PJSC ALROSA

INTERNATIONAL ACCOUNTING STANDARD No. 34

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

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(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Notes	30 September 2016	31 December 2015
Assets			
Non-current assets			
Goodwill		1,439	1,439
Property, plant and equipment	7	287,361	283,963
Investments in associates and joint ventures	4	4,929	6,891
Deferred tax asset		1,989	1,919
Available-for-sale investments		1,926	711
Long-term accounts receivable	9	3,129	3,453
Total non-current assets		**300,773**	**298,376**
Current assets			
Inventories	8	98,248	94,296
Prepaid income tax		2,839	6,258
Current accounts receivable	9	10,358	15,632
Bank deposits	5	47,316	-
Cash and cash equivalents	6	32,949	20,503
Total current assets		**191,710**	**136,689**
Total assets		**492,483**	**435,065**
Equity			
Share capital	10	12,473	12,473
Share premium		10,431	10,431
Treasury shares	10	-	(15)
Retained earnings and other reserves	10	225,677	128,853
Equity attributable to owners of PJSC ALROSA		**248,581**	**151,742**
Non-Controlling Interest in Subsidiaries		**1,177**	**(257)**
Total equity		**249,758**	**151,485**
Liabilities			
Non-current liabilities			
Long-term debt	11	147,479	197,467
Provision for pension obligations	15	14,548	10,556
Other provisions		6,138	5,841
Deferred tax liabilities		13,343	13,966
Total non-current liabilities		**181,508**	**227,830**
Current liabilities			
Short-term debt and current portion of long-term debt	12	23,928	25,692
Trade and other payables	13	27,099	23,047
Income tax payable		2,033	921
Other taxes payable	14	8,114	6,001
Dividends payable	10	43	89
Total current liabilities		**61,217**	**55,750**
Total liabilities		**242,725**	**283,580**
Total equity and liabilities		**492,483**	**435,065**

Signed on 18 November 2016 by the following members of management:

Andrey V. Zharkov
President

Svetlana V. Linnik
Chief accountant

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

		Three months ended		Nine months ended	
	Notes	**30 September 2016**	**30 September 2015**	**30 September 2016**	**30 September 2015**
Revenue	16	68,896	40,628	255,563	172,496
Cost of sales	17	(27,243)	(18,700)	(96,496)	(73,580)
Royalty	14	(302)	(302)	(907)	(907)
Gross profit		**41,351**	**21,626**	**158,160**	**98,009**
General and administrative expenses	18	(2,799)	(2,190)	(8,833)	(7,403)
Selling and marketing expenses	19	(774)	(709)	(2,506)	(2,195)
Other operating income	20	219	1,983	853	1,879
Other operating expenses	21	(4,288)	(5,973)	(19,897)	(15,770)
Operating profit		**33,709**	**14,737**	**127,777**	**74,520**
Finance income/(costs), net	22	1,169	(35,323)	19,774	(36,736)
Share of net profit of associates and joint ventures	4	864	104	2,055	1,267
Profit/(loss) before income tax		**35,742**	**(20,482)**	**149,606**	**39,051**
Income tax	14	(9,182)	5,304	(32,661)	(6,831)
Profit/(loss) for the period		**26,560**	**(15,178)**	**116,945**	**32,220**
Other comprehensive income/(loss)					
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations, net of tax	10	(602)	(214)	(3,822)	(3,091)
Total items that will not be reclassified to profit or loss		**(602)**	**(214)**	**(3,822)**	**(3,091)**
Items that will be reclassified to profit or loss:					
Currency translation differences, net of tax	10	(32)	(27)	(86)	(307)
Change in fair value of available-for-sale investments	10	412	16	450	16
Total items that will be reclassified to profit or loss		**380**	**(11)**	**364**	**(291)**
Total other comprehensive loss for the period		**(222)**	**(225)**	**(3,458)**	**(3,382)**
Total comprehensive income/(loss) for the period		**26,338**	**(15,403)**	**113,487**	**28,838**
Profit/(loss) attributable to:					
Owners of PJSC ALROSA		26,226	(15,430)	115,156	31,138
Non-controlling interest		334	252	1,789	1,082
Profit/ (loss) for the period		**26,560**	**(15,178)**	**116,945**	**32,220**
Total comprehensive income/(loss) attributable to:					
Owners of PJSC ALROSA		25,990	(15,655)	111,522	27,756
Non-controlling interest		348	252	1,965	1,082
Total comprehensive income/(loss) for the period		**26,338**	**(15,403)**	**113,487**	**28,838**
Basic and diluted earnings per share for profit/(loss) attributable to the owners of PJSC ALROSA (in Roubles)	10	3.56	(2.10)	15.64	4.23

(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

		Nine months ended	
	Notes	**30 September 2016**	**30 September 2015**
Net cash inflow from operating activities	23	**126,027**	**60,509**
Cash flows from investing activities			
Purchase of property, plant and equipment		(21,948)	(24,690)
Proceeds from sales of property, plant and equipment		260	221
Interest received	22	2,339	2,520
Proceeds from (acquisition)/sales of available-for-sale investments		(738)	198
Dividends received from associates and joint ventures		4,590	1,663
Proceeds from disposal of subsidiaries, net of cash disposed of		388	(425)
Cash transfer to deposit accounts		(49,585)	-
Net cash outflow from investing activities		**(64,694)**	**(20,513)**
Cash flows from financing activities			
Repayments of loans		(23,175)	(33,981)
Loans received		45	20,252
Sale/(purchase) of treasury shares		621	(616)
Interest paid		(6,693)	(7,137)
Dividends paid		(15,868)	(11,675)
Net cash outflow from financing activities		**(45,070)**	**(33,157)**
Net increase in cash and cash equivalents		**16,263**	**6,839**
Cash and cash equivalents at the beginning of the period	6	20,503	21,693
Effect of exchange rate changes on cash and cash equivalents		(3,817)	51
Cash and cash equivalents at the end of the period	6	**32,949**	**28,583**

(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

		Attributable to owners of PJSC ALROSA							
	Number of shares outstanding	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves (note 10)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2015	**7,364,965,630**	**12,473**	**10,431**	**-**	**(1,419)**	**115,566**	**137,051**	**123**	**137,174**
Comprehensive income/(loss)									
Profit for the period		-	-	-	-	31,138	31,138	1,082	32,220
Other comprehensive loss		-	-	-	(3,382)	-	(3,382)	-	(3,382)
Total comprehensive income / (loss) for the period		**-**	**-**	**-**	**(3,382)**	**31,138**	**27,756**	**1,082**	**28,838**
Transactions with owners									
Dividends (note 10)						(10,816)	(10,816)	-	(10,816)
Purchase of own shares	(8,565,300)	-	-	(15)	-	(601)	(616)	-	(616)
Sale of non-controlling interest		-	-	-	77	-	77	(77)	-
Dividends of subsidiaries to non-controlling shareholders		-	-	-	-	-	-	(475)	(475)
Total transactions with owners	**(8,565,300)**	**-**	**-**	**(15)**	**77**	**(11,417)**	**(11,355)**	**(552)**	**(11,907)**
Balance at 30 September 2015	**7,356,400,330**	**12,473**	**10,431**	**(15)**	**(4,724)**	**135,287**	**153,452**	**653**	**154,105**

Balance at 1 January 2016	**7,356,366, 330**	**12,473**	**10,431**	**(15)**	**(5,944)**	**134,797**	**151,742**	**(257)**	**151,485**
Comprehensive income/(loss)									
Profit for the period		-	-	-	-	115,156	115,156	1,789	116,945
Other comprehensive (loss)/income		-	-	-	(3,634)	-	(3,634)	176	(3,458)
Total comprehensive income / (loss) for the period		**-**	**-**	**-**	**(3,634)**	**115,156**	**111,522**	**1,965**	**113,487**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(15,393)	(15,393)	(442)	(15,835)
Sale of own shares	8,599,300	-	-	15	-	606	621	-	621
Sale of non-controlling interest		-	-	-	89	-	89	(89)	-
Total transactions with owners		**-**	**-**	**15**	**89**	**(14,787)**	**(14,683)**	**(531)**	**(15,214)**
Balance at 30 September 2016	**7,364,965,630**	**12,473**	**10,431**	**-**	**(9,489)**	**235,166**	**248,581**	**1,177**	**249,758**

1. ACTIVITIES

The core activities of Public Joint Stock Company ALROSA (“the Company”) and its subsidiaries (“the Group”) are exploration and extraction of diamond reserves and marketing and distribution of raw and cut diamonds.

The Company was registered on 13 August 1992 in the Republic of Sakha (Yakutia), which is located within the Russian Federation. In 2011 the Company was reorganized to Open Joint Stock Company and, subsequently in 2015, following the changes in Russian legislation, to Public Joint Stock Company.

The Group operates mining facilities in Mirny, Udachny, Aikhal, Nyurba and Anabar (located in Eastern Siberia) and Arkhangelsk. Licenses for the Group’s major diamond deposits expire between 2019 and 2048. Management believes the Group will be able to extend the licenses’ terms after they expire.

As at 30 September 2016 and 31 December 2015 the Company’s principal shareholders are the Federal Agency for State Property Management on behalf of the government of the Russian Federation (33.0 per cent of shares) and the Ministry of the property and land relations of the Republic of Sakha (Yakutia) on behalf of the Republic of Sakha (Yakutia) (25.0 per cent of shares).

The Company is registered and its principal operating office is situated at 6, Lenin Street, Mirny, 678170, Republic of Sakha (Yakutia), Russia.

The Group has seasonal working capital requirements as most of a year’s supplies must be purchased in the second quarter and transported to their destination prior to the end of September as a result of the remote location of, and extreme climatic conditions at the Group’s mining operations in the Republic of Sakha (Yakutia). The Group’s major areas of operations can be reached by water only during a relatively short navigation period (May to September). During that time the Group accumulates stocks of consumables and production materials for production needs to last until the next navigation period. Additional factors contributing to the seasonality of the Group’s operations include a decrease in ore processing capacity in summer as a result of routine maintenance of certain ore treatment plants.

2. BASIS OF PRESENTATION

The condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). These condensed consolidated interim financial statements should be read together with the consolidated financial statements for the year ended 31 December 2015 prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Group companies incorporated in Russia maintain their statutory accounting records and prepare statutory financial reports in accordance with the Regulations on Accounting and Reporting of the Russian Federation (“RAR”) and their functional currency is the Russian Rouble (“RR”). The Group companies incorporated in other countries maintain their statutory accounting records in accordance with relevant legislation and in the appropriate functional currency. The Group’s condensed consolidated interim financial statements are based on the statutory accounting records, with adjustments and reclassifications for the purpose of fair presentation in accordance with IAS 34.

The preparation of condensed consolidated interim financial statements in conformity with IAS 34 requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The most significant estimates relate to valuation of inventories, investments, bad debt provision, deferred taxation, useful life of property, plant and equipment, reserve estimates used to calculate depreciation, asset retirement obligation, pension and other post-retirement benefit costs. Actual results could differ from these estimates.

The official US dollar (“US$”) to RR exchange rates as determined by the Central Bank of the Russian Federation were 63.1581 and 72.8827 as at 30 September 2016 and 31 December 2015 respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 70.8823 and 79.6972 as at 30 September 2016 and 31 December 2015, respectively.

(in millions of Russian roubles, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2015 with the exception of income tax expense, which is recognised based on management's best estimate of the annual effective income tax rate expected for the full financial year.

New accounting developments

The following amendments to standards and interpretations became effective for the Group from 1 January 2016:

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016);
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016);
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016);
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016);
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016);

These amendments to standards and interpretations did not have a material impact on these condensed consolidated interim financial statements.

Certain new standards, interpretations and amendments to standards and interpretations, as disclosed in the consolidated financial statements for the year ended 31 December 2015, have been issued but are not yet effective and have not been early adopted by the Group. The Group is currently considering the implications of these new accounting pronouncements, their impact on its consolidated financial statements and the timing of their adoption. No new standards, amendments and interpretations to existing standards were issued during the nine months ended 30 September 2016.

4. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

Name	Principal activity	Place of business	Notes	Percentage of ownership interest held: 30 September 2016	Percentage of ownership interest held: 31 December 2015
ALROSA Finance S.A.	Financial services	Luxembourg		100.0	100.0
OJSC ALROSA-Gaz	Gas extraction	Russia		100.0	100.0
JSC Almazy Anabara	Diamonds production	Russia		100.0	100.0
JSC Geotransgaz	Gas extraction	Russia		100.0	100.0
Urengoy Gaz Company Ltd.	Gas extraction	Russia		100.0	100.0
JSC Nizhne-Lenskoe	Diamonds extraction	Russia		100.0	100.0
OJSC Viluyskaya GES-3	Electricity production	Russia		99.7	99.7
PJSC Severalmaz	Diamonds extraction	Russia		99.6	99.6
Arcos Belgium N.V.	Diamonds trading	Belgium		99.6	99.6
PJSC ALROSA-Nyurba	Diamonds extraction	Russia		87.5	87.5
Hydroshikapa S.A.R.L	Electricity production	Angola		55.0	55.0

As at 30 September 2016 and 31 December 2015 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

(in millions of Russian roubles, unless otherwise stated)

4. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

4.1. Associates and joint ventures

			Percentage of ownership interest held at		Carrying value of investment at	
Name	**Principal activity**	**Place of business**	**30 September 2016**	**31 December 2015**	**30 September 2016**	**31 December 2015**
Catoca Mining Company Ltd.	Diamonds extraction	Angola	32.8	32.8	3,413	4,429
CJSC MMC Timir	Iron-ore production	Russia	49.0	49.0	1,304	2,207
Other		Russia	20-50	20-50	212	255
Total					**4,929**	**6,891**

All of the above entities are associates except for CJSC MMC Timir which is a joint venture.

As at 30 September 2016 and 31 December 2015 the percentage of ownership interest of the Group in its associates is equal to the percentage of voting interest.

The Group's share of net profit/(loss) of associates and joint ventures is as follows:

	Three months ended		Nine months ended	
	30 September 2016	**30 September 2015**	**30 September 2016**	**30 September 2015**
Catoca Mining Company Ltd.	930	89	2,142	1,231
CJSC MMC Timir	17	12	(5)	(14)
Other	(83)	3	(82)	50
Total Group's share of net profit of associates and joint ventures	**864**	**104**	**2,055**	**1,267**

Catoca Mining Company Ltd. ("Catoca") is a diamond-mining venture located in Angola. In April 2016 Catoca declared dividends for the year ended 31 December 2015; the Group's share of these dividends amounted to RR'mln 2,560 before taxation in the amount of RR'mln 256. Currency translation loss recognised in the other comprehensive income for the nine months ended 30 September 2016 in respect of investment in Catoca totalled RR'mln 598. In May 2015 Catoca declared dividends for the year ended 31 December 2014; the Group's share of these dividends amounted to RR'mln 2,068 before taxation in the amount of RR'mln 207. Currency translation loss recognised in the other comprehensive income for the nine months ended 30 September 2015 in respect of investment in Catoca totalled RR'mln 324.

As at 30 September 2016 the Group performed an assessment of investment in CJSC MMC Timir ("Timir") for impairment. The recoverable amount has been assessed by reference to value in use. In arriving at value in use, discount rate of 11.9 per cent has been applied to the post-tax cash flows expressed in nominal terms. The value in use was determined by estimating cash flows for a period of 25 years. As a result of the assessment the Group recognised an impairment of the investment in Timir in the amount of RR'mln 899. The key assumptions used to determine value in use included forecasted reduction in prices on iron-ore concentrate in the long-term perspective, increase in the amount of capital expenditure and defferal of the project launch by 2 years.

5. BANK DEPOSITS

	30 September 2016	**31 December 2015**
Deposits placed in JSC VTB Bank	34,000	-
Deposits placed in PAO Sberbank	6,316	-
Deposits placed in PAO ROSBANK	3,000	-
Deposits placed in AO ALFA-BANK	2,800	-
Deposits placed in JSC Gazprombank	1,200	-
Total bank deposits	**47,316**	**-**

As at 30 September 2016 the Group placed deposits in banks with deposit maturity dates exceeding three months and interest rates ranging from 9.45% to 10.5% and 1.06% respectively.

(in millions of Russian roubles, unless otherwise stated)

6. CASH AND CASH EQUIVALENTS

	30 September 2016	31 December 2015
Cash in banks and on hand	13,206	8,492
Deposit accounts with maturity dates less than three months	19,743	12,011
Total cash and cash equivalents	**32,949**	**20,503**

7. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	TOTAL
As at 1 January 2015			
Cost	355,100	51,545	406,645
Accumulated depreciation and impairment losses	(133,999)	(1,028)	(135,027)
Net book value at 1 January 2015	**221,101**	**50,517**	**271,618**
Changes during nine months ended 30 September 2015:			
Foreign exchange differences	709	(2)	707
Additions	8,235	17,606	25,841
Transfers	9,584	(9,584)	-
Disposal of subsidiaries – at cost	(1,157)	(5)	(1,162)
Disposal of subsidiaries – accumulated depreciation	367	-	367
Other disposals – at cost	(8,110)	(2,449)	(10,559)
Other disposals – accumulated depreciation	7,108	-	7,108
Change in estimate of provision for land recultivation	789	-	789
Depreciation charge for the period	(15,122)	-	(15,122)
As at 30 September 2015	**223,504**	**56,083**	**279,587**
Cost	365,150	57,111	422,261
Accumulated depreciation and impairment losses	(141,646)	(1,028)	(142,674)
Net book value at 30 September 2015	**223,504**	**56,083**	**279,587**
As at 1 January 2016			
Cost	372,165	56,430	428,595
Accumulated depreciation and impairment losses	(143,604)	(1,028)	(144,632)
Net book value as at 1 January 2016	**228,561**	**55,402**	**283,963**
Changes during nine months ended 30 September 2016:			
Foreign exchange differences	(668)	65	(603)
Additions	5,180	17,424	22,604
Transfers	29,264	(29,264)	-
Disposal of subsidiaries – at cost	(191)	-	(191)
Disposal of subsidiaries – accumulated depreciation	102	-	102
Other disposals – at cost	(4,089)	(171)	(4,260)
Other disposals – accumulated depreciation	3,837	-	3,837
Change in estimate of provision for land recultivation	134	-	134
Impairment of property, plant and equipment	(810)	-	(810)
Depreciation charge for the period	(17,415)	-	(17,415)
As at 30 September 2016	**243,905**	**43,456**	**287,361**
Cost	401,795	44,484	446,279
Accumulated depreciation and impairment losses	(157,890)	(1,028)	(158,918)
Net book value at 30 September 2016	**243,905**	**43,456**	**287,361**

Capitalised borrowing costs

During nine months ended 30 September 2016 borrowing costs totalling RR'mln 203 (nine months ended 30 September 2015: RR'mln 206) were capitalised in property, plant and equipment. For the nine months ended 30 September 2016 borrowing costs were capitalized at the weighted average rate of its general borrowings of 6.88 per cent per annum (nine months ended 30 September 2015: 6.02 per cent per annum).

(in millions of Russian roubles, unless otherwise stated)

8. INVENTORIES

	30 September 2016	31 December 2015
Diamonds	53,348	57,376
Ores and sands mined	17,807	14,560
Mining and other materials	24,409	19,654
Consumable and other supplies	2,684	2,706
Total inventories	**98,248**	**94,296**

9. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	30 September 2016	31 December 2015
Loans issued*	1,047	930
Consideration receivable for disposed interest in CJSC MMC Timir	894	1,381
Receivables from associates (note 25)	810	727
Advances to suppliers	279	220
VAT recoverable	13	11
Other receivables	86	184
Total long-term accounts receivable	**3,129**	**3,453**

Current accounts receivable	30 September 2016	31 December 2015
VAT recoverable	3,457	2,867
Trade receivables for supplied diamonds	1,216	350
Interest receivable on deposits	1,003	33
Advances to suppliers	765	743
Consideration receivable for disposed interest in CJSC MMC Timir	646	519
Loans issued	332	277
Prepaid taxes, other than income tax	114	4,881
Receivables from associates (note 25)	83	2,993
Other receivables	2,742	2,969
Total current accounts receivable	**10,358**	**15,632**

**The several loans issued of RR'mln 1,000 nominal value as at 30 September 2016 (31 December 2015: RR'mln 1,200) are collateralised by shares of OAO Pur-Navolok Otel and real estate. The management estimates that collateral taken exceeds the current value of the loans issued.*

Trade and other receivables are presented net of impairment provision of RR'mln 1,941 and RR'mln 1,129 as at 30 September 2016 and 31 December 2015, respectively.

10. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 30 September 2016 and 31 December 2015 and consists of 7,364,965,630 ordinary shares, including treasury shares, at RR 0.5 par value share. In addition as at 30 September 2016 and 31 December 2015 share capital includes hyperinflation adjustment totalling RR'mln 8,790, which was calculated in accordance with requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" and relates to the reporting periods prior to 1 January 2003.

Distributable profits

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. In accordance with the dividend policy approved by the Supervisory Council of the Company at least 35% of the net profit as reported in the IFRS consolidated financial statement of the Group is distributed for dividends payment. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation, and accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these condensed consolidated interim financial statements.

(in millions of Russian roubles, unless otherwise stated)

10. SHAREHOLDERS' EQUITY (CONTINUED)

Treasury shares

As at 30 September 2016 subsidiaries of the Group held no ordinary shares of the Company (31 December 2015: 8,599,300 shares). The Group's management effectively controls the voting rights of shares held by subsidiaries.

Earnings per share

Earnings per share have been calculated by dividing the profit attributable to owners of PJSC ALROSA by the weighted average number of shares outstanding during the period, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares. There are 7,363,704,790 and 7,360,055,832 weighted average shares outstanding for the three and nine months ended 30 September 2016, respectively (for the three and nine months ended 30 September 2015: 7,359,350,821 and 7,361,771,191 shares, respectively). There are no dilutive financial instruments outstanding.

Other reserves

	Currency translation reserve	Purchase of non-controlling interest	Available-for-sale investments	Recognition of accumulated actuarial loss	Total other reverves
Balance as at 1 January 2015	**395**	**(87)**	**41**	**(1,768)**	**(1,419)**
Actuarial loss on post employment benefit obligations	-	-	-	(3,091)	(3,091)
Sale of non-controlling interest	-	77	-	-	77
Change in fair value of available-for-sale investments	-	-	16	-	16
Currency translation differences	(307)	-	-	-	(307)
Balance as at 30 September 2015	**88**	**(10)**	**57**	**(4,859)**	**(4,724)**
Balance as at 1 January 2016	**499**	**(16)**	**57**	**(6,484)**	**(5,944)**
Actuarial loss on post employment benefit obligations	-	-	-	(3,822)	(3,822)
Sale of non-controlling interest	-	89	-	-	89
Change in fair value of available-for-sale investments	-	-	450	-	450
Currency translation differences	(262)	-	-	-	(262)
Balance as at 30 September 2016	**237**	**73**	**507**	**(10,306)**	**(9,489)**

Dividends

On 30 June 2016 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2015 totalling RR'mln 15,393. Dividends per share amounted to RR 2.09.

On 25 June 2015 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2014 totalling RR'mln 10,826, including dividends on shares held by subsidiaries of the Group totalling RR'mln 10. Dividends per share amounted to RR 1.47.

(in millions of Russian roubles, unless otherwise stated)

11. LONG-TERM DEBT

	30 September 2016	31 December 2015
Bank loans:		
US$ denominated fixed rate	68,842	104,951
US$ denominated floating rate	37,895	43,730
RR denominated fixed rate	1,200	1,204
	107,937	**149,885**
US$ denominated Eurobonds	63,158	72,883
Finance lease obligation	224	341
Other RR denominated fixed rate loans	14	13
	171,333	**223,122**
Less: current portion of long-term debt (note 12)	(23,854)	(25,655)
Total long-term debt	**147,479**	**197,467**

As at 30 September 2016 the fair value of long-term bank loans, finance lease obligation and other loans comprised RR'mln 108,159 (31 December 2015: RR'mln 148,041).

On 29 June 2016 the Group entered into real estate collateral agreements to secure obligations under a long-term loan received from PJSC "Sberbank" in the amount of RR'mln 1,028. The total book value of collaterized assets comprised RR'mln 2,281. As of 30 September 2016 these agreements were in the process of registration. As at 31 December 2015 there were no long-term loans or bonds secured with the assets of the Group.

The average effective annual interest rates on long-term borrowings were as follows:

	30 September 2016	31 December 2015
Bank loans:		
US$ denominated floating rate	6.6%	6.6%
US$ denominated fixed rate	4.1%	4.1%
RR denominated fixed rate	13.5%	13.5%
US$ denominated Eurobonds	7.8%	7.8%
Finance lease obligation	11.5%	11.5%

Bonds

Movements of issued Eurobonds during nine months ended 30 September 2016 and 30 September 2015 were as follows:

	Nine months ended	
	30 September 2016	30 September 2015
Balance at the beginning of the period	**72,883**	**56,258**
Amortisation of discount	2	2
Exchange gain	(9,727)	(736)
Balance at the end of the period	**63,158**	**55,524**

As at 30 September 2016 the fair value of Eurobonds comprised RR'mln 72,277 (31 December 2015: RR'mln 76,982).

12. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

	30 September 2016	31 December 2015
Other RR denominated fixed rate loans	74	37
	74	**37**
Add: current portion of long-term debt (note 11)	23,854	25,655
Total short-term debt and current portion of long-term debt	**23,928**	**25,692**

As at 30 September 2016 and 31 December 2015 the fair value of other loans was not materially different from their carrying value.

(in millions of Russian roubles, unless otherwise stated)

13. TRADE AND OTHER PAYABLES

	30 September 2016	31 December 2015
Accrual for employee flights and holidays	8,125	8,150
Trade payables	6,592	6,554
Wages and salaries	4,301	4,801
Advances from customers	3,453	1,042
Interest payable	3,247	1,547
Current portion of provision for social obligation	323	296
Payables to associates	11	10
Other payables	1,047	647
Total trade and other payables	**27,099**	**23,047**

In accordance with Russian legislation, the Group is required to pay for the holiday entitlement and the cost of travel for employees and their family members to an agreed-upon destination and back.

14. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

Taxes payable, other than income tax, comprise the following:

	30 September 2016	31 December 2015
Payments to social funds	2,423	2,315
Extraction tax	1,860	1,090
Property tax	1,243	1,091
Value added tax	1,119	496
Personal income tax (employees)	388	652
Other taxes and accruals	1,081	357
Total taxes payable, other than income tax	**8,114**	**6,001**

Taxes other than income tax, extraction tax and payments to social funds included into other operating expenses comprise the following:

	Three months ended		Nine months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Property tax	1,249	947	3,717	2,849
Other taxes and accruals	129	57	353	521
Total	**1,378**	**1,004**	**4,070**	**3,370**

In accordance with Resolution № 795 of the Government of the Russian Federation dated 23 December 2006, in addition to the taxes noted above, the Group is obliged to pay 6.5 per cent on the value of diamonds sold for export in the form of an export duty. In accordance with Russian Federation Government Decree №797 dated 15 August 2016, export duty has been cancelled effective 01 September 2016 (note 16).

In accordance with the amendment to the license agreement registered in May 2007, PJSC ALROSA-Nyurba, a subsidiary of the Group, is obliged to make annual fixed royalty payments to the Republic of Sakha (Yakutia) in the amount of RR'mln 1,209 per annum.

Income tax expense comprises the following:

	Three months ended		Nine months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Current tax expense	7,619	(4,360)	32,760	7,635
Adjustments recognised in the period for current tax of prior periods	14	(1,324)	124	(1,263)
Deferred tax (benefit) / expense	1,549	380	(223)	459
Total income tax expense / (income)	**9,182**	**(5,304)**	**32,661**	**6,831**

(in millions of Russian roubles, unless otherwise stated)

15. PROVISION FOR PENSION OBLIGATION

The amounts recognised in the Condensed Consolidated Interim Statement of Financial Position in respect of pension obligations associated with the defined benefit plan operated by the Group are as follows:

	30 September 2016	**31 December 2015**
Present value of funded obligations	23,457	19,710
Fair value of plan assets	(10,307)	(10,312)
Pension obligations for the funded plan	13,150	9,398
Present value of unfunded obligation	1,398	1,158
Net liability	**14,548**	**10,556**

Changes in the present value of funded and unfunded pension obligations and pension plan assets for the three months ended 30 September 2015 and three months ended 30 September 2016 are as follows:

	Present value of obligation	**Fair value of pension plan assets**	**Total**
As at 30 June 2015	**18,286**	**(9,835)**	**8,451**
Current service cost	50	-	50
Past service cost and curtailment	-	-	-
Interest expense/(income)	468	(308)	160
	518	**(308)**	**210**
Remeasurements:			
Return on pension plan assets, excluding amount included in interest expense/(income)	-	307	307
Loss from change in financial assumptions	(96)	-	(96)
	(96)	**307**	**211**
Contributions paid by employer	-	(113)	(113)
Benefit payments	(455)	411	(44)
	(455)	**298**	**(157)**
As at 30 September 2015	**18,253**	**(9,538)**	**8,715**

	Present value of obligation	**Fair value of pension plan assets**	**Total**
As at 30 June 2016	**24,425**	**(10,033)**	**14,392**
Current service cost	87	-	87
Past service cost and curtailment	(25)		(25)
Interest expense/(income)	471	(245)	226
	533	**(245)**	**288**
Remeasurements:			
Return on pension plan assets, excluding amount included in interest expense/(income)	-	245	245
Loss from change in financial assumptions	408	-	408
	408	**245**	**653**
Contributions paid by employer	-	(738)	(738)
Benefit payments	(511)	464	(47)
	(511)	**(274)**	**(785)**
As at 30 September 2016	**24,855**	**(10,307)**	**14,548**

(in millions of Russian roubles, unless otherwise stated)

15. PROVISION FOR PENSION OBLIGATION (CONTINUED)

Changes in the present value of funded and unfunded pension obligations and pension plan assets for the nine months ended 30 September 2015 and nine months ended 30 September 2016 are as follows:

	Present value of obligation	Fair value of pension plan assets	Total
As at 1 January 2015	**15,303**	**(9,510)**	**5,793**
Current service cost	153	-	153
Past service cost and curtailment	(2)	-	(2)
Interest expense/(income)	1,454	(923)	531
	1,605	**(923)**	**682**
Remeasurements:			
Return on pension plan assets, excluding amount included in interest expense/(income)	-	959	959
Loss from change in financial assumptions	2,309	-	2,309
	2,309	**959**	**3,268**
Contributions paid by employer	-	(976)	(976)
Benefit payments	(964)	912	(52)
	(964)	**(64)**	**(1,028)**
As at 30 September 2015	**18,253**	**(9,538)**	**8,715**

	Present value of obligation	Fair value of pension plan assets	Total
As at 1 January 2016	**20,868**	**(10,312)**	**10,556**
Current service cost	259	-	259
Past service cost and curtailment	(98)	-	(98)
Interest expense/(income)	1,455	(735)	720
	1,616	**(735)**	**881**
Remeasurements:			
Return on pension plan assets, excluding amount included in interest expense/(income)	-	799	799
Gain from change in financial assumptions	3,404	-	3,404
	3,404	**799**	**4,203**
Contributions paid by employer		(1,033)	(1,033)
Benefit payments	(1,033)	974	(59)
	(1,033)	**(59)**	**(1,092)**
As at 30 September 2016	**24,855**	**(10,307)**	**14,548**

The significant actuarial assumptions are as follows:

	30 September 2016	31 December 2015
Discount rate (nominal)	8.15%	9.5%
Future salary increases (nominal)	8.0%	8.0%
Future pension increases (nominal)	6.1%	6.1%

(in millions of Russian roubles, unless otherwise stated)

16. REVENUE

	Three months ended		Nine months ended	
	30 September 2016	**30 September 2015**	**30 September 2016**	**30 September 2015**
Revenue from diamond sales:				
Export	54,635	29,756	213,933	139,058
Domestic	8,118	4,194	24,321	15,499
Revenue from diamonds for resale	266	439	763	953
Total revenue from diamond sales	**63,019**	**34,389**	**239,017**	**155,510**
Other revenue:				
Transport	2,534	2,029	5,143	4,272
Gas	1,379	1,788	4,225	4,756
Social infrastructure	725	806	3,063	3,141
Other	1,239	1,616	4,115	4,817
Total revenue	**68,896**	**40,628**	**255,563**	**172,496**

Export duties totalling RR’mln 1,865 and RR’mln 12,229 for the three and nine months ended 30 September 2016, respectively (three and nine months ended 30 September 2015: RR’mln 2,099 and RR’mln 9,424, respectively) were netted against revenue from diamond export sales.

17. COST OF SALES

	Three months ended		Nine months ended	
	30 September 2016	**30 September 2015**	**30 September 2016**	**30 September 2015**
Wages, salaries and other staff costs	10,397	10,356	32,399	31,266
Extraction tax	5,739	6,316	17,404	17,340
Depreciation	4,815	4,529	16,508	13,988
Fuel and energy	2,874	3,834	10,255	12,390
Materials	3,974	3,633	10,143	8,300
Services	2,234	1,903	5,378	3,977
Transport	272	415	1,607	1,484
Cost of diamonds for resale	266	427	763	942
Provision for obsolete inventory	374	181	384	421
Other	304	376	874	878
Movement in inventory of diamonds, ores and sands	(4,006)	(13,270)	781	(17,406)
Total cost of sales	**27,243**	**18,700**	**96,496**	**73,580**

Wages, salaries and other staff costs include payments to social funds in the amount of RR’mln 2,034 and RR’mln 6,947 for the three and nine months ended 30 September 2016, respectively (for the three and nine months ended 30 September 2015: RR’mln 1,980 and RR’mln 6,476, respectively).

Depreciation totalling RR’mln 312 and RR’mln 792 for the three and nine months ended 30 September 2016, respectively (for the three and nine months ended 30 September 2015: RR’mln 301 and RR’mln 1,024, respectively) and wages, salaries and other staff costs totalling RR’mln 609 and RR’mln 2,383 for the three and nine months ended 30 September 2016, respectively (for the three and nine months ended 30 September 2015: RR’mln 825 and RR’mln 2,759, respectively) were capitalised in the respective periods.

(in millions of Russian roubles, unless otherwise stated)

18. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Nine months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Wages, salaries and other staff costs	1,513	1,291	5,048	4,550
Services and other administrative expenses	1,055	879	3,010	2,468
Impairment of accounts receivable	231	20	775	385
Total general and administrative expenses	**2,799**	**2,190**	**8,833**	**7,403**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 212 and RR'mln 878 for the three and nine months ended 30 September 2016, respectively (for the three and nine months ended 30 September 2015: RR'mln 168 and RR'mln 728, respectively).

19. SELLING AND MARKETING EXPENSES

	Three months ended		Nine months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Wages, salaries and other staff costs	442	397	1,308	1,218
Services and other selling and marketing expenses	332	312	1,198	977
Total selling and marketing expenses	**774**	**709**	**2,506**	**2,195**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 88 and RR'mln 290 for the three and nine months ended 30 September 2016, respectively (for the three and nine months ended 30 September 2015 in the amount of RR'mln 79 and RR'mln 261, respectively).

20. OTHER OPERATING INCOME

	Three months ended		Nine months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Gain from exchange differences	-	1,627	-	1,101
Other	219	356	853	778
Total other operating income	**219**	**1,983**	**853**	**1,879**

21. OTHER OPERATING EXPENSES

	Three months ended		Nine months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Exploration expenses	1,430	1,695	5,578	5,700
Taxes other than income tax, extraction tax and payments to social funds (note 14)	1,378	1,004	4,070	3,370
Social costs	994	998	3,673	3,186
Loss from exchange differences	68	-	3,549	-
Loss on disposal and write-off of property, plant and equipment	55	1,603	956	2,071
Loss on impairment of investment in associates and joint ventures	-	-	899	-
Loss on disposal of subsidiaries	-	66	175	221
Other	363	607	997	1,222
Total other operating expenses	**4,288**	**5,973**	**19,897**	**15,770**

(in millions of Russian roubles, unless otherwise stated)

21. OTHER OPERATING EXPENSES (CONTINUED)

Social costs consist of:

	Three months ended		Nine months ended	
	30 September 2016	**30 September 2015**	**30 September 2016**	**30 September 2015**
Charity	399	358	1,829	1,329
Maintenance of local infrastructure	401	432	1,337	1,327
Hospital expenses	51	51	151	157
Education	16	25	63	106
Other	127	132	293	267
Total social costs	**994**	**998**	**3,673**	**3,186**

22. FINANCE INCOME AND COSTS

	Three months ended		Nine months ended	
	30 September 2016	**30 September 2015**	**30 September 2016**	**30 September 2015**
Interest income	1,328	1,032	3,470	3,608
Interest expense:				
Bank loans	(1,389)	(1,538)	(4,690)	(4,631)
Eurobonds	(1,240)	(1,194)	(3,879)	(3,421)
RR denominated non-convertible bonds	-	(211)	-	(1,055)
Other	(267)	(267)	(851)	(742)
Unwinding of discount of future provisions	(44)	192	1	(274)
Exchange gain/(loss), net	2,781	(33,337)	25,723	(30,221)
Total finance income/(costs), net	**1,169**	**(35,323)**	**19,774**	**(36,736)**

23. CASH GENERATED FROM OPERATING ACTIVITIES

Reconciliation of profit before tax to cash flows from operating activities:

	Nine months ended	
	30 September 2016	**30 September 2015**
Profit before income tax	**149,606**	**39,051**
Adjustments for:		
Share of net profit of associates and joint ventures (note 4)	(2,055)	(1,267)
Interest income (note 22)	(3,470)	(3,608)
Interest expense (note 22)	9,419	10,123
Loss on disposal and write-off of property, plant and equipment (note 21)	146	2,071
Depreciation (notes 7, 17)	16,655	14,113
Loss on disposal of subsidiaries (note 21)	175	221
Loss on impairment of investment in associates and joint ventures (note 21)	899	-
Adjustment for non-cash financing activity	2,470	1,455
Impairment of PPE (note 21)	810	-
Proceeds from restricted cash account	-	4
Unrealised foreign exchange effect on non-operating items	(21,425)	28,469
Net operating cash flows before changes in working capital	**153,230**	**90,632**
Net increase in inventories	(5,691)	(22,327)
Net decrease in receivables, excluding dividends receivable and consideration receivable for disposed controlling interest in CJSC MMC Timir	3,119	917
Net increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	1,688	901
Net increase in taxes payable, excluding income tax	1,573	952
Cash inflows from operating activities	**153,919**	**71,075**
Income tax paid	(27,892)	(10,566)
Net cash inflows from operating activities	**126,027**	**60,509**

24. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment of the Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

(b) Taxes

Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover earlier periods.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the this transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated.

In 2014, in Russia the Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures controlled by Russian tax residents (controlling parties). Starting from 2015, CFC income is subject to income tax at the rate of 20.0 per cent in accordance with Russian tax legislation.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 30 September 2016.

(d) Capital commitments

As at 30 September 2016 the Group has contractual commitments for capital expenditures of RR'mln 7,142 (31 December 2015: RR'mln 6,181).

(in millions of Russian roubles, unless otherwise stated)

24. CONTINGENCIES, COMMITMENTS AND OTHER RISKS (CONTINUED)

(e) Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	30 September 2016	31 December 2015
Not later than 1 year	198	185
Later than 1 year and not later than 5 years	543	545
Later than 5 years	983	745
Total operating lease commitments	**1,724**	**1,475**

(f) Restoration, rehabilitation and environmental costs

Under its license agreements, the Group is not responsible for any significant restoration, rehabilitation and environmental expenditures that may be incurred subsequent to the cessation of production at each mine, apart from the obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. As at 30 September 2015 the Group recognised a provision for these future expenses in the amount of RR'mln 5,756 (31 December 2015: RR'mln 5,350).

(g) Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as at 30 September 2016 and 31 December 2015.

(h) Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. The Group has guaranteed the obligations of OJSC "Aviacompania Yakutiya" to JSC VTB Bank under the loan agreement amounting to RR'mln 1,500 and accrued interest.

25. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Governments of the Russian Federation and the Republic of Sakha (Yakutia)

The Company's principal shareholders are the Federal Agency for State Property Management on behalf of the government of the Russian Federation (33.0 per cent of shares) and the Ministry of the property and land relations of the Republic of Sakha (Yakutia) on behalf of the Republic of Sakha (Yakutia) (25.0 per cent of shares). Also as at 30 September 2016 8.0 per cent of the Company's shares were owned by administrations or 8 districts of the Republic of Sakha (Yakutia). Following the General Meeting of Shareholders in June 2016, the 15 seats on the Supervisory Board include 13 representatives of the Russian Federation and the Republic of Sakha (Yakutia) (including one – the Chair of the Management Board), five independent directors according to the Russian Corporate Law (four of them were nominated by the Government of the Russian Federation, one was nominated by foreign minority shareholders), and one representative of the discricts of the Republic of Sakha (Yakutia). Governmental, federal and local economic and social policies affect the Group's financial position, results of operations and cash flows.

Tax balances are disclosed in the condensed consolidated interim statement of financial position and in notes 9 and 14. Tax transactions are disclosed in the condensed consolidated interim statement of profit or loss and other comprehensive income, the condensed consolidated interim statement of cash flows and in notes 23 and 24.

(in millions of Russian roubles, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS (CONTINUED)

Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities under Governmental control. The principal forms of such transactions are diamond sales, electricity purchases and borrowings. Prices of diamonds sales are set by reference to price lists approved by the Ministry of Finance of the Russian Federation; electricity tariffs in Russia are partially regulated by the Federal Tariffs Service.

The amounts of balances and transactions with related parties under control of the Government are detailed below:

Condensed Consolidated Interim Statement of Financial Position	**30 September 2016**	**31 December 2015**
Short-term accounts receivable	2,300	1,053
Short-term accounts payable	562	1,464
Loans received by the Group	39,097	44,947
Loans issued by the Group	-	2
Bank deposits with maturity dates exceeding three months	44,516	-
Cash and cash equivalents	22,288	15,227

	Three months ended		**Nine months ended**	
Consolidated Statement of profit or loss and other comprehensive income	**30 September 2016**	**30 September 2015**	**30 September 2016**	**30 September 2015**
Sales of diamonds	2,209	655	9,641	4,862
Other sales	695	1,525	4,127	5,416
Electricity and heating purchases	(1,906)	(1,278)	(4,566)	(5,450)
Other purchases	(382)	(3,347)	(4,793)	(6,100)
Interest income	1,125	141	2,836	1,430
Interest expense	(845)	(637)	(2,339)	(1,858)

Key management compensation

The Supervisory Council of the Company consists of 15 members, including state representatives and the President of the Company. Representatives of Governments of the Russian Federation (except for independent directors) and the Republic of Sakha (Yakutia) in the Supervisory Council of the Company are not entitled to compensation for serving as members of the Supervisory Council. The President of the Company is entitled to compensation for serving as a Chairman of the Management Board of the Company.

As at 30 September 2016 and 31 December 2015 the Management Board consisted of 13 members. As at 30 September 2016 one of the Management Board members was also a member of the Supervisory Council. Management Board members are entitled to salary, bonuses, voluntary medical insurance and other short-term employee benefits. Salary and bonus compensation paid to members of the Management Board is determined by the terms of “Remuneration Policy for the members of the Management Board of PJSC ALROSA” approved by the Company’s Supervisory Council on 10 November 2015.

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also could be eligible for non-state pension after retirement according to the Policy on “Non-state pension provisions of the employees of PJSC ALROSA”.

Key management received short-term benefits for the three and nine months ended 30 September 2016 totalling RR’mln 203 and RR’ mln 775, respectively (three and nine months ended 30 September 2015: RR’mln 113 and RR’ mln 643, respectively).

Associates and joint ventures

Significant balances with associates and joint ventures are summarised as follows:

Long-term accounts receivable	**30 September 2016**	**31 December 2015**
CJSC MMC Timir, loans issued (contractual interest rate: 0,5%)	810	727
Total long-term accounts receivable	**810**	**727**

(in millions of Russian roubles, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS (CONTINUED)

Current accounts receivable	30 September 2016	31 December 2015
Catoca Mining Company Ltd., dividends and other receivable	56	2,937
CJSC MMC Timir, other receivable	10	9
Other associates	17	47
Total current accounts receivable	**83**	**2,993**

Transactions with the Group's pension plan are disclosed in note 15.

Social costs incurred by the Group in relation to the parties under control of the Government are presented by charity costs and make up the largest part of them. These expenses are disclosed in note 21.

26. SEGMENT INFORMATION

The Management Board of the Company has been determined as the Group's Chief Operating Decision-Maker (CODM).

The Group's primary activity is the extraction and sales of diamonds. The internal management reporting system is mainly focused on the analysis of information relating to production and sales of Diamond segment, however information relating to other activities (represented by several subdivisions of the Company and separate legal entities of the Group`s all other business) is also regularly reviewed by the CODM. The Management Board regularly evaluates and analyses financial information derived from statutory accounting data net of intersegment operations between subdivisions of the Company, but including intercompany transactions between the legal entities included in the Group.

The Management Board evaluates performance and makes investment and strategic decisions based upon review of operating activity results (i.e. meeting production targets and monitoring of actual expenditures against budget allocated by production and sales of diamonds and other activities) as it believes that such information is the most relevant in evaluating the results. No specific measure of profit or loss is analysed by the CODM on entity by entity basis. The following items are analysed on the Group level and are not allocated between segments for the purposes of the analysis:

- finance income;
- finance costs;
- other operating income and expense;
- share of net profit of associates and joint ventures;
- income tax expense or benefit;
- non-cash items other than depreciation;
- total assets and liabilities;
- capital expenditure.

The following reportable segments were identified by the Management Board of the Company:

- Diamonds segment - extraction and sales of diamonds, production and sale of microgrits and diamonds;
- Transportation – airline business, transportation services and services at transportation terminals, ports and airports;
- Social infrastructure – include residential housing units, sports complexes and cultural facilities, such as cinemas and theatres and other social infrustructure;
- Gas – extraction and sale of natural gas;
- Other activities.

Information regarding the results of the reportable segments is presented below. Segment items are based on financial information reported in statutory accounts and can differ significantly from those for financial statements prepared under IFRS. Reconciliation of items measured as reported to the Management Board with similar items in these condensed consolidated interim financial statements include those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

(in millions of Russian roubles, unless otherwise stated)

26. SEGMENT INFORMATION (CONTINUED)

Three months ended 30 September 2016	**Diamonds segment**	**Transpor-tation**	**Social infra-structure**	**Gas**	**Other activities**	**Total**
Revenue	64,883	3,084	872	1,449	2,553	72,841
Intersegment revenue	-	(668)	(105)	(66)	(1,607)	(2,446)
Cost of sales, including	20,983	2,320	1,922	1,010	2,616	28,851
depreciation	3,964	113	247	219	574	5,117
Gross margin	**43,900**	**764**	**(1,050)**	**439**	**(63)**	**43,990**

Three months ended 30 September 2015	**Diamonds segment**	**Transpor-tation**	**Social infra-structure**	**Gas**	**Other activities**	**Total**
Revenue	36,488	2,436	80	1,879	2,345	43,228
Intersegment revenue	-	(410)	(118)	(92)	(971)	(1,591)
Cost of sales, including	7,378	2,189	1,984	1,259	2,330	15,140
depreciation	3,170	121	201	326	439	4,257
Gross margin	**29,110**	**247**	**(1,904)**	**620**	**15**	**28,088**

Nine months ended 30 September 2016	**Diamonds segment**	**Transpor-tation**	**Social infra-structure**	**Gas**	**Other activities**	**Total**
Revenue	251,246	6,626	2,484	4,859	8,345	273,560
Intersegment revenue	-	(1,700)	(313)	(621)	(5,117)	(7,751)
Cost of sales, including	74,155	5,744	6,017	3,225	7,775	96,916
depreciation	11,869	333	696	672	1,424	14,994
Gross margin	**117,091**	**882**	**(3,533)**	**1,634**	**570**	**176,644**

Nine months ended 30 September 2015	**Diamonds segment**	**Transpor-tation**	**Social infra-structure**	**Gas**	**Other activities**	**Total**
Revenue	164,934	5,189	2,702	5,343	6,229	184,397
Intersegment revenue	-	(920)	(405)	(587)	(2,347)	(4,259)
Cost of sales, including	39,920	5,380	5,906	3,523	5,988	60,717
depreciation	9,392	386	493	682	1,259	12,212
Gross margin	**125,014**	**(191)**	**(3,204)**	**1,820**	**241**	**123,680**

Reconciliation of revenue is presented below:

	Three months ended		**Nine months ended**	
	30 September 2016	**30 September 2015**	**30 September 2016**	**30 September 2015**
Segment revenue	**72,841**	**43,228**	**273,560**	**184,397**
Elimination of intersegment revenue	(2,446)	(1,593)	(7,751)	(4,260)
Reclassification of export duties [1]	(1,865)	(2,099)	(12,229)	(9,424)
Other adjustments and reclassifications	366	1,092	1,983	1,783
Revenue as per Condensed Consolidated Interim Financial Statement of Profit or Loss and Other Comprehensive Income	**68,896**	**40,628**	**255,563**	**172,496**

[1] Reclassification of export duties – export duties are netted against revenues from export of diamonds (note 16).

(in millions of Russian roubles, unless otherwise stated)

26. SEGMENT INFORMATION (CONTINUED)

Reconciliation of cost of sales including depreciation is presented below:

	Three months ended		Nine months ended	
	30 September 2016	**30 September 2015**	**30 September 2016**	**30 September 2015**
Segment cost of sales	**28,851**	**15,140**	**96,916**	**60,717**
Adjustment for depreciation of property, plant and equipment [1]	(303)	272	1,514	1,776
Elimination of intersegment purchases	(1,294)	(1,157)	(5,054)	(3,207)
Accrued provision for pension obligation [2]	(695)	(134)	(940)	(925)
Reclassification of extraction tax [3]	1,077	4,857	4,268	14,502
Adjustment for inventories [4]	1,717	900	7,258	2,378
Accrual for employee flights and holidays [5]	(83)	(12)	(101)	(97)
Accrual for the part of expected annual bonus	121	890	410	2,561
Other adjustments	428	131	229	(42)
Reclassification of exploration expenses [6]	(1,168)	(1,472)	(3,588)	(2,683)
Other reclassifications	(1,408)	(715)	(4,416)	(1,400)
Cost of sales as per Condensed Consolidated Interim Financial Statement of Profit or Loss and Other Comprehensive Income	**27,243**	**18,700**	**96,496**	**73,580**

[1] Adjustment for depreciation - adjustment of depreciation figure recognised in statutory financial statements which is different from that in IFRS financial statements due to the differences in book values of property, plant and equipment and methods of depreciation calculation
[2] Accrued provision for pension obligation – recognition of pension obligation in accordance with IAS 19
[3] Reclassification of extraction tax – reclassification from general and administrative expenses
[4] Adjustment for inventories – treatment of extraction tax as direct expenses for financial statements prepared under IFRS, with a corresponding record in inventory figure and other adjustments
[5] Accrual for employees' flights and holidays – recognition of employees' flights and holidays provision under collective labour agreements of the Group's entities
[6] Reclassification of exploration expenses – reclassification part of exploration expenses to other operating expenses

Revenue from sales by geographical location of the customer is as follows:

	Three months ended		Nine months ended	
	30 September 2016	**30 September 2015**	**30 September 2016**	**30 September 2015**
Belgium	29,053	15,249	115,862	77,177
India	11,067	6,115	41,404	24,992
Russian Federation	13,761	10,234	39,881	31,836
Israel	7,325	4,575	25,815	19,420
United Arab Emirates	3,063	1,646	14,666	6,098
China	2,982	1,567	10,762	8,431
Belarus	314	176	2,446	626
Armenia	551	154	2,003	394
Republic of Botswana	295	-	1,142	-
Angola	211	192	744	638
USA	148	422	512	1,206
UK	126	296	283	1,606
Other countries	-	2	43	72
Total revenue	**68,896**	**40,628**	**255,563**	**172,496**

Non-current assets (other than financial instruments), including investments in associates and joint ventures, by their geographical location are as follows:

	30 September 2016	**31 December 2015**
Russian Federation	291,620	288,879
Angola	4,342	5,178
Other countries	1,974	1,097
Total non-current assets (other than financial instruments)	**297,936**	**295,154**

(in millions of Russian roubles, unless otherwise stated)

27. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements; they should be read in conjunction with the group's annual financial statements as at 31 December 2015. There have been no changes in any risk management policies since the year end.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate.

The different levels of fair value hierarchy have been defined as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date. For the Group, Level 1 inputs include debt instruments that are actively traded on the European and Russian domestic markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For the Group, Level 2 inputs include observable market value measures applied to loans and borrowings.
- Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Recurring fair value measurements

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	30 September 2016				31 December 2015			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale investments	1,196	-	730	**1,926**	120	-	591	**711**
Total	**1,196**	**-**	**730**	**1,926**	**120**	**-**	**591**	**711**

Assets and liabilities not measured at fair value but for which fair value is disclosed

(in millions of Russian roubles, unless otherwise stated)

27. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 30 September 2016 the Group had the following assets and liabilities not measured at fair value but for which fair value is disclosed, classified by the levels of the fair value hierarchy:

	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
Current and non-current financial assets				
Bank deposits	-	47,316	-	47,316
Current and non-current financial accounts receivable	-	6,670	810	7,480
Loans issued	-	-	1,379	1,379
Cash and cash equivalents	-	32,949	-	32,949
Total financial assets	**-**	**86,935**	**2,189**	**89,124**
Non-current financial liabilities				
Loans from banks and other loans	-	84,195	-	84,195
Eurobonds	63,158	-	-	63,158
Finance lease obligation	-	-	112	112
Total non-current financial liabilities	**63,158**	**84,195**	**112**	**147,465**
Current financial liabilities				
Loans from banks and other loans	-	23,742	-	23,742
Financial accounts payable	-	-	112	112
Finance lease obligation	-	10,897	-	10,897
Dividends payable	-	43	-	43
Total current financial liabilities	**-**	**34,682**	**112**	**34,794**
Total financial liabilities	**63,158**	**118,877**	**224**	**182,259**

As at 31 December 2015 the Group had the following assets and liabilities not measured at fair value but for which fair value is disclosed, classified by the levels of the fair value hierarchy:

	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
Current and non-current financial assets				
Current and non-current financial accounts receivable	-	8,429	727	9,156
Loans issued	-	-	1,207	1,207
Cash and cash equivalents	-	20,503	-	20,503
Total financial assets	**-**	**28,932**	**1,934**	**30,866**
Non-current financial liabilities				
Loans from banks and other loans	-	124,389	-	124,389
Eurobonds	72,883	-	-	72,883
Finance lease obligation	-	-	195	195
Total non-current financial liabilities	**72,883**	**124,389**	**195**	**197,467**
Current financial liabilities				
Loans from banks and other loans	-	25,546	-	25,546
Financial accounts payable	-	8,758	-	8,758
Finance lease obligation	-	-	146	146
Dividends payable	-	89	-	89
Total current financial liabilities	**-**	**34,393**	**146**	**34,539**
Total financial liabilities	**72,883**	**158,782**	**341**	**232,006**

27. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Cash and cash equivalents, including restricted cash;
- Trade and other financial receivables;
- Bank deposits;
- Other current financial assets;
- Trade and other financial payables;
- Finance lease obligation;
- Dividends payable.

The fair value of other financial assets and liabilities disclosed in the notes.

The fair values in Level 2 and Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

There were no transfers between Levels 1, 2 and 3 during the period.