital World Index (MSCI), EBIT margin vs. peers (33.3% each)	Strategic performance indicators + TSR + EBITDA	Depends on the policy adopted, n/a
Long-term bonuses	money +shares + phantom stock (3+2 years)	Money + deferred stock (3 years)	Money + shares + option	Money

## Disclosure

The company does not disclose the top management remuneration system, including the dependence of actual payments on the achievement of key performance indicators. *In our opinion, taking into account international practices, the Supervisory Board should at least consider disclosing the top management remuneration system, including the fixed and variable parts, long-term and short-term motivation components and the dependence between payments in the reporting period and the KPI achievement.* The Company's independent directors also highlight the need to implement a long term-term motivation system.

Mandatory information disclosure by the company is in accordance with the law. *Disclosure of the individual voting by SB members in reports on the resolutions passed by SB should be viewed as good practice.* Besides, *in most cases where related-party transactions are approved by the SB, the Company discloses essential parameters of such transactions* (including the parties to it, amount/limits, party in interest), which should also be regarded in a positive way.