PJSC ALROSA

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 AND

INDEPENDENT AUDITOR'S REPORT

CONTENTS

Independent Auditor's Report

To the Shareholders and Supervisory Council of Public Joint Stock Company ALROSA:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Public Joint Stock Company ALROSA (further the "Company" or PJSC ALROSA) and its subsidiaries (together – the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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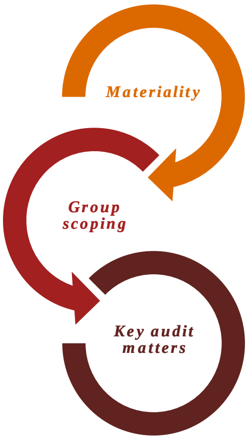
Our audit approach

Overview



Overall Group materiality: Russian Roubles ("RUB") 6,000 million, which represents 5% of average profit before tax for the last three years.

- We conducted audit work at the parent company of the Group – PJSC ALROSA. In respect of the other Group entities, we performed audit procedures over significant financial statements line items and analytical procedures.
- The Group engagement team visited the divisions of PJSC ALROSA in Moscow and Mirny (Republic of Sakha (Yakutia)).
- Our audit scope addressed 94% of the Group's revenues and 75% of the Group's absolute value of underlying profit before tax and before adjustments to eliminate intragroup transactions.

The following area has been identified as a key audit matter:

- Impairment assessment of the Mir mine property, plant and equipment

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	RUB 6,000 million
How we determined it	5% of average profit before tax for the last three years

Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector. Since the pre-tax profit demonstrates significant volatility from period to period, we decided to average this benchmark over the last three years.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	**How our audit addressed the key audit matter**
Impairment assessment of the Mir mine property, plant and equipment	
Refer to Note 2. In August 2017, there was an accident at the Mir underground mine of the Mirny Mining and Processing Division of the Company; as a result, mining operations were suspended and, as of 31 December 2017, some assets were written off due to their further unserviceability. In 2018, having completed the exercise on assessing whether the mine operations could be recovered, the Group's management prepared preliminary technical and economic assessment for new mine infrastructure. The new project documentation does not provide for making use of some assets with the carrying amount of RUB 7,815 million; therefore, as of 31 December 2018, the Group recognised their impairment. Management plans to use the remaining mine assets with the carrying amount of RUB 5,215 million for production purposes. For the purpose of preparation the consolidated financial	Together with our valuation specialists, we reviewed the management's model of future cash flows from Mir underground mine. As part of our review, we performed the following procedures: - We reviewed underlying data for future cash flow forecasts that were used to calculate the value in use, including the planned amount of capital investments for the recovery of production and planned amount of future operating expenses by reconciliation them with the preliminary technical and economic assessment of Mir mine construction approved in 2018; - We made sure that the assets impaired in 2018, are not included in the preliminary technical and economic assessment of Mir mine construction by reconciling the list of impaired assets to the documentation; - We verified that the volume of C1 ore reserves (proven reserves according to Russian classification) and C2 ore reserves (prospective

statements, the Group tested the remaining mine assets for impairment (based on the revised plans and new project) by calculating the value in use of the cash generating unit (CGU) in accordance with IAS 36 *Impairment of Assets* and comparing it with the carrying amount of the existing assets of the mine. The test has not identified the need for additional impairment of the existing assets of the mine as of 31 December 2018.

We focused on the matter due to materiality of the carrying amount of the assets included in this CGU, a high degree of uncertainty and judgements about the period when operations at Mir underground mine will resume as well as plans to use the existing assets.

Moreover, the management's assessment of the CGU's value in use implies the use of significant judgements and estimations of future performance, capital expenditures for mine recovery, projected volume of the ore's extraction, the exchange rate RUB/USD and discount rate.

reserves according to Russian classification), included into total volume of ore provided by the model, matches the volume of reserves approved by the State Reserves Commission. For the ore resources included in the model, we verified that the volume matching the data in the memorandum of the Company's geological department. We also obtained the management's confirmation of the accuracy of available preliminary information about resources and economical viability of additional exploration and mining of these resources. As a result of the above procedures we made sure that the future cash flows based on forecasted reserves and resources are highly probable;

- By reconciliation the provided model to the terms and conditions of the licence we made sure that the forecasted period for future cash flows complies with the production period set by the Company's mining licence, including the licence suspension period until 1 January 2024;

- We verified that the methodology underlying future cash flows forecast complies with IAS 36 *Impairment of Assets*, including the principle that the recoverable amount is determined based on the value in use, and other aspects;

- We verified that the price growth rate for rough diamonds is limited by the level of long-term inflation according to the forecast provided by an independent reputable analyst;

- We reviewed that there are no indication of future decrease of prices for rough diamonds according to the available long-term independent forecasts;

- We compared macroeconomic assumptions for producer price index (PPI), expected RUB/USD exchange rate and inflation in the model with forecasts of independent reputable market analysts and made sure that the model underlying assumptions are within the reasonable range.

- We verified the methodology of calculation the discount rate and its components;

- We identified the most sensitive assumptions to the future cash flows forecast model prepared by management, and analysed the results of testing for possible reasonable changes in these assumptions. The scope of our analysis of impairment test sensitivity included RUB/USD rate trend, ore extraction growth rate, capital expenditures and discount rate. We verified that information about the sensitivity analysis of the test results for the abovementioned assumptions was correctly disclosed in the consolidated financial statements.

We also focused on review the adequacy of disclosures in Note 2 to the financial statements in accordance with IAS 36 *Impairment of Assets*.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

Based on our risk assessment, analysis of materiality of the Group entities' financial statements line items, we determined PJSC "ALROSA" as a material component of the Group and audited the financial information using ISA 600 *"Special Considerations – Audits Of Group Financial Statements (Including The Work Of Component Auditors)"*.

We determined the other entities of the Group as immaterial components, in respect of which we performed audit procedures over significant financial statements line items, and analytical procedures.

Other information

Management is responsible for the other information. The other information comprises the PJSC ALROSA's Annual Report for 2018 and Issuer's Report for the first quarter of 2019 (but does not include the consolidated financial statements and our auditor's report thereon), which are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the PJSC ALROSA's Annual Report for 2018 and Issuer's Report for the first quarter of 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Mikhail Igorevich Buchnev.

AO PricewaterhouseCoopers Audit

15 March 2019

Moscow, Russian Federation

M.I. Buchnev, certified auditor (licence no. 01 -000056), AO PricewaterhouseCoopers Audit

Audited entity: Public Joint Stock Company ALROSA

Registered by the Administration of Mirninsky district (ulus) of the Republic of Sakha (Yakutia) on 13 August 1992 under No. 1

Record made in the Unified State Register of Legal Entities on 17 July 2002 under State Registration Number 1021400967092

6, Lenin Street, Mirny, 678175, Republic of Sakha (Yakutia), Russia

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Financial Position

	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current Assets			
Goodwill	5.2	1,439	1,439
Property, plant and equipment	8	234,873	236,589
Investments in associates and joint ventures	5.3	5,191	4,312
Deferred tax assets	18	4,785	3,837
Available-for-sale investments		-	2,913
Financial assets at fair value through profit or loss	31	838	-
Long-term accounts receivable	10	9,316	10,165
Total Non-current Assets		**256,442**	**259,255**
Current Assets			
Inventories	9	92,619	91,976
Prepaid income tax		639	78
Trade and other receivables	10	22,271	29,637
Bank deposits	6	11,784	-
Cash and cash equivalents	7	27,437	7,381
Non-current assets held for sale	5.1	-	39,454
Total Current Assets		**154,750**	**168,526**
Total Assets		**411,192**	**427,781**
EQUITY			
Share capital	11	12,473	12,473
Share premium		10,431	10,431
Treasury shares	11	(264)	-
Retained earnings and other reserves	11	224,976	243,921
Equity attributable to owners of PJSC ALROSA		**247,616**	**266,825**
Non-Controlling Interest	29	**(39)**	**(338)**
Total Equity		**247,577**	**266,487**
LIABILITIES			
Non-current Liabilities			
Long-term debt	12	64,974	58,694
Provision for pension obligations	16	11,638	16,017
Other provisions	14	5,586	5,462
Deferred tax liabilities	18	3,245	5,466
Government grants	15	2,873	-
Other liabilities	28	718	-
Total Non-current Liabilities		**89,034**	**85,639**
Current Liabilities			
Short-term loans and current portion of long-term debt	13	41,687	34,734
Trade and other payables	17	21,835	22,259
Income tax payable		828	2,853
Other taxes payable	18	8,585	6,506
Dividends payable		146	149
Guarantees issued	27	1,500	-
Liabilities of disposal group classified as held for sale	5.1	-	9,154
Total Current Liabilities		**74,581**	**75,655**
Total Liabilities		**163,615**	**161,294**
Total Equity and Liabilities		**411,192**	**427,781**

Approved for issue and signed on 15 March 2019 by the following members of management:

Sergey S. Ivanov
Chief Executive Officer

Alexey N. Filippovsky
Deputy Chief Executive Officer

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Revenue	19	293,870	269,706
Income from government grants	15	5,775	5,675
Cost of sales	20	(126,541)	(133,910)
Royalty	18	(1,209)	(1,209)
Gross profit		**171,895**	**140,262**
General and administrative expenses	21	(11,735)	(11,588)
Selling and marketing expenses	22	(4,606)	(3,019)
Other operating income	23	5,383	15,379
Other operating expenses	24	(33,842)	(41,951)
Operating profit		**127,095**	**99,083**
Finance (costs) / income, net	25	(15,901)	(1,320)
Share of results of associates and joint ventures	5.3	3,418	3,027
Profit before income tax		**114,612**	**100,790**
Income tax	18	(24,208)	(22,174)
Profit for the year		**90,404**	**78,616**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of pension obligations, net of deferred tax	16,18	(1,115)	(1,874)
Total items that will not be reclassified to profit or loss		**(1,115)**	**(1,874)**
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences, net of tax		177	(72)
Change in fair value of available for sale investments		-	323
Total items that may be reclassified subsequently to profit or loss		**177**	**251**
Total other comprehensive loss for the year		**(938)**	**(1,623)**
Total comprehensive income for the year		**89,466**	**76,993**
Profit attributable to:			
Owners of PJSC ALROSA		89,217	77,075
Non-controlling interest	29	1,187	1,541
Profit for the year		**90,404**	**78,616**
Total comprehensive income attributable to:			
Owners of PJSC ALROSA		88,279	75,392
Non-controlling interest		1,187	1,601
Total comprehensive income for the year		**89,466**	**76,993**

Basic and diluted earnings per share for profit attributable to the owners of PJSC ALROSA (in Roubles)	11	12.29	10.47

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Net Cash Inflow from Operating Activities	**26**	**120,122**	**100,464**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(27,816)	(26,944)
Proceeds from sales of property, plant and equipment		903	377
Sale of financial assets at fair value through profit or loss		1,433	-
Acquisition of available-for-sale investments		-	(1,266)
Prepayment for share in Catoca Mining Company Ltd	10	-	(8,350)
Interest received		1,912	3,653
Proceeds from disposal of subsidiaries, net of cash disposed of	5	30,801	500
Cash transfer to deposit accounts		(17,053)	-
Cash transfer from deposit accounts		5,455	28,570
Dividends received from associates		1,124	1,188
Insurance settlement from JSC Sogaz	2	10,490	-
Purchase of non-controlling interest of PJSC ALROSA-Nyurba	5	(12,000)	-
Government grants		2,938	-
Net Cash Outflow used in Investing Activities		**(1,813)**	**(2,272)**
Cash Flows from Financing Activities	**12**		
Repayments of loans		(41,221)	(90,205)
Loans received		41,871	49,067
Interest paid		(5,995)	(9,992)
Purchase of treasury shares	11	(14,077)	-
Dividens paid to non-controlling shareholders		(9)	(1,707)
Dividends paid		(80,739)	(65,706)
Net Cash Outflow used in Financing Activities		**(100,170)**	**(118,543)**
Net Increase / Increase in Cash and Cash Equivalents		**18,139**	**(20,351)**
Cash and cash equivalents at the beginning of the year		7,381	30,410
Cash of assets held for sale		-	(226)
Effect of exchange rate changes on cash and cash equivalents		1,917	(2,452)
Cash and Cash Equivalents at the End of the Year	**7**	**27,437**	**7,381**

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Changes in Equity

		Attributable to owners of PJSC ALROSA							
	Number of shares outstanding (units)	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves (note 11)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2017	**7,364,965,630**	**12,473**	**10,431**	**-**	**(17,104)**	**251,402**	**257,202**	**(232)**	**256,970**
Comprehensive income / (loss)									
Profit for the year	-	-	-	-	-	77,075	77,075	1,541	78,616
Other comprehensive income / (loss)	-	-	-	-	(1,683)	-	(1,683)	60	(1,623)
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**-**	**(1,683)**	**77,075**	**75,392**	**1,601**	**76,993**
Transactions with owners									
Dividends (note 11)	-	-	-	-	-	(65,769)	(65,769)	-	(65,769)
Dividends of subsidiaries to non-controlling shareholders	-	-	-	-	-	-	-	(1,707)	(1,707)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(65,769)**	**(65,769)**	**(1,707)**	**(67,476)**
Balance at 31 December 2017	**7,364,965,630**	**12,473**	**10,431**	**-**	**(18,787)**	**262,708**	**266,825**	**(338)**	**266,487**
Balance at 1 January 2018	**7,364,965,630**	**12,473**	**10,431**	**-**	**(18,787)**	**262,708**	**266,825**	**(338)**	**266,487**
Effect of adoption of IFRS 9 (note 2)	**-**	**-**	**-**	**-**	**(561)**	**(1,045)**	**(1,606)**	**-**	**(1,606)**
Balance at 1 January 2018 adjusted	**7,364,965,630**	**12,473**	**10,431**	**-**	**(19,348)**	**261,663**	**265,219**	**(338)**	**264,881**
Comprehensive income / (loss)									
Profit for the year	-	-	-	-	-	89,217	89,217	1,187	90,404
Other comprehensive loss	-	-	-	-	(718)	-	(718)	(220)	(938)
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**-**	**(718)**	**89,217**	**88,499**	**967**	**89,466**
Transactions with owners									
Dividends (note 11)	-	-	-	-	-	(80,736)	(80,736)	(9)	(80,745)
Purchase of treasury shares (note 11)	(156,059,800)	-	-	(264)	-	(13,813)	(14,077)	-	(14,077)
Change in ownership in subsidiaries (note 11)	-	-	-	-	(11,289)	-	(11,289)	(659)	(11,948)
Total transactions with owners	**(156,059,800)**	**-**	**-**	**(264)**	**(11,289)**	**(94,549)**	**(106,102)**	**(668)**	**(106,770)**
Balance at 31 December 2018	**7,208,905,830**	**12,473**	**10,431**	**(264)**	**(31,355)**	**256,331**	**247,616**	**(39)**	**247,577**

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 rough and cut diamonds. The Company was registered on 13 August 1992 in the Republic of Sakha (Yakutia), which is located within the Russian Federation.

The Group operates mining facilities in Mirny, Udachny, Aikhal, Nyurba and Anabar of Republic of Sakha (Yakutia) (located in Eastern Siberia) and the Arkhangelsk Region. 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 31 December 2018 and 31 December 2017 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 has its principal operating office at 6, Lenin Street, Mirny, Mirninsky ulus, 678175, Republic of Sakha (Yakutia), Russia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets and financial instruments categorised as at fair value through profit or loss. The consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Group companies incorporated in Russia maintain their statutory accounting records and prepare statutory financial reports in accordance with the Federal Law on Accounting and the Regulation on Accounting and the Reporting in the Russian Federation ("RAS") 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 official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 69.4706 and 57.6002 as at 31 December 2018 and 31 December 2017, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 79.4605 and 68.8668 as at 31 December 2018 and 31 December 2017, respectively.

(b) Recent accounting pronouncements

In 2018 the Group has adopted all IFRS, amendments and interpretations which were effective as at 1 January 2018 and which are relevant to its operations.

The following new standards and interpretations became effective for the Group from 1 January 2018, but did not have any material impact on the Group, unless otherwise stated:

Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

(in millions of Russian roubles, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

Amendments to IFRS 1 and IAS 28 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Amendments to IAS 40 "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018.

Adoption of New or Revised Standards and Interpretations:

IFRS 9 "Financial Instruments". The Group adopted IFRS 9 "Financial Instruments", from 1 January 2018. The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standards, 1 January 2018. Consequently, the revised requirements of the IFRS 7 "Financial Instruments": Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant accounting policies are described in paragraph (h) Financial instruments of this Note.

The impact on Financial Statements

The adoption of IFRS 9 did not have a significant impact on the consolidated financial statements of the Group.

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018.

The following table analyses the impact of changes on the Group's financial assets:

	Measurement category		**Carrying value per IAS 39 (closing balance at 31 December 2017)**	**Effect**				**Carrying value per IFRS 9 (opening balance at 1 January 2018)**
				Remeasurement		**Reclassification**		
	IAS 39	**IFRS 9**		**ECL**	**Other**	**Mandatory**	**Voluntary**	
Cash and cash equivalents	L&R	AC	7,381	-	-	-	-	7,381
Investments in debt securities	AFS	FVOCI	1,486	-	-	(1,486)	-	-
Investments in debt securities	AFS	FVTPL (mandatory)	-	-	-	1,486	-	1,486
Total investments in debt securities			**1,486**	**-**	**-**	**-**	**-**	**1,486**
Investments in equity securities	AFS	FVOCI	1,427	-	-	(1,427)	-	-
Investments in equity securities	AFS	FVTPL (mandatory)	-	-	(6)	1,427	-	1,421
Total investments in equity securities			**1,427**	**-**	**(6)**	**-**	**-**	**1,421**
Loans and accounts receivable	L&R	AC	23,302	(100)	-	-	-	23,202
Total loans and accounts receivable			**23,302**	**(100)**	**-**	**-**	**-**	**23,202**
Total financial assets			**33,596**	**(100)**	**(6)**	**-**	**-**	**33,490**

(in millions of Russian roubles, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

The following table analyses the impact of transition to IFRS 9 on the Group's reserves and retained earnings as of 1 January 2018:

	Retained earnings	Other reserves	Total
Carrying value per IAS 39 (closing balance at 31 December 2017)	**262,708**	**(18,787)**	**243,921**
Reclassification of investments from measured at fair value through other comprehensive income to measured at fair value through profit or loss	561	(561)	-
Guarantee recognition	(1,500)	-	(1,500)
Impairment recognition of investments in equity securities measured at fair value through profit or loss	(6)	-	(6)
Impairment recognition of loans and accounts receivable measured at amortised cost	(100)	-	(100)
Carrying value per IFRS 9 (opening balance at 1 January 2018)	**261,663**	**(19,348)**	**242,315**

Reclassifications from available-for-sale to FVTPL

Certain investments in debt securities and in equity securities were reclassified from available-for-sale to financial assets at fair value through profit or loss (RR'mln 1,486 and RR'mln 1,427 respectively) because financial assets are included into the trading portfolio of the Group due to transition to IFRS 9. Accordingly accumulated gains for available-for-sale investments were reclassified to retained earnings in the amount of RR'mln 561 as of January 1, 2018 (note 11).

Guarantee recognition

The Group has guaranteed the obligations of JSC "Aviacompania Yakutiya" to PJSC VTB Bank under the loan agreement amounting to RR'mln 1,500. Management estimates the probability of default to be above average.

IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).

The Group applied simplified method of transition to IFRS 15, and elected to apply the practical expedient available for simplified transition method. Until 1 January 2018 revenue was recognized at the time of the transfer of risks and rewards of ownership to the buyer. Starting 1 January 2018, revenue from sale of goods and services is recognised when a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. Revenue from sale of diamonds and other goods is recognised at a point of time, when control over the goods is transferred to the customer, normally when the goods are shipped to the specific location, the risks and rewards and legal title are passed.

Revenue from transportation and other services recognised over time in the accounting period in which the services are rendered.

The adoption of IFRS 15 did not have a significant impact on the financial position or financial performance of the Group. Therefore comparative information and opening equity as at 1 January 2018 were not restated.

New standards and interpretations

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the consolidated statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group intends to apply a modified retrospective approach, which implies a reflection of the cumulative impact of the initial application of the standard at the date of first use, i.e. on 1 January 2019. According to preliminary estimates of the Group, a one-time increase in non-current assets and financial liabilities under aircraft lease agreements on 1 January 2019 will be near RR'mln 5,500 with short-term part near RR'mln 1,100.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

The following new standards and interpretations are not expected to have any material impact on the Group when adopted:

- 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 a date to be determined by the IASB).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

(c) Principles of consolidation

The Group comprises the parent Company and its subsidiaries. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated, unrealised losses are also eliminated unless the cost cannot be recovered. The accounting policies of the subsidiaries, associates and joint ventures are conformed to those of the Company.

Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value. The Group applies acquisition method on transactions under common control.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill" or a "bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition of and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest in transactions that do not result in a loss of control. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20.0 and 50.0 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(d) Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. The carrying value of the cash-generating unit containing goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

(e) Property, plant and equipment

Property, plant and equipment comprises costs incurred in developing areas of interest as well as the costs related to the construction and acquisition of mining assets.

Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Expenditures related to geophysical analysis and exploration are expensed until it is determined to be probable that economically viable reserves exist. Exploration costs are classified as exploration expenses within other operating expenses. All expenses incurred subsequently are considered as development costs and are capitalised as part of property, plant and equipment. They are depreciated from the date of commencement of mining activities at the exact area of interest. Depreciation of these development costs is calculated on a units of production basis for each area of interest. Depreciation charges are based on proved and probable reserves. Depreciable amount includes future development costs to extract all reserve base from the mine.

Stripping costs incurred during production phase of an open pit are capitalised as part of property, plant and equipment to the extent they provide improved access to further quantities of diamond ore that will be mined in future periods and depreciated subsequently on a units of production basis to match the economic benefits derived from them. The Group recognises a stripping activity asset if, and only if, all of the following are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the Group;
- the Group can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use, the carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or loss. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's recoverable amount.

Borrowing costs on borrowings are capitalised as part of the cost of qualifying assets during the period of time that is required to construct and prepare the asset for its intended use.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.

Classification of production licenses. Management treats cost of production licenses as an integral part of acquisition cost of tangible mining properties; accordingly, production licenses are included in property, plant and equipment in these consolidated financial statements. As at 31 December 2018 the net book value of production licenses included in property, plant and equipment is RR'mln 5,116 (31 December 2017: RR'mln 6,425).

(in millions of Russian roubles, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

Depreciation. Property, plant and equipment are depreciated from the date, when they are ready for the commencement of commercial mining activities.

Depreciation of buildings and land improvements related to extraction of minerals is calculated on a units of production basis for each area of interest. For the purpose of the calculation management uses information with respect to ore reserves on the basis of independent resource engineer's report. In situations where it is known that future development costs will be needed to extract all resource base of the mine, they are included in depreciable amount. Depreciation of production licenses is calculated on a units of production basis. Depreciation of other assets is calculated on a straight-line basis over their estimated useful life.

Summary of useful lives and alternative basis for depreciation:

	Assets related to extraction of minerals	**Other assets**
Buildings	Units of production	7-100 years
Land improvements	Units of production	7-50 years
Production licenses	Units of production	-
Plant and equipment	3-20 years	3-20 years
Transport	5-13 years	5-13 years
Other	4-17 years	4-17 years

The average depreciation rate for the property, plant and equipment depreciated on a units of production basis was 6.84 per cent in the year ended 31 December 2018 (year ended 31 December 2017: 6.67 per cent).

Local infrastructure assets. Local infrastructure assets constructed or purchased by the Group (including dwelling houses for the Group's employees located in the areas of the Group's production activity) are included in the consolidated financial statements at historical cost and depreciated during their useful lives as set out above. These assets are an integral part of the Group's production activities.

Finance leases. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in loans and borrowings. The interest costs are charged to the profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

(f) Provisions

Provisions for liabilities are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

The provision for land recultivation is determined based on the present value of estimated costs of constructive obligations required to restore mining and other operations in accordance with the terms of the license agreements in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration of affected areas. The initial provision for land recultivation together with any changes in estimation is recorded in the consolidated statement of financial position, with a corresponding amount recorded as part of property, plant and equipment in accordance with IAS 16 "Property, Plant and Equipment".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

The Group assesses the provision for land recultivation at each reporting date. Significant estimates and assumptions are made in determining the provision for land recultivation as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent and costs of land recultivation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at reporting date represents management's best estimate of the present value of the future land recultivation costs required.

Changes in the provision for land recultivation resulting from the passage of time are reflected in the profit or loss each period under finance costs. Other changes in the provision relating to a change in the discount rate applied, in the expected pattern of settlement of the obligation or in the estimated amount of the obligation are treated as a change in accounting estimate in the period of the change. The effects of such changes are added to, or deducted from, the cost of the related asset.

(g) Inventories

Inventories of diamonds, extracted ore and sands, mining and construction stores and other materials are valued at the lower of cost or net realisable value. Cost of inventory is determined using weighted average cost formula.

The value of extracted ore and sands is calculated using the quantities determined based on surveyors' measurements of the volumes of ore and sands remaining at the period end. Cost of inventories include those directly attributable to mining the diamonds, extracting the ore and producing sands, and those directly attributable to bringing mining and construction stores and consumable supplies to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

(h) Financial instruments - key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost (AC) is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at fair value through profit or loss (FVTPL) are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Group classifies financial assets in the following measurement categories:

- Financial assets at amortised cost,
- Financial assets at fair value through other comprehensive income,
- Financial assets at fair value through profit or loss.

Debt instruments are classified by category, depending on the business model for managing financial assets and on whether the contractual cash flows are payments to the principal debt and interest:

- debt instruments, where the cash flows represent solely payments of principal and interest, are measured by the Group at amortised cost;
- debt instruments are measured at fair value through other comprehensive income, if the Group holds the instruments to collect both the contractual cash flows and the cash flows arising from the sale of assets;
- other financial assets are measured at fair value through profit or loss.

Investments in equity instruments are measured at fair value. As the equity instruments of the Group are held for trading, changes in fair value are presented in profit or loss.

Financial assets – classification and subsequent measurement: business model. The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include (the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

Financial assets – classification and subsequent measurement: cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Group in performing the SPPI test for its financial assets.

Financial assets measured at amortised cost

The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objectives is to hold assets in order to collect contractual cash flows, not for sale before the contractual repayment date due to change in fair value;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding.

The Group measures cash and cash equivalents, bank deposits, trade and other receivables, loans issued as measured at amortised cost.

Financial assets measured at fair value through other comprehensive income

In this category the Group includes financial instruments that are retained within a business model that involves the management of assets both for the purpose of obtaining contractual cash flows and for the purpose of selling those assets. The Group classifies financial assets at fair value through other comprehensive income according to the following factors:

- the purpose of the financial asset is a maximum increase of cash flows due to sales,
- the threshold amount for sale is not determined.

At the reporting date the Group has no financial assets classified as measured at fair value through other comprehensive income. Financial assets classified as available-for-sale investments before IFRS 9 implementation were reclassified to the asset measured at fair value through profit or loss in the amount of RR'mln 2,913 as they formed trading portfolio of the Group. Accordingly accumulated gains for available-for-sale investments were reclassified to retained earnings in the amount of RR'mln 561 as of 1 January 2018 (Note 2 (b), 11).

Financial assets measured at fair value through profit or loss

The Group measures financial instruments as held within business model which objective is to hold assets in order to collect contractual cash flows considering the following factors:

- The purpose of the financial asset is to maximize cash flows due to sales,
- The management measures the assets according to fair values,
- The financial asset is included into trading portfolio of the Group.

The Group measures financial instruments included into the trading portfolio at fair value through profit or loss.

Expected credit losses

The Group assesses expected credit losses (ECL) associated with its debt financial instruments carried at amortised cost taking into account the probability of default and loss given default ratio. Management applies its professional judgement for development of the assumptions and selection of the information sources for calculation of expected credit losses. In doing so, it takes into account the past experience as well as current market situation and forecasts as at each reporting date. A default on a financial asset takes place in cases when the counterparty does not make payments under the contract within 90 days after the due date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

The Group uses portfolio approach for financial receivables based on the related credit risk. Each portfolio is determined based on the client type and initial credit period.

For assets with expected life of more than one year, the Group takes into account any significant increase in credit risk at each balance sheet date, comparing the default risk of the asset at the reporting date with the risk of default on the asset at the date of initial recognition. A significant increase in credit risk occurs when the counterparty does not make payments under the contract within 30 days after the due date, and also based on the such factors as changes in external credit ratings and information about other negative events affecting counterparty's ability to make a payment.

Financial assets are written off when there are no reasonable expectations of recovering a financial asset. Assets that are impossible to sell and for which all necessary procedures have been completed with purpose of full or partial recovery and the final amount of the loss is determined are written off against the of the allowance for ECL. Subsequent recoveries of amounts previously written off are allocated to the allowance for ECL in profit or loss.

The Group has adopted the simplified expected credit loss model for its trade receivables as permitted by IFRS 9 "Financial Instruments: Classification and Measurement" which requires expected lifetime losses to be recognised from the date of initial recognition (ECL for the whole term). The implementation of expected credit loss model as at 1 January 2018 lead to recognition of provision amounting to RR'mln 100 (note 2 (b)).

To assess the expected credit loss on loans given the Group has implemented the expected credit losses model in accordance with a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to note 3 for a description of how the Group determines when a SICR has occurred.

If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group's definition of credit impaired assets and definition of default is explained in note 3. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 3 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Financial assets – derecognition

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities – measurement categories

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

Financial guarantee recognition

Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the consolidated statement of financial position as an asset.

(i) Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year. Prepayment classified as non-current is not discounted.

(j) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and instruments with maturity at the date of inception of less than three months, which are considered by the Group at the time of deposit to have minimal fair value and default risks.

Cash and cash equivalents are carried at amortised cost using the effective interest method.

(k) Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods borrowings are stated at amortised cost using the effective yield method; any difference between the amount at initial recognition and the redemption amount is recognised as interest expense over the period to maturity of the borrowing.

Borrowing costs (the interest) directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

the temporary investment of those borrowings are capitalised.

(m) Pension and other post-retirement benefits

In the normal course of business the Group contributes to the Russian Federation state pension fund on behalf of its employees. Mandatory contributions to the Russian Federation state pension fund, which is a defined contribution plan, made on behalf of employees directly involved in production of diamonds, are included within wages, salaries and other staff costs in cost of production and apportioned between work-in-process (inventory of diamonds and ores and sands) and cost of sales. Mandatory contributions to the Russian Federation state pension fund made on behalf of other employees, are expensed as incurred and included within wages, salaries and other staff costs in general and administrative expenses and selling and marketing expenses.

Starting from 1 July 2017 in accordance with the changes in the pension plan the Group will finance non-state pensions together with the employees on parity terms.

There was remained in force non-parity pension program till 1 July 2017, according which the Group has liability within defined benefit pension plan. The pension obligation is measured at the present value of the estimated future cash outflows using the interest rates on governmental securities, which have the terms to maturity approximating the terms of the related liability. Actuarial remeasurements arising mainly from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they arise.

Joint stock company “Non-state Pensionary Fund “Almaznaya osen” administers the Group’s defined benefit plan. The amount of pension benefit that an employee will receive on retirement is usually dependent on one or more factors such as age, years of service and average salary for the year, chosen by employee. The liability recognised in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, adjusted for unrecognized actuarial gains or losses.

(n) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

(o) Share-based payments

The Group operates a compound equity-settled and cash-settled share-based compensation plan with zero equity component, under which the Group receives services from employees as consideration for equity instruments (shares) of the Group. Services, received in exchange for cash-settled share-based payments, are recognised at the fair value of the liability incurred and are expensed when consumed. The liability is re-measured at each reporting date to its fair value, with all changes recognised immediately in profit or loss.

(p) Equity

Share capital. Share capital consists of ordinary shares, which are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in the consolidated statement of changes in equity.

Treasury shares. Where the Group entities purchase the Company’s equity share capital, the consideration paid, including any attributable incremental costs, net of income taxes, is deducted from total equity as treasury shares until they are re-sold. Where such shares are subsequently sold, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity. Treasury shares are recorded at weighted average cost. The excess of the cost of purchasing or selling shares over the nominal value of shares is recorded in retained earnings.

Reserves. Changes in ownership in subsidiaries are recorded as reserves.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

Dividends. Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are approved at the General Meeting of Shareholders on or before the end of the reporting period.

(q) Revenue recognition

Revenue is income arising in the course of the Group’s ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue from sale of diamonds and other goods are recognised when control of the good has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer’s acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. The most part of contracts contain full prepayment condition.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Revenue from rendering of transport and other services is recognised in consolidated financial statements in the period when the services are rendered. The Group provides services under fixed-price contracts. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

Liabilities with customers are represented by advances received, which are recognized as revenue during the year.

(r) Interest income

Interest income is recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income, all fee received between the parties to the contract that are an integral part of the effective interest rate, all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the Group relating to the creation or acquisition of a financial asset, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

(s) Dividend income

Dividend income is recognised when the shareholder’s right to receive payment is established and inflow of economic benefits is probable.

(t) Government grants

The Group receives grants from the Government of the Russian Federation and the constituent territories of the Russian Federation to compensate for the effects of tariff regulation, for lost income related to the supply of utilities to a preferential category of customers, for the construction of infrastructure facilities and other purposes.

Government grants related to income are recorded separately as income from grants in the consolidated statement of profit or loss in the period in which the related expenses are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

Government grants received for the construction of infrastructure facilities are accounted for as part of other liabilities until the relevant asset is put into operation. Subsequently, during the useful life of the asset, the amount of the grants is written off monthly to other operating income in the amount of accrued depreciation.

In accordance with IAS 20, the Group does not recognize the grant until it is reasonably certain that all conditions related to the grant are be met and that the grant will be received. Obtaining a grant is not a decisive evidence that the conditions associated with it are fulfilled or will be fulfilled.

Cash receipts in the form of government grants for the construction of infrastructure facilities are recorded separately in the consolidated statement of cash flows as part of the cash flows from investing activities.

(u) Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge (benefit) comprises current tax and deferred tax and is recognised in the Group's profit or loss except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity. Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on accounting estimates if consolidated financial statements are authorised prior to filing relevant tax returns.

Deferred tax assets and labilities are provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit or loss. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill. Deferred tax assets and labilities are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred income tax assets and liabilities are offset when the deferred income taxes assets and liabilities relate to the same taxable entity of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains at their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at every end of the reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge.

(v) Foreign currencies transactions

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies, are translated into functional currencies at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") prevailing at the reporting date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the Group's profit or loss. Foreign exchange gains and losses that relate to borrowings and bank deposits above three months are presented in the consolidated statement of profit or loss and other comprehensive income statement within 'Finance costs / (income), net'. All other foreign exchange gains and losses are presented in the income statement within 'Other operating income' or 'Other operating expenses'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

The assets and liabilities of foreign subsidiaries are translated into Russian Roubles at the exchange rate prevailing at the end of the respective reporting period. The operations of foreign entities are translated at the date of operation or average exchange rate for the reporting period. Translation differences arising from the translation of the net assets of foreign subsidiaries are recognised as translation differences and included in other comprehensive income.

Loans between Group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between Group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognized in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognized in other comprehensive income.

The results and financial position of each Group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

(w) Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. Operating leases include long-term leases of land with rental payments contingent on cadastral values regularly reviewed by the government.

(x) Social costs

Discretionary and voluntary payments made to support social programs and related operations are expensed as incurred.

(y) Non-cash transactions

Non-cash transactions are measured at the fair value of the consideration to be received or given up in non-cash settlements. Non-cash transactions have been excluded from the consolidated cash flow statement. Investing and financing activities and the total of operating activities represent actual cash flows.

(z) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board of the Company, which is the Group’s chief operating decision-maker. The Management Board is responsible for allocating resources and assessing performance of the operating segments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

(aa) Non-current assets classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs of disposal. Held for sale property, plant and equipment, are not depreciated or amortised. Reclassified non-current financial instruments, deferred taxes are not subject to write down to the lower of their carrying amount and fair value less costs of disposal.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

(bb) Critical accounting estimates and judgements in applying accounting policies

The Group makes accounting estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of property, plant and equipment. The estimation of forecast cash flows involves the application of a number of significant judgements and estimates to certain variables including volumes of production, prices of diamonds, operating costs, capital investments, diamonds reserves estimates and macroeconomic factors such as inflation and discount rates. In addition, judgement is applied in determining the cash generating units assessed for impairment.

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. For the year ended 31 December 2018 the Group reversed impairment of property, plant and equipment due to changes in plans for further use in the amount of RR'mln 124 (31 December 2017 Group recognized impairment of property, plant and equipment in the amount of RR'mln 953) (note 8 and 23), also the Group wrote off a provision for impairment of property, plant and equipment in the amount of RR'mln 472 (notes 8 and 24) in connection with the disposal of impaired property, plant and equipment.

Property, plant and equipment of the underground mine Mir. On 4 August 2017 in the underground mine Mir an accident occurred, in connection with which the activities of the ore mine were suspended. As a result, as at 31 December 2017 the Group recognized impairment loss equal to the carrying value of property, plant and equipment damaged in the accident in the amount of RR'mln 8,449 (notes 8, 24).

Damaged property, plant and equipment items were insured by JSC Sogaz insurance company (hereinafter – the Insurer) based on their replacement values. In 2017 the Group recognized insurance income and accounts receivable due from the

(in millions of Russian roubles, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

Insurer in the amount of RR'mln 10,490. As at 31 December 2018 the insurance settlement was paid in full by the Insurer.

In 2018, having completed the evaluation of the possibility to restore the activities of the mine, management of the Group prepared preliminary project documentation for new mine infrastructure. The ultimate decision to build up a new mine was not taken yet. Under new project documentation part of the existing mine assets with the carrying value of RR'mln 7,815 will not be used and have been impaired as of 31 December 2018 (notes 8 and 24).

The Group did not impaired assets related to the Mir infrastructure with carrying value of RR'mln 5,214, which are partly involved in operations of Mirninsky processing plant and other branches of the Company, and which are planned to be used for mining after completion of construction of the mine's new infrastructure and its launch.

Taken into account the fact that extraction activities are not being conducted, the renewal of the mine and the restoration of necessary infrastructure will require significant capital expenditures, management of the Group has performed the impairment test of the assets with book value of RR'mln 5,214 of the mine Mir.

The recoverable amount has been assessed by reference to value in use. In calculating value in use, discount rate of 15.3 per cent has been applied to the cash flows expressed in real terms. The value in use was determined by estimating cash flows for a period up to 2048. The cash flow projections are based on the technical and economic assessment of the mine construction, capital investments projection, the period of production, the volumes of confirmed reserves and predictable resourses and the forecast of prices for rough diamonds. In respect of the ore resourses included in the calculation, management of the Group with high degree of probability assesses the extraction of the reserves and cash flows from them. The most sensitive assumptions used to determine the value in use are:

- capital expenditures;
- the exchange rate of the Russian rouble to the dollar;
- the projected volume of extraction of the ore;
- a discount rate (based on WACC);
- ore resourses.

Based on the impairment test, the recoverable amount of the assets of the Mir mine, which representing a separate CGU, exceeds the their carrying value amounted to RR'mln 5,214. The result of the test is very sensitive to changes in all the above assumptions. The sensitivity of the value of use, determined by the results of testing for impairment of the property, plant and equipment to these parameters, is given in the table below:

Change in assumption:							
capital expenditure, %	(30%)	(20%)	(10%)	-	10%	20%	30%
Recoverable amount, RR'mln	19,128	16,038	12,947	9,857	6,767	3,677	587
Change in assumption:							
the exchange rate RR/USD , %	(15%)	(10%)	(5%)	-	5%	10%	15%
Recoverable amount, RR'mln	(138)	3,194	6,525	9,857	13,189	16,521	19,853
Change in assumption:							
the projected volume of extraction, %	(15%)	(10%)	(5%)	-	5%	10%	15%
Recoverable amount, RR'mln	1,257	4,124	6,991	9,857	12,724	15,591	18,457
Change in assumption:							
discount rate, %	13.8%	14.3%	14.8%	15.3%	15.8%	16.3%	16.8%
Recoverable amount, RR'mln	17,473	14,677	12,147	9,857	7,786	5,911	4,215

If the ore resources are not to be extracted, this will lead to the impairment of the existing PP&E of the mine in full amount.

Management believes that all assumptions used to determine the value in use of the assets of the Mir mine for testing for impairment are reasonable and represent the best management's estimates as at 31 December 2018.

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in note 5.2.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (note 27).

Useful lives of property, plant and equipment. Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Management believes diamond production licenses will be extended past their current expiration dates without significant additional charges. The Group has a history of renewal of its production licenses and there were no cases in the past when any of the Group’s production licenses were not extended. Because of the extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

In the year ended 31 December 2018, if the estimated useful lives of property, plant and equipment had been 10 per cent longer / shorter with all other variables held constant, depreciation charge for the year would have been RR’mln 1,596 (year ended 31 December 2017: RR’mln 1,559) lower / higher.

Pension obligations. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year.

This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the yield to maturity on federal loan bonds denominated in the currency in which the benefits will be paid, and with terms to maturity approximating the terms of the related pension liability (note 16).

Provision for land recultivation. Based on legal requirements of the Russian Federation, licenses agreements and estimated period of resourses extraction the Group estimates discounted costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations). The key assumptions used to determine the asset retirement obligations amount include: production volume, period of extraction and discount rate (note 14).

(cc) Accounting policies before 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9, are as follows.

Depending on their classification **financial instruments** are carried at fair value or amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Non-derivative financial assets

The Group classifies its financial assets in the following categories:

- available-for-sale financial assets, and
- loans and receivables.

Available-for-sale financial assets. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

Purchases of available-for-sale investments on public financial markets are recognised on the settlement date, which is the date that the investment is delivered to the Group. The available-for sale investments are initially recognised at fair value plus transaction costs. Available-for-sale investments are subsequently carried at fair value. Unrealised gains and losses arising from changes in the carrying value of these investments are included in the Group's other comprehensive income or loss in the period in which they arise. Interest income, dividend income and realised gains and losses from the disposal of available-for-sale investments or impairment losses, if any, are included in the Group's profit or loss in the period in which they arise.

Available-for-sale investments of the Group principally comprise non-marketable securities, which are not publicly traded or listed on a stock exchange. For these investments, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows. In assessing the fair value, management makes assumptions that are based on market conditions existing at the end of each reporting period. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are carried at amortised cost using the effective interest method. Gains and losses are recognised within the profit or loss section of the consolidated statement of profit and loss and other comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES (CONTINUED)

Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

Impairment of loans and receivables. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within the profit or loss for the year.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including market risk (currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on minimising potential adverse effects on the financial performance of the Group.

Interest rate risk. The Group's income and operating cash flows are least exposed to the risk of changes in market interest rates due to the Group's lack of significant interest-earning assets. The Group's principal interest rate risk arises from long-term and short-term borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2018 and 2017, the Group's borrowings were denominated in US dollars and Russian Roubles (notes 12 and 13).

(in millions of Russian roubles, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

To mitigate this risk, the Group's treasury function performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In cases where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favorable interest rate terms. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. At the time of raising new debts management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable over the expected period until maturity. The Group did not use derivative instruments to hedge its interest rate risk.

As at 31 December 2018 and 31 December 2017 the borrowings with floating rate were repaid (note 12).

Currency risk. The Group exports production to European and other countries and attracts a substantial amount of foreign currency denominated borrowings and is, thus, exposed to foreign exchange risk arising from various contracts, primarily with respect to the US dollar and to a lesser extent the Euro.

The Group seeks to identify and manage foreign exchange rate risk in a comprehensive manner, considering an integrated analysis of natural economic hedges, to benefit from the correlation between income and expenses. The Group attracts a significant portion of borrowings for its investing activities in the same currency as the forecasted revenue stream to economically hedge the foreign currency risk exposure. The Group chooses the currency in which to hold cash, such as the Russian rouble, US dollar or other currency for a short-term risk management purposes.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	31 December 2018			31 December 2017		
	Monetary financial assets	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
US Dollar	43,406	104,325	(60,919)	3,093	57,754	(54,661)
Euro	125	301	(176)	97	255	(158)
Other foreign currency	558	-	558	972	-	972
Total	**44,089**	**104,626**	**(60,537)**	**4,162**	**58,009**	**(53,847)**

At 31 December 2018, if the Russian Rouble had weakened / strengthened by 20 per cent against the US dollar with all other variables held constant, post-tax profit for the year would have been RR'mln 9,747 lower / higher (31 December 2017: if the Russian Rouble had weakened / strengthened by 20 per cent against the US dollar with all other variables held constant, post-tax profit for the year would have been RR'mln 8,746 lower / higher), mainly as a result of foreign exchange losses / gains on translation of US dollar-denominated borrowings and accounts trade payable partially offset by foreign exchange gains/losses on translation of US dollar-denominated cash and accounts trade receivable. Impact on other components of capital would be insignificant.

Credit risk. The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

Credit risk management. Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on macroeconomic factors, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlation between counterparties within respective portfolio.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies two approaches – the risk grades estimated by external international rating agencies (Standard & Poor's, Fitch and Moody's) or, if external ratings are not available for the counterparty, based on Internal Risk-Based (IRB) rating system. Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

(in millions of Russian roubles, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Master scale credit risk grade	Internal ratings	Ratings of external rating agencies	Corresponding PD interval
Excellent	Counterparties with the lowest risk of default and strong ability to fulfil their contractual obligations, for which the Group has relevant data and regularly performs the financial analysis	AAA – BB+, B (Ba)	0% - 0.01%
Good	Counterparties with the low risk of default and strong ability to fulfil their contractual obligations, for which the Group has relevant data and periodically performs the financial analysis	BB- – BBB-	0.01% - 0.5%;
Satisfactory	Counterparties with the moderate risk of default and payments overdue from 30 to 90 days	CCC+ - CC	0.5% - 5%;
Special monitoring	Counterparties with the high risk of default and payments overdue from 30 to 90 days	CC- - C	5% - 99.9%;
Default	Counterparties with the payments (interest or principal amount) overdue for more than 90 days	C, D-I, D-II	100%

Because the majority of the Group's counterparties do not have an individual external credit rating, the Group's companies have developed procedures for evaluating internal credit ratings that ensure that goods, services, and loans are sold only to counterparties with a positive credit history. These procedures include assessment of financial position, past experience and other factors. The Group mainly applies IRB system for measuring credit risk for the following financial assets – trade receivables, loans issued and other receivables.

To support receivables from customers of diamonds the Group requires collateral such as bank or any other third party's guarantee (with excellent credit risk according to the Group's IRB system).

Expected credit loss (ECL) measurement. ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period. The Group's management estimates that 12-month and lifetime CCFs are materially the same. PD an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses models are based on the instrument's *lifetime period.* The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the end of reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information* if management believes this information may have an impact on ECL. Since most of the Group's financial assets are short-term, the forward-looking information did not have a significant impact on the findings of expected credit losses.

The Group considers a financial instrument to have experienced an SICR when the payment on respective financial instrument has been past due for more than 90 days.

(in millions of Russian roubles, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Expected credit losses for issued financial guarantees. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the guaranteed commitment. CCF is defined based on statistical analysis of past exposures at default of guaranteed obligation.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position secured by collateral received and exposed by finance guarantees given, disclosed in notes 6,7,10 and 27, respectively.

Liquidity risk. Liquidity risk management includes maintaining sufficient cash balances, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group management maintains flexibility in funding by ensuring availability under committed credit lines and expected cash flows from operating activities. Management monitors a rolling forecast of the Group's liquidity reserve (comprises undrawn borrowing facility and cash and equivalents) on the basis of expected cash flow. This is carried out at Group level monthly and annually. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet any net cash outflows and maintaining debt financing plans.

The table below analyses the Group's liabilities for financial instruments into relevant maturity grouping based on the remaining period to contractual maturity date.

	On demand or less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 3 years	Over 3 years	Total
31 December 2018						
Borrowings, loans and finance lease obligations	-	-	41,687	63,184	1,790	106,661
Trade payables	4,576	1,174	609	21	-	6,380
Interest payable	-	-	5,882	4,473	218	10,573
Payables to associates	12	-	-	-	-	12
Other payables	595	-	-	-	-	595
Financial guarantee*	1,500	-	-	-	-	1,500
	6,683	**1,174**	**48,178**	**67,678**	**2,008**	**125,721**
31 December 2017						
Borrowings, loans and finance lease obligations	-	-	34,734	58,568	126	93,428
Trade payables	4,402	784	1,239	180	-	6,605
Interest payable	18	35	5,466	8,673	20	14,212
Payables to associates	8	-	-	-	-	8
Other payables	859	-	-	-	-	859
Financial guarantee*	1,500	-	-	-	-	1,500
	6,787	**819**	**41,439**	**67,421**	**146**	**116,612**

*The subsidiary of PJSC ALROSA has guaranteed the obligation of JSC "Aviacompania Yakutiya" to PJSC VTB Bank under the loan agreement for the period until July 2022. This guarantee is classified as "on demand", the rest financial liabilities in the column "on demand and less than 1 month" are less than one month.

As the amounts of the interest payable included in the table above are contractual undiscounted cash flows which include future interest payments, these amounts will not reconcile to the amounts disclosed in the consolidated statement of financial position for the interest payable.

Capital risk management. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(in millions of Russian roubles, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Under the existing loan agreements, the Group must comply with a number of requirements, including requirements for the level of capital and its ratio to the amount of net debt. The Group has complied with all externally imposed capital and debt requirements throughout 2018 and 2017.

The Group monitors capital mostly on the basis of the gearing ratio for the purpose of maintaining major debt parameters at the optimal level. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position, less bank deposits, cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt without accrued interests. Management assess relevancy of Group's gearing ratio depend on current economic situation. After completion of that analysis management will develop action plan for improvement of gearing ratio if deemed to be necessary.

The gearing ratios at 31 December 2018 and 31 December 2017 were as follows:

	31 December 2018	31 December 2017
Total borrowings	106,661	93,428
Less: cash and cash equivalents	(27,437)	(7,381)
bank deposits	(11,784)	-
Net debt	67,440	86,047
Total equity	247,577	266,487
Total capital	**315,017**	**352,534**
Gearing ratio	0.21	0.24

4. FINANCIAL INSTRUMENTS BY CATEGORY

FINANCIAL ASSETS	Financial assets at amortised cost (Loans and receivables)		Financial assets at fair value through profit or loss (Available for sale investments)		Total	
	31 December		31 December		31 December	
	2018	2017	2018	2017	2018	2017
Non-current financial assets						
Financial assets at fair value through profit or loss	-	-	838	-	838	-
Available-for-sale investments	-	-	-	2,913	-	2,913
Loans issued	602	774	-	-	602	774
Consideration receivable for disposed interest in CJSC MMC Timir	-	467	-	-	-	467
Other long-term receivables	263	399	-	-	263	399
Total non-current financial assets	**865**	**1,640**	**838**	**2,913**	**1,703**	**4,553**
Current financial assets						
Insurance settlement	-	10,490	-	-	-	10,490
Loans issued	383	377	-	-	383	377
Trade receivables for supplied diamonds	12,080	6,038	-	-	12,080	6,038
Receivables from associates	3,461	1,222	-	-	3,461	1,222
Consideration receivable for disposed interest in CJSC MMC Timir	535	613	-	-	535	613
Other trade receivables	1,672	2,922	-	-	1,672	2,922
Bank deposits	11,784	-	-	-	11,784	-
Cash and cash equivalents	27,437	7,381	-	-	27,437	7,381
Total current financial assets	**57,352**	**29,043**	**-**	**-**	**57,352**	**29,043**
Total financial assets	**58,217**	**30,683**	**838**	**2,913**	**59,055**	**33,596**

(in millions of Russian roubles, unless otherwise stated)

4. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

FINANCIAL LIABILITIES	Liabilities at amortised cost	
	31 December 2018	**31 December 2017**
Non-current financial liabilities		
Long-term debt	64,974	58,694
Total non-current financial liabilities	**64,974**	**58,694**
Current financial liabilities		
Short-term loans and current portion of long-term debt	41,687	34,734
Trade payables	6,380	6,605
Interest payable	811	788
Dividends payable	146	149
Payables to associates	12	8
Other payables	595	859
Total current financial liabilities	**49,631**	**43,143**
Total financial liabilities	**114,605**	**101,837**

5. 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	
				31 December 2018	**31 December 2017**
ALROSA Finance S.A.	Financial services	Luxembourg		100.0	100.0
JSC ALROSA-Gaz	Gas production	Russia		100.0	100.0
JSC Almazy Anabara	Diamonds production	Russia		100.0	100.0
PJSC Severalmaz	Diamonds production	Russia		99.9	99.6
JSC Viluyskaya GES-3	Electricity production	Russia		99.7	99.7
Alrosa Belgium N.V.	Diamonds trading	Belgium		99.6	99.6
PJSC ALROSA-Nyurba	Diamonds production	Russia		97.5	87.5
Hydroshikapa S.A.R.L	Electricity production	Angola		55.0	55.0
JSC Geotransgaz	Gas production	Russia		-	100.0
Urengoy Gaz Company LLC	Gas production	Russia		-	100.0
JSC Nizhne-Lenskoe*	Diamonds production	Russia		-	100.0

As at 31 December 2018 and 31 December 2017 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

*JSC Nizhne-Lenskoe was liquidated in 2018.

5.1. Assets of disposal group classifies as held for sale, JSC Geotransgaz and Urengoy Gas Company LLC

In December 2017 the Supervisory Council has approved a decision to sale the 100% holdings of shares of the companies Maretiom Investments Limited и Velarion Investments Limited, owned JSC Geotransgaz and LLC Urengoy Gaz Company (hereafter – gas assets or gas companies), for which cause the management of the Group has classified assets and liabilities of gas companies as held for sale as of 31 December 2017. These companies belong to Gas segment.

On 19 February 2018 PJSC NOVATEK was declared the winner in an open auction on sale of the gas assets of JSC Geotransgaz and Urengoy Gas Company LLC for consideration of RR'mln 30,300.

As a result of reclassification to non-current assets held for sale the Group recognised impairment loss amounting to RR'mln 5,744 (note 24). Fair value of the assets was calculated as auction price plus minor positive fluctuation. Fair value of the gas assets relates to Level 3 fair value measurement hierarchy.

(in millions of Russian roubles, unless otherwise stated)

5. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

The Gas companies assets and liabilities represent a disposal group. However, the activity of the Gas companies is a non-core activity for the Group that generated an insignificant financial results and was disposed of as a part of disposal program for non-core activities. At the same time, the Group has assets associated with gas production activities. Therefore, the management believes the assets and liabilities of the disposed gas companies did not represent a major line of business or geographical area of operation of the Group and were not classified as discontinued operations at 31 December 2017.

The major classes of assets and liabilities of the Gas companies disposal group are as follow:

	31 December 2017
Non-current assets classified as held for sale	
Property, plant and equipment	38,825
Inventories	150
Trade and other receivables	219
Cash and cash equivalents	226
Other assets	34
Total non-current assets classified as held for sale	**39,454**
Liabilities of disposal group classified as held for sale	
Trade and other payables	(656)
Loans and borrowings	(1,007)
Deferred tax liabilities	(5,864)
Provisions	(1,120)
Other liabilities	(507)
Total liabilities of disposal group classified as held for sale	**(9,154)**
Net assets of disposal group classified as held for sale	**30,300**

The Group lost control over the Gas companies' financing and operating activities as a result of the sale.

The assets and liabilities of gas companies at the date of disposal were as follows:

Property, plant and equipment	38,903
Inventories	134
Trade and other receivables	219
Cash and cash equivalents	199
Other assets	23
Trade and other payables	(343)
Loans and borrowings	(1,007)
Deferred tax liabilities	(5,864)
Provisions	(1,265)
Other liabilities	(505)
Net assets at the date of disposal	**30,494**
Consideration receivable	**30,300**
Loss on disposal	**194**

5.2. Goodwill

The amount of goodwill totalling RR'mln 1,439 relates to acquisition of a 49.0 per cent shares in JSC Almazy Anabara in December 2007. The goodwill is attributable to the operational synergies expected to arise after this acquisition as a result of more effective integration of operational activity of this subsidiary into the Group's one. As of the date of acquisition goodwill was attributed to the diamond mining businesses of JSC Almazy Anabara. As at 31 December 2018 the recoverable amount of goodwill was determined as a value in use on the basis of the recent management's forecast of future cash flows of JSC Almazy Anabara for the years 2019-2035 that reflects the expected period of production activity on the existing deposits. Based on results of the analysis, management concluded that there is no impairment for goodwill as at 31 December 2018 and 31 December 2017.

(in millions of Russian roubles, unless otherwise stated)

5. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

The impairment test involves making judgment about several key future business indicators. Key future business indicators used for goodwill impairment test are listed below:

	31 December 2018	31 December 2017
Pre-tax discount rate	13.5%	13.3%
Producer price index for 2019-2035	4.3 - 7.1%	4.2 - 7.0%
Average diamond price, RR / carat	7,737	6,058
EBITDA margin	44% - 64%	38% - 58%

Management believes that their judgments are reasonable and supportable in the current economic environment. However, reasonable changes of key assumptions as at 31 December 2018 and 31 December 2017 will not lead to an excess of carrying value of assets over their value-in-use.

5.3. Investments in Associates and Joint Ventures

		Percentage of ownership interest held at 31 December		Carrying value of investment at 31 December		Group's share of net profit/(loss) for the year ended 31 December	
Name	**Place of business**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Catoca Mining Company Ltd. (associate)	Angola	32.8	32.8	4,993	4,115	3,414	3,041
Other (associates and joint ventures)	Russia	20-50	20-50	198	197	4	(14)
				5,191	**4,312**	**3,418**	**3,027**

As at 31 December 2018 and 31 December 2017 the percentage of ownership interest of the Group in its associates and joint ventures is equal to the percentage of voting interest.

Catoca Mining Company Ltd is a diamond-mining venture located in Angola.

In August 2018 Catoca Mining Company Ltd declared dividends for the year ended 31 December 2017; the Group's share of these dividends amounted to RR'mln 3,368 before taxation in the amount of RR'mln 337. For the year ended 31 December 2018 currency translation income (net of deferred tax) recognized in the other comprehensive income in respect of investment in Catoca Mining Company Ltd totalled RR'mln 665.

In May 2017 Catoca Mining Company Ltd declared dividends for the year ended 31 December 2016; the Group's share of these dividends amounted to RR'mln 2,515 before taxation in the amount of RR'mln 252. For the year ended 31 December 2017 currency translation loss (net of deferred tax) recognized in the other comprehensive income in respect of investment in Catoca Mining Company Ltd totalled RR'mln 206.

(in millions of Russian roubles, unless otherwise stated)

5. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

Summarised financial information of the Group's associates and joint venture is as follows:

	Catoca Mining Company Ltd		Other		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Non-current assets	16,759	16,027	6,068	6,072	22,827	22,099
Current assets	24,738	12,836	76	64	24,814	12,900
Total assets	**41,497**	**28,863**	**6,144**	**6,136**	**47,641**	**34,999**
Non-current liabilities	-	65	133	1,698	133	1,763
Current liabilities	26,274	16,252	1,648	27	27,922	16,279
Total liabilities	**26,274**	**16,317**	**1,781**	**1,725**	**28,055**	**18,042**
Net assets	15,223	12,546	4,363	4,411	19,586	16,957

	Catoca Mining Company Ltd		Other		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Group's share in net assets (not including impairment)	4,993	4,115	2,130	2,155	7,123	6,270
Revenue	48,136	39,441	154	148	48,290	39,589
Profit/(loss) for the year	10,409	9,271	(48)	(22)	10,361	9,249
Dividends declared to shareholders	(10,268)	(7,668)	(4)	(4)	(10,272)	(7,672)

5.4 Purchase of shares in PJSC ALROSA-Nyurba

On 19 July 2018 the Company signed an agreement to purchase 10.0% shares in PJSC ALROSA-Nyurba for the total consideration of RR'mln 12,000 (80 000 ordinary shares). After completion of transaction the Group's share in PJSC ALROSA-Nyurba was 97.5%.

6. BANK DEPOSITS

	31 December 2018	31 December 2017
Deposits in PJSC VTB Bank	5,935	-
Deposits in PJSC Sberbank	3,167	-
Deposits in PJSC Sovcombank	1,042	-
Deposits in Bank GPB (JSC)	936	-
Deposits in JSC Alfa-Bank	704	-
Total bank deposits	**11,784**	**-**

The credit quality of banks is disclosed in note 7.

As at 31 December 2018 the Group placed in banks deposits in roubles with maturity dates exceeding three months and interest rates ranging from 3.7% to 8.1% per annum. As at 31 December 2017 the Group did not have bank deposits with maturity dates exceeding three months.

The table below discloses the credit quality of bank deposits based on credit risk grades at 31 December 2018. Refer to note 3 for the description of the Group's credit risk grading system.

	Bank deposits
Excellent	4,807
Good	6,977
Total bank deposits	**11,784**

(in millions of Russian roubles, unless otherwise stated)

7. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Deposit accounts	25,292	4,000
Cash in banks and on hand	2,145	3,381
Total cash and cash equivalents	**27,437**	**7,381**

Deposit accounts at 31 December 2018 and 31 December 2017 are mainly held to meet short-term cash needs and have various original maturities not exceeding three months but can be withdrawn on request without restrictions.

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2018. Refer to note 3 for the description of the Group's credit risk grading system.

	Cash in banks	Deposit accounts	Total
Excellent	772	4,408	5,180
Good	1,368	20,884	22,252
Total cash and cash equivalents, excluding cash on hand	**2,140**	**25,292**	**27,432**

The table below analyses the credit quality of banks at which the Group holds cash and cash equivalents:

	Credit rating at 31 December 2018	Rating agency	31 December 2018	31 December 2017
PJSC VTB Bank*	BBB-	Standard & Poor's	13,546	2,400
PJSC CREDIT BANK OF MOSCOW	BB-	Standard & Poor's	7,074	1,400
PJSC Bank ZENIT	Ba3	Moody's	3,474	-
PJSC SOVCOMBANK	BB-	Standard & Poor's	1,347	2,500
JSC Alfa-Bank	BB+	Standard & Poor's	958	2
The Bank of New York Mellon S.A.	Aa1	Moody's	267	125
Gazprombank (Switzerland), Ltd.	BB+	Fitch	222	499
Bank GPB (JSC)	Ba2	Moody's	119	63
First Abu Dhabi Bank	Aa3	Moody's	52	5
PJSC Sberbank	Baa3	Moody's	32	36
Bank of China (Hong Kong) Ltd.	A+	Standard & Poor's	17	81
ABN AMRO Bank N.V.	A1	Moody's	15	39
JSC UniCredit Bank	BBB-	Fitch	7	34
Other banks and cash on hand	n/a	n/a	307	197
Total cash and cash equivalents			**27,437**	**7,381**

*As of 1 January 2018 VTB 24 (PJSC) was merged to PJSC VTB Bank.

(in millions of Russian roubles, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Land and Improvements	Plant and Equipment	Transport	Licenses	Assets under Construction	Other	TOTAL
Cost at 31.12.2016	**79,214**	**169,790**	**96,555**	**22,257**	**39,296**	**41,277**	**4,074**	**452,463**
Additions	375	509	4,506	1,737	87	20,555	192	27,961
Transfers	3,473	16,197	4,826	122	-	(24,643)	25	-
Reclassification to disposal group – at cost (note 5.1)	(1,188)	(16,245)	(2,276)	(73)	(24,767)	(4,162)	(25)	(48,736)
Disposal of subsidiaries – at cost	-	-	(6)	(2)	-	(4)	-	(12)
Other disposals – at cost (note 2)	(1,275)	(8,664)	(8,021)	(748)	(74)	(1,854)	(294)	(20,930)
Currency translation differences	12	(317)	1	26	4	110	(2)	(166)
Change in estimate of provision for land recultivation (note 14)	-	81	-	-	-	-	-	81
Cost at 31.12.2017	**80,611**	**161,351**	**95,585**	**23,319**	**14,546**	**31,279**	**3,970**	**410,661**
Additions	281	785	6,802	2,830	10	18,055	706	29,469
Transfers	4,282	12,536	4,500	3,412	-	(24,738)	8	-
Disposal of subsidiaries – at cost	(754)	(222)	(367)	(215)	-	(751)	(185)	(2,494)
Other disposals – at cost (note 2)	(2,109)	(346)	(3,117)	(1,142)	(79)	(305)	(264)	(7,362)
Currency translation differences	(1)	1,222	(2)	13	-	286	7	1,525
Change in estimate of provision for land recultivation (note 14)	-	102	-	-	-	-	-	102
Cost at 31.12.2018	**82,310**	**175,428**	**103,401**	**28,217**	**14,477**	**23,826**	**4,242**	**431,901**
Accumulated depreciation and impairment losses at 31.12.2016	**(28,391)**	**(54,549)**	**(57,121)**	**(14,108)**	**(7,644)**	**-**	**(1,776)**	**(163,589)**
Depreciation charge for the year	(2,421)	(8,629)	(9,035)	(2,239)	(2,318)	-	(548)	(25,190)
Reclassification to disposal group – accumulated depreciation (note 5.1)	291	3,651	1,168	56	4,725	-	20	9,911
Disposal of subsidiaries – accumulated depreciation	-	-	6	2	-	-	-	8
Other disposals – accumulated depreciation (note 2)	860	2,748	6,768	735	54	-	236	11,401
Currency translation differences	(13)	118	9	(28)	(5)	-	3	84
Impairment of property, plant and equipment	(667)	(1,913)	(578)	(35)	(2,933)	(575)	4	(6,697)
Accumulated depreciation and impairment losses at 31.12.2017	**(30,341)**	**(58,574)**	**(58,783)**	**(15,617)**	**(8,121)**	**(575)**	**(2,061)**	**(174,072)**
Depreciation charge for the year	(2,279)	(7,172)	(8,879)	(2,126)	(1,316)	-	(504)	(22,276)
Disposal of subsidiaries – accumulated depreciation	174	181	195	119	-	575	45	1 289
Other disposals – accumulated depreciation	1,066	233	3,050	1,088	76	-	230	5,743
Currency translation differences	2	(484)	2	(7)	-	-	(5)	(492)
Impairment of property, plant and equipment (note 2)	(1,638)	(5,521)	(21)	25	-	(64)	(1)	(7,220)
Accumulated depreciation and impairment losses at 31.12.2018	**(33,016)**	**(71,337)**	**(64,436)**	**(16,518)**	**(9,361)**	**(64)**	**(2,296)**	**(197,028)**
Net book value at 31.12.2017	**50,270**	**102,777**	**36,802**	**7,702**	**6,425**	**30,704**	**1,909**	**236,589**
Net book value at 31.12.2018	**49,294**	**104,091**	**38,965**	**11,699**	**5,116**	**23,762**	**1,946**	**234,873**

Capitalised borrowing costs

During the year the Group has capitalised borrowing costs amounting to RR'mln 706 (2017: RR'mln 475) in construction of qualifying asset totalling RR'mln 10,123 (2017: RR'mln 10,085), most of which is paid at 31 December 2018. In the consolidated statement of cash flow the capitalized borrowing costs were included into financing activity as part of interest paid. For the year ended 31 December 2018 borrowing costs were capitalized at the weighted average rate of its general borrowing of 6.79 per cent per annum (31 December 2017: 6.2 per cent per annum).

Finance leases

Property, plant and equipment include the mining equipment and transport which the Group received under finance lease agreements. As at 31 December 2018 the carrying value of this equipment was RR'mln 15 (31 December 2017: RR'mln 61).

(in millions of Russian roubles, unless otherwise stated)

9. INVENTORIES

	31 December 2018	31 December 2017
Diamonds*	49,587	50,223
Ores and sands mined	14,032	14,522
Mining and repair materials	27,164	24,505
Consumable and other supplies	1,836	2,726
Total inventories	**92,619**	**91,976**

*At 31 December 2018 diamonds include diamonds purchased from the Catoca Mining Company Ltd in the amount of RR'mln 2,032.

10. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 December 2018	31 December 2017
Prepayment for share in Catoca Mining Company Ltd.*	8,350	8,350
Loans issued**	602	774
Advances to suppliers	90	162
Long-term VAT recoverable	11	13
Consideration receivable for disposed interest in CJSC MMC Timir***	-	467
Other long-term receivables	263	399
Total long-term accounts receivable	**9,316**	**10,165**

*In November 2017 based on the assignment agreement between the Group and Odebrecht Mining Services for the purchase of the 16.4% share in Catoca Mining Company Ltd, the Group made a prepayment amounting to US$'mln 140. The completion of the transaction is expected in the first half of 2019.

**The loans issued of RR'mln 622 nominal value as at 31 December 2018 (31 December 2017: RR'mln 800) to be repaid in December 2021, are collateralised by shares of JSC Pur-Navolok Otel and real estate. The management estimates that collateral taken exceeds the current value of the loans issued and the allowance roe expected credit losses was not created.

Short-term accounts receivable	31 December 2018	31 December 2017
Financial accounts receivable	***18,131***	***21,662***
Trade receivables for supplied diamonds	12,080	6,038
Receivables from associates (note 28)	3,461	1,222
Loans issued	383	377
Interest on deposits	64	3
Consideration receivable for disposed interest in CJSC MMC Timir***	535	613
Insurance settlement (note 2)	-	10,490
Other short-term receivables	1,608	2,919
Non-financial accounts receivable	***4,140***	***7,975***
VAT recoverable	2,827	2,126
Advances to suppliers	1,013	1,681
Prepaid taxes, other than income tax	300	4,168
Total short-term accounts receivable	**22,271**	**29,637**

***The consideration is receivable from Evraz plc, which credit rating as at 31 December 2018 is BB (Stable) assessed by Fitch. This receivable has excellent credit risk grade in accordance with rating system of the Group, for which reason the allowance for expected credit losses not created.

The fair value of long-term accounts receivable is estimated by discounting the future contractual cash inflows at the market interest rates available to the recipients of funds at the end of the reporting period.

The fair value of each class of long-term and short-term trade and other accounts receivable at 31 December 2018 and 31 December 2017 approximates their carrying value.

Trade and other accounts receivables relate to Level 2 fair value measurement hierarchy described in Note 31.

The Group applies the simplified approach provided in IFRS 9 for assessment of expected credit losses using the estimated allowance for expected credit losses over the entire term for trade and other receivables.

To assess expected credit losses allowance, trade and other receivables were grouped based on the general characteristics of credit risk and the number of days of late payment.

(in millions of Russian roubles, unless otherwise stated)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

The levels of expected credit losses are based on payment schedules for sales for 36 months before 31 December 2018 or 1 January 2018, respectively, and similar historical credit losses incurred during this period.

The credit loss allowance for trade and other receivables is determined in accordance with the provision matrix presented in the table below. The matrix of provision is based on a credit risk assessment system (note 3) adjusted for guarantees, collateral, securities.

	Gross carrying amount	**Lifetime ECL**
Excellent	866	-
Good	15,795	(8)
Satisfactory	-	-
Special monitoring	4,253	(2,777)
Default	2	-
Total financial accounts receivables (gross carrying amount)	**20,916**	-
Credit loss allowance	-	(2,785)
Total financial accounts receivables (carrying amount)	**18,131**	-

The changes in impairment provision and allowance for expected credit losses are as follows:

Long-term accounts receivable	**31 December 2018**	**ECL release**	**Reclassification from long-term to short-term part**	**ECL expense / (reversal of ECL)**	**Effect of IFRS 9 adoption as at 01.01.2018**	**31 December 2017**
Receivables from associates	35	-	(848)	-	-	883
Other long-term receivables	15	-	-	9	-	6
	50	**-**	**(848)**	**9**	**-**	**889**
Short-term accounts receivable						
Receivables from associates	856	2	848	(9)	-	15
Loans issued	-	(57)	-	-	-	57
Advances to suppliers	2	(2)	-	(4)	-	8
Other trade receivables	1,929	(149)	-	8	100	1,970
	2,787	**(206)**	**848**	**(5)**	**100**	**2,050**

Long-term accounts receivable	**31 December 2017**	**Provision release**	**Reclassification to non-current assets held for sale**	**Provision expense / (reversal of provision)**	**31 December 2016**
Receivables from associates	883	-	-	10	873
Other long-term receivables	6	-	-	(23)	29
	889	**-**	**-**	**(13)**	**902**
Short-term accounts receivable					
Loans issued	57	(71)	-	-	128
Receivables from associates	15	(4)	-	(80)	99
Other trade receivables	1,978	(139)	(136)	561	1,692
	2,050	**(214)**	**(136)**	**481**	**1,919**

The allowance for expected credit losses mainly relate to receivables of the counterparties, which are in difficult economic situations or under bankruptcy procedures. The ageing analysis of these receivables is as follows:

(in millions of Russian roubles, unless otherwise stated)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

	31 December 2018				31 December 2017			
	Up to 1 year	**1 to 3 years**	**Over 3 years**	**Total**	**Up to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Long-term accounts receivable								
Receivables from associates	-	-	35	35	-	848	35	883
Other long term receivables	-	15	-	15	6	-	-	6
Total long-term accounts receivable	**-**	**15**	**35**	**50**	**6**	**848**	**35**	**889**
Short-term accounts receivable								
Loans issued	-	-	-	-	-	32	25	57
Receivables from associates	848	-	8	856	3	-	12	15
Advances to suppliers	2	-	-	2	-	4	4	8
Other short-term receivables	459	1,315	155	1,929	561	992	417	1,970
Total short-term accounts receivable	**1,309**	**1,315**	**163**	**2,787**	**564**	**1,028**	**458**	**2,050**

For the purpose of analysis of credit quality of debtors as at 31 December 2017 management classified financial receivables of the Group, except receivable for disposed interest in CJSC MMC Timir, as follows:

31 December 2017	**Large customers**	**Medium and small customers**	**Entities controlled by the Government**	**Individuals**	**Total**
Long-term accounts receivable					
Loans issued	-	381	-	393	774
Other long-term receivables	-	399	-	-	399
Total long-term financial receivable	**-**	**780**	**-**	**393**	**1,173**
Short-term accounts receivable					
Insurance settlement	10,490	-	-	-	10,490
Loans issued	-	202	-	175	377
Receivables from associates	1,222	-	-	-	1,222
Trade receivables for supplied diamonds	-	3,781	2,257	-	6,038
Other short-term receivables	3	983	1,707	229	2,922
Total short-term financial receivable	**11,715**	**4,966**	**3,964**	**404**	**21,049**

For the purposes of the above analysis customers are considered large if per Group’s assessment their total assets exceed RR’mln 5,000 and their revenue exceeds RR’mln 1,000. Management believes that balances of accounts receivable with large customers have higher credit quality than medium and small customers or individuals.

As at 31 December 2017 RR’mln 21,516 were neither past due nor impaired and have no history of overdue payments. Most of these debtors had no individual external credit rating.

The credit quality analysis of receivables that are neither past due nor impaired is as follows:

	2017	
	Trade receivables	**Other financial receivables**
Receivables that are neither past due nor impaired:		
Russian Government	2,257	1,453
Medium customers	1,015	189
Small customers	2,753	1,450
Large customers of the Republic of Angola	-	1,221
S&P A-	-	38
S&P BBB-	-	10,490
S&P BB-	-	3
No rating assigned	13	634
Total receivables that are neither past due nor impaired	**6,038**	**15,478**

(in millions of Russian roubles, unless otherwise stated)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 31 December 2017 accounts receivable in the amount of RR'mln 706 were past due but were not considered impaired. They include only other short-term receivables and relate to a number of independent medium and small customers for whom there is no recent history of default. As at 31 December 2017 none of these accounts receivable was secured by any collateral.

The ageing analysis of receivables that are past due but not impaired is as follows:

	31 December 2017
Up to 3 months	671
3 to 6 months	5
6 to 12 months	-
More than 1 year	30
Total past due but not impaired receivables	**706**

As at 31 December 2017 19 debtors of the Group had the outstanding balance with the Group exceeding RR'mln 100. As at 31 December 2017 total amount of such accounts receivable was RR'mln 25,388.

11. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 31 December 2018 and 31 December 2017 and consists of 7,364,965,630 ordinary shares, at RR 0.5 par value share. As at 31 December 2018 and 31 December 2017 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 which was approved by the Supervisory Board on 6 August 2018, at least 50% of the net profit as reported in the IFRS consolidated financial statement of the Group is distributed for dividends payment. The new basis for calculating dividend payment is free cash flow also determined based on IFRS consolidated financial statements. The debt ratio is taken into account when calculating the amount of dividend payment. The legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation, and accordingly, management of the Company believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

Treasury shares

As at 31 December 2018 subsidiaries of the Group held 156,059,800 ordinary shares of the Company (31 December 2017: nil shares).

Earnings or loss per share

Earnings or loss per share have been calculated by dividing the profit or loss attributable to owners of PJSC ALROSA by the weighted average number of shares outstanding during the year, i.e. excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares. There were 7,257,315,514 and 7,364,965,630 weighted average shares outstanding for the years ended 31 December 2018 and 31 December 2017, respectively.

There are no dilutive financial instruments outstanding.

(in millions of Russian roubles, unless otherwise stated)

11. SHAREHOLDERS' EQUITY (CONTINUED)

Other reserves

	Currency translation	Purchase of non-controlling interest	Available-for-sale investments	Recognition of accumulated actuarial loss	Total other reserves
Balance at 31 December 2016	**171**	**69**	**238**	**(17,582)**	**(17,104)**
Currency translation differences	(132)	-	-	-	(132)
Actuarial remeasurement on post employment benefit obligation (note 16)	-	-	-	(1,874)	(1,874)
Change in fair value of available for sale investments	-	-	323	-	323
Balance at 31 December 2017	**39**	**69**	**561**	**(19,456)**	**(18,787)**

	Currency translation	Purchase of non-controlling interest	Available-for-sale investments	Recognition of accumulated actuarial loss	Total other reserves
Balance at 1 January 2018	**39**	**69**	**561**	**(19,456)**	**(18,787)**
Effect of IFRS 9 adoption	-	-	(561)	-	(561)
Adjusted balance at 1 January 2018	**39**	**69**	**-**	**(19,456)**	**(19,348)**
Actuarial remeasurement on post employment benefit obligation (note 16)	-	-	-	(1,115)	(1,115)
Currency translation differences	397	-	-	-	397
Purchase of non-controlling interest	-	(11,289)	-	-	(11,289)
Balance at 31 December 2018	**436**	**(11,220)**	**-**	**(20,571)**	**(31,355)**

Dividends

On 30 September 2018 the Company's extraordinary shareholders' meeting approved dividends for the first half of the year ended 31 December 2018 totalling RR'mln 43,674 (including RR'mln 925 on ordinary shares held by the subsidiaries). Dividends per share amounted to RR 5.93.

On 26 June 2018 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2017 totalling RR'mln 38,592 (including RR'mln 605 on ordinary shares held by the subsidiaries). Dividends per share amounted to RR 5.24.

On 30 June 2017 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2016 totalling RR'mln 65,769. Dividends per share amounted to RR 8.93.

12. LONG-TERM DEBT

	31 December 2018	31 December 2017
Debt to banks:		
RR denominated fixed rate	2,841	1,087
	2,841	**1,087**
Eurobonds US$ denominated	62,133	57,600
Finance lease obligation	-	91
Other RR denominated fixed rate loans	-	20
	64,974	**58,798**
Less: current portion of long-term debt (note 13)	-	(104)
Total long-term debt	**64,974**	**58,694**

The average effective and market interest rates for each class of long-term debt at the end of the reporting period were as follows:

(in millions of Russian roubles, unless otherwise stated)

12. LONG-TERM DEBT (CONTINUED)

	31 December 2018		31 December 2017	
	Effective interest rates	Market interest rates	Effective interest rates	Market interest rates
Debt to banks:				
RR denominated fixed rate	9.4%	9.0%	11.2%	9.2%
Eurobonds US$ denominated	7.8%	6.1%	7.8%	5.1%

The fair value of long-term debt is estimated by discounting the future contractual cash flows at the market interest rate available to the Group at the end of the reporting period. The carrying amounts and fair values of long-term debt are as follows:

	31 December 2018		31 December 2017	
	Carrying value	Fair value	Carrying value	Fair value
Debt to banks:				
RR denominated fixed rate	2,841	2,795	1,087	1,138
Eurobonds US$ denominated	62,133	65,689	57,600	64,534
Finance lease obligation	-	-	91	91
Other RR denominated fixed rate loans	-	-	20	20

Loans from banks relate to Level 2 fair value measurement hierarchy, Eurobonds relate to Level 1 fair value measurement hierarchy, and finance lease obligation relates to Level 3 fair value measurement hierarchy described in note 31.

Eurobonds

	Year ended 31 December 2018	Year ended 31 December 2017
Balance at the beginning of the reporting period	**57,600**	**60,657**
Amortisation of discount	3	3
Repayment	(6,993)	-
Foreign exchange losses / (gains)	11,523	(3,060)
Balance at the end of the reporting period	**62,133**	**57,600**

Finance lease obligation

	Minimum lease payments 31 December 2018	Discounted value of minimum lease payments 31 December 2018	Minimum lease payments 31 December 2017	Discounted value of minimum lease payments 31 December 2017
Within 1 year	-	-	91	91
Total finance lease obligation	**-**	**-**	**91**	**91**

As at 31 December 2018 finance lease obligations of the transport are paid off. The assets are purchased by the Company. Residual value of these assets is RR’mln 19.

Liabilities from financing activities

The table below sets out an analysis of the movements in the Group’s liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the consolidated statement of cash flows:

	Liabilities from financing activities			
	Borrowings	Interest	Dividends	Total
Liabilities at 31 December 2017	**93,428**	**788**	**149**	**94,365**
Cash flows	649	(5,995)	(80,748)	(86,094)
Interest accrued	-	5,806	-	5,806
Dividends declared	-	-	80,745	80,745
Foreign exchange differences adjustments	12,593	248	-	12,841
Other non-cash movements	(9)	(36)	-	(45)
Liabilities at 31 December 2018	**106,661**	**811**	**146**	**107,618**

(in millions of Russian roubles, unless otherwise stated)

12. LONG-TERM DEBT (CONTINUED)

	Liabilities from financing activities			
	Borrowings	**Interest**	**Dividends**	**Total**
Liabilities at 31 December 2016	**142,335**	**1,342**	**86**	**143,763**
Cash flows	(41,138)	(9,992)	(67,413)	(118,543)
Interest accrued	-	9,567	-	9,567
Dividends declared	-	-	67,476	67,476
Foreign exchange differences adjustments	(6,769)	(126)	-	(6,895)
Reclassification to held for sale	(1,007)	(3)	-	(1,010)
Other non-cash movements	7	-	-	7
Liabilities at 31 December 2017	**93,428**	**788**	**149**	**94,365**

13. SHORT-TERM LOANS AND CURRENT PORTION OF LONG-TERM DEBT

	31 December 2018	**31 December 2017**
Debt to banks:		
US$ denominated fixed rate	41,682	34,560
	41,682	**34,560**
Other RR denominated fixed rate loans	5	70
Add: current portion of long-term debt (note 12)	-	104
Total short-term debt and current portion of long-term debt	**41,687**	**34,734**

As at 31 December 2018 and 31 December 2017 the fair value of short-term loans is approximately equal to the carrying value.

14. OTHER PROVISIONS

	31 December 2018	**31 December 2017**
Provision for land recultivation	5,473	5,233
Provision for social obligations	113	229
Total other provisions	**5,586**	**5,462**

Provision for social obligations

In 2012 the Group entered into a number of agreements with the Republic of Sakha (Yakutia) to support its social and economic development. In accordance with the agreements the Group has assumed certain obligations which include repair works related to certain infrastructure assets which belong to local municipalities, dismantling of certain worn out assets and other. During 2018 the Group has partially fulfilled these obligations in the amount of RR’mln 149. The current portion of provision for social obligation as at 31 December 2018 in the amount of RR’mln 306 (31 December 2017: RR’mln 236) was included in trade and other payables within the Group’s current liabilities (note 17).

Provision for land recultivation

	Year ended 31 December 2018	**Year ended 31 December 2017**
At the beginning of the year	**5,233**	**6,345**
Accrual of provision	508	39
Unwinding of the present value discount during the year	383	329
Utilisation of provision	(604)	(451)
Reclassification in liabilities classified as held for sale	-	(1,078)
Disposal of subsidiaries	(141)	-
Reversal of the provision	(8)	(32)
Change in estimate of provision (note 8)	102	81
At the end of the year	**5,473**	**5,233**

The Group assumed an obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. The Group recognised a provision for these future expenses in its consolidated financial statements with a corresponding asset recognised within property, plant and equipment (note 8).

14. OTHER PROVISIONS (CONTINUED)

The discount rate used to calculate the net present value of future cash outflows relating to assumed social and land recultivation obligations at 31 December 2018 was 8.32 per cent (31 December 2017: 7.74 per cent), which represents adjusted risk free rate for the Group and is considered appropriate to the Group in the economic environment in the Russian Federation at the end of the year.

15. GOVERNMENT GRANTS

Government subsidies for construction of infrastructural facilities

The Company is engaged in development of Verkhne-Munskoye deposit with the support from Government stated in the Federal program for the development of the Far East and Baikal region. Government support is provided in the form of grants to reimburse expenses related to construction of the infrastructure object – temporary technological road from Udachny to Verchne-Munskoe deposit – in the amount of up to RR'mln 8,500 in accordance with the Order of the Government of Russian Federation dated from 13 July 2015 №1339-r.

In the fourth quarter of 2018 the Company started ore mining activity on Verkhne-Munskoe deposit, a temporary technological road from Udachny to Verkhne-Munskoe deposit was put into operation. Depreciation charge for the road calculated by the unit of production method amounted to RR'mln 65 for the period since the date it was put into operation until 31 December 2018. The Company recognized an income from grants in the consolidated statement of profit or loss in the amount equal to depreciation charge for the road for the reported period.

As at 31 December 2018 the grant is recognised within the non-current liabilities of the consolidated statement of financial position in the amount of actual cash received during 2018 less RR'mln 65 recognised as income in the statement of profit or loss.

As at 31 December 2018 the short-term portion of the grant amounts to RR'mln 160, which is equal to expected depreciation expense of the temporary technological road for the 2019. According to IAS 20 the Group recognizes grants related to depreciable assets in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.

Government grants on lost earnings, compensation of the effect of tariff regulations and other purposes

During 2018 the Group received government grants in the amount of RR'mln 5,775 (year ended 31 December 2017: RR'mln 5,675) from federal and local authorities as a compensation for lost earnings due to price reduction for electric power to planned base levels in the Far East region, as a compensation for lost earnings due to supply of utilities to subsidized categories of consumers, as a compensation for lost earnings due to air transportation services for passengers.

16. PROVISION FOR PENSION OBLIGATIONS

The Group operates defined employee benefit plans, including corporate pension plan with defined payments, one-off payments on retirement, jubilee payments, payments for years of service and provision of financial assistance in case of an employee's or non-working pensioner's death. Corporate pension is administered through the separate entity – Non-state pension fund JSC NPF Almaznaya osen. Group makes contributions to this pension fund to cover its obligations. There are no any minimum funding requirements prescribed by regulatory authorities. Other plans are non-funded and implemented through payments to employees made directly by the Group.

Starting from 1 July 2017, a parity program was launched, under which the Group will finance non-state pensions together with the employees on parity terms. This program is a defined contribution plan.

In accordance with non-parity pension program the record of the length of service for the purpose of calculation the non-state pension was terminated on 30 June 2017, and the Group recognised the income RR'mln 3,470 from reduction of the pension obligations to the employees not reached required length of service under the previous pension plan (note 23). The Group has retained its obligation to pay pensions to employees who have reached the age of 15 years or more.

The amounts recognised in the consolidated statement of financial position in respect of pension obligations associated with the defined benefit plan operated by the Group are as follows:

(in millions of Russian roubles, unless otherwise stated)

16. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

	31 December 2018	31 December 2017
Present value of obligations	33,475	31,624
Fair value of pension plan assets	(22,790)	(16,771)
Pension obligations for the funded plan	10,685	14,853
Present value of unfunded obligation	953	1,164
Net liability value	**11,638**	**16 017**

Changes in the present value of Group's pension obligations and plan assets are as follows:

	Present value of obligations on funded plans	Fair value of plan assets	Present value of obligations on unfunded plans	Total
At 1 January 2017	**32,408**	**(13,638)**	**1,184**	**19,954**
Current service cost	276	-	31	307
Past service cost and curtailment (note 23)	(3,774)	-	(75)	(3,849)
Interest expense / (income)	2,346	(1,159)	90	1,277
	(1,152)	**(1,159)**	**46**	**(2,265)**
Remeasurements:				
Return on plan assets, excluding amounts included in interest expense / (income)	-	178	-	178
(Gain) / Loss from changes in demographic actuarial assumptions	(1)	-	2	1
Loss from changes in financial actuarial assumptions	21	-	35	56
Loss / (gain) from experience adjustments	1,556	-	(24)	1,532
	1,576	**178**	**13**	**1,767**
Contributions to plan:				
Employer contributions	-	(3,360)	-	(3,360)
Benefits paid	(1,208)	1,208	(79)	(79)
	(1,208)	**(2,152)**	**(79)**	**(3,439)**
At 31 December 2017	**31,624**	**(16,771)**	**1,164**	**16,017**

	Present value of obligations on funded plans	Fair value of plan assets	Present value of obligations on unfunded plans	Total
At 1 January 2018	**31,624**	**(16,771)**	**1,164**	**16,017**
Current service cost	244	-	30	274
Past service cost and curtailment	(98)	-	(64)	(162)
Interest expense / (income)	2,346	(1,291)	82	1,137
	2,492	**(1,291)**	**48**	**1,249**
Remeasurements:				
Return on plan assets, excluding amounts included in interest expense / (income)	-	604	-	604
Gain from changes in demographic actuarial assumptions	(95)	-	(24)	(119)
from changes in financial actuarial assumptions	(90)	-	(165)	(255)
Loss from experience adjustments	833	-	17	850
	648	**604**	**(172)**	**1,080**
Contributions to plan:				
Employer contributions	-	(6,621)	-	(6,621)
Benefits paid	(1,289)	1,289	(87)	(87)
	(1,289)	**(5,332)**	**(87)**	**(6,708)**
At 31 December 2018	**33,475**	**(22,790)**	**953**	**11,638**

Expenses recognised in the consolidated statement of profit or loss and other comprehensive income is included in cost of sales, general and administrative expenses, selling and marketing expenses in the amounts of RR'mln 100 (year ended 31 December 2017: RR'mln 59), RR'mln 1 (year ended 31 December 2017: RR'mln 6) and RR'mln 12 (year ended 31 December 2017: RR'mln 6), respectively.

(in millions of Russian roubles, unless otherwise stated)

16. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

Expense / (income) recognised through profit or loss	Year ended 31 December 2018	Year ended 31 December 2017
Current service cost	274	307
Past service cost and curtailment (note 23)	(162)	(3,849)
Interest expense	1,137	1,277
Total expense / (income) recognised through profit or loss	**1,249**	**(2,265)**

Expense / (income) recognised through other comprehensive income	Year ended 31 December 2018	Year ended 31 December 2017
(Gain) / loss from changes in demographic actuarial assumptions	(119)	1
(Gain) / loss from changes in financial actuarial assumptions	(255)	56
Loss from experience adjustments	1,454	1,710
Total expense recognised through other comprehensive income	**1,080**	**1,767**

Change in amount of remeasurements charged to other comprehensive income during the reporting period	Year ended 31 December 2018	Year ended 31 December 2017
Remeasurement amount at 1 January	20,838	19,071
Change in remeasurement amount	1,080	1,767
Remeasurement amount at 31 December	**21,918**	**20,838**

Estimation of financial actuarial assumptions was based on market forecasts at the end of the reporting period in relation to period, during which the obligation should be settled. Average estimated term of settlement of Group obligations at the reporting date totals 9.9 years (at 31 December 2017 – 9.19 years).

	Year ended 31 December 2018	Year ended 31 December 2017
Discount rate (nominal)	8.7%	7.7%
Future salary increases (nominal)	5.6%	6.0%
Future pension increases (nominal)	4.1%	4.5%

In the year ended 31 December 2018 the actual income on plan assets was RR'mln 687 (year ended 31 December 2017: RR'mln 981). The Group expects to contribute RR'mln 1,571 to the defined benefit plans during the year beginning 1 January 2019.

Actuarial assumptions related to mortality of employees were formed based on Russian population mortality data in 1998 corrected by 50% related to mortality of employees and by 25% related to mortality of pensioners of the Group. For assumptions of the mortality of pensioners NPF's tariff tables were used according to scheme No. 10, which provides for the use mortality table of 2015 and the indexation of the pension at the actual yield of the NPF. The use of new tariffs caused by signing additional agreements between the NPF and the Company in December 2016.

Actuarial assumptions extrapolated to expected life period in the expected retirement age are listed below.

	Year ended 31 December 2018	Year ended 31 December 2017
Expected age of retirement		
Male	60	58
Female	58	57
Source - table of mortality dated:	2015– adjusted	1998– adjusted
The life expectancy in the expected retirement age		
Male	20.25	19.84
Female	26	24.96

The expected staff turnover is determined on the basis of historical data and is inversely related to the employee's work experience. The average turnover rates are: for employees with work experience from 0 to 10 years – 10.8 per cent per year, for employees with work experience from 10 to 20 years – 4.3 per cent per year, for employees with work experience from 20 to 30 years – 2.4 per cent per year, for employees with work experience of more than 30 years – 0.1 per cent per year. Sensitivity of the total amount of pension obligations to changes in underlying actuarial assumptions set out below:

(in millions of Russian roubles, unless otherwise stated)

16. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

	Change in assumption	Impact on provision for pension obligations	Impact on provision for funded plans	Impact on provision for unfunded plans
Discount rate	Increase / decrease by 0.5%	Decrease / increase by	0.0%	5.8%
Inflation rate	Increase / decrease by 0.5%	Decrease / increase by	0.0%	4.7%
Future salary increases	Increase / decrease by 0.5%	Increase / decrease by	0.0%	1.4%
Expected return on plan assets	Increase / decrease by 0.5%	Increase / decrease by	6.5%	-
Expected age of retirement	Increase /decrease by 1 year	Decrease / increase by	1.9%	0.6%
Employee turnover	Increase /decrease by 10%	Decrease / increase by	0.0%	1.0%
Mortality level	Increase /decrease by 10%	Decrease / increase by	0.1%	1.1%

The above results of the sensitivity analysis are based on the analysis of changes in each actuarial assumption assuming other actuarial assumptions remain constant. In the calculation of the sensitivity of the present value of key actuarial assumptions evaluation method analogous to the assessment of the current value of liabilities recognised in the consolidated statement of financial position (projected unit credit method) was used.

The major categories of plan assets as a percentage of total plan assets are as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Russian corporate bonds	26.6%	25.1%
Bank deposits	46.4%	50.9%
Russian Government and municipal bonds	24.2%	16.5%
Equity securities of Russian issuers	0.0%	3.7%
Debt securities of Russian issuers	2.8%	3.8%
Total plan assets	**100.0%**	**100.0%**

All categories of plan assets are measured at fair value.

As at 31 December 2017 4,454 shares of the Company’s subsidiary – PJSC ALROSA-Nyurba with the fair value of RR’mln 646 were held by JSC NPF Almaznaya osen.

The Group is exposed to a number of risks, the most significant of which are detailed below:

Pension plan assets volatility

The plan liabilities are calculated using a discount rate set with the reference to the Russian government bonds which considered to be risk-free; if plan assets underperform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform Russian government bonds in the long-term while providing volatility and risk in the short-term.

Inflation risk

Certain Group’s pension obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of the plan’s assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy

The majority of the plans’ obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans’ liabilities.

In case of the funded plans, the Group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group’s ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the processes used to manage its risks from previous periods. The Group does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of plan assets in 2018 and 2017 consisted of bank deposits.

(in millions of Russian roubles, unless otherwise stated)

17. TRADE AND OTHER PAYABLES

	31 December 2018	31 December 2017
Accrual for employee holidays and flights	7,000	7,458
Trade payables	6,380	6,605
Wages and salaries	5,591	5,755
Advances from customers	1,140	550
Interest payable	811	788
Current portion of provision for social obligation (note 14)	306	236
Payables to associates	12	8
Other payables	595	859
Total trade and other payables	**21,835**	**22,259**

In accordance with Russian legislation, the Group entities are 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.

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2018 and 31 December 2017 approximates their carrying value.

18. INCOME TAX, OTHER TAXES AND DEFERRED TAX ASSETS AND LIABILITIES

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

	31 December 2018	31 December 2017
Payments to social funds	2,977	2,462
Extraction tax	1,924	1,396
Property tax	1,308	1,168
Value added tax	1,216	322
Personal income tax (employees)	797	803
Other taxes and accruals	363	355
Total taxes payable, other than income tax	**8,585**	**6,506**

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

	Year ended 31 December 2018	Year ended 31 December 2017
Property tax	5,172	5,010
Other taxes and accruals	381	441
Total taxes and payments other than income tax expense	**5,553**	**5,451**

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) starting from 1 January 2012 in the amount of RR'mln 1,209 per annum.

Income tax comprise the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Current tax expense	27,878	24,002
Deferred tax benefit	(3,336)	(1,615)
Adjustments recognised in the period for current tax of prior periods	(334)	(213)
Total income tax expense	**24,208**	**22,174**

Profit before taxation for financial reporting purposes is reconciled to tax expense as follows:

(in millions of Russian roubles, unless otherwise stated)

18. INCOME TAX, OTHER TAXES AND DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

	Year ended 31 December 2018	Year ended 31 December 2017
Profit before income tax	114,612	100,790
Theoretical tax charge at rate of 20 per cent thereon	22,922	20,158
Prior periods adjustments recognised in the current period	(334)	(213)
Tax effect of:		
charity and social program carried out for Republic of Sakha (Yakutia)	1,089	1,254
other expenses not deductible for income tax purposes	531	975
Total income tax expense	**24,208**	**22,174**

Expenses and losses not deductible for income tax purposes include mostly charity and social expenses as well as non-deductible wages, salaries and other staff costs.

Differences between IFRS and Russian statutory tax accounting give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement in these temporary differences is recorded at the rate of 20.0 per cent.

				Effect of changes temporary difference on deferred tax		
	31 December 2018	Charged/ (credited) to profit or loss	Charged/ (credited) directly to other comprehensive income	Disposal of subsidiaries	Reclassification to disposal group	31 December 2017
Property, plant and equipment	5,317	341	-	(34)	-	5,010
Inventories	852	(1,762)	-	-	-	2,614
Long-term investments	117	107	166	-	-	(156)
Accruals and provisions	(2,860)	(118)	-	-	-	(2,742)
Exploration costs write-off	(1,989)	(1,392)	-	-	-	(597)
Provision for pension obligations	(1,840)	39	35	-	-	(1,914)
Allowance for expected credit losses	(1,291)	(855)	-	-	-	(436)
Other deductible temporary differences	154	304	-	-	-	(150)
Net deferred tax liability/(asset)	**(1,540)**	**(3,336)**	**201**	**(34)**	**-**	**1,629**
Deferred tax asset	(4,785)	-	-	-	-	(3,837)
Deferred tax liability	3,245	-	-	-	-	5,466
Net deferred tax liability/(asset)	**(1,540)**	**(3,336)**	**201**	**(34)**	**-**	**1,629**

				Effect of changes temporary difference on deferred tax		
	31 December 2017	Charged/ (credited) to profit or loss	Charged/ (credited) directly to other comprehensive income	Disposal of subsidiaries	Reclassification to disposal group	31 December 2016
Property, plant and equipment	5,010	(1,176)	-	-	(6,089)	12,275
Inventories	2,614	(1,755)	-	1	9	4,359
Long-term investments	(156)	73	(51)	-	-	(178)
Accruals and provisions	(2,742)	(122)	-	-	-	(2,620)
Exploration costs write-off	(597)	775	-	-	216	(1,588)
Provision for pension obligations	(1,914)	652	107	-	-	(2,673)
Impairment of receivables	(436)	(85)	-	-	-	(351)
Other deductible temporary differences	(150)	23	-	-	-	(173)
Net deferred tax liability/(asset)	**1,629**	**(1,615)**	**56**	**1**	**(5,864)**	**9,051**
Deferred tax asset	(3,837)	-	-	-	-	(1,967)
Deferred tax liability	5,466	-	-	-	-	11,018
Net deferred tax liability/(asset)	**1,629**	**(1,615)**	**56**	**1**	**(5,864)**	**9,051**

Dividends received from majority of the Group's subsidiaries are taxable at the 0% income tax rate in accordance with the applicable tax legislation. Therefore, the Group does not recognise deferred tax liabilities on retained earnings of such subsidiaries, which could be distributed to the dividends to the Company in the future.

(in millions of Russian roubles, unless otherwise stated)

19. REVENUE

	Year ended 31 December 2018	Year ended 31 December 2017
Revenue from diamond sales:		
Export	245,443	225,063
Domestic	32,588	23,235
Revenue from diamonds for resale	46	16
Total revenue from diamond sales	**278,077**	**248,314**
Other revenue:		
Transport	8,445	7,201
Social infrastructure	2,263	2,564
Sales of gas	1,018	6,472
Other	4,067	5,155
Total revenue	**293,870**	**269,706**

Other revenue mainly relates to the provision of services and is recognized over the period of time.

In the years ended 31 December 2018 and 31 December 2017 the Group did not sell diamonds to any buyer in an amount exceeding 10 per cent of the Group's total revenue.

20. COST OF SALES

	Year ended 31 December 2018	Year ended 31 December 2017
Wages, salaries, contributions and other staff costs	43,741	43,554
Depreciation	21,410	23,792
Extraction tax	20,623	21,782
Fuel and energy	13,534	12,686
Materials	12,272	13,287
Services	8,693	7,955
Transport	1,667	2,178
Cost of diamonds for resale	37	16
Other	1,407	1,313
Movement in inventory of diamonds, ores and sands	3,157	7,347
Total cost of sales	**126,541**	**133,910**

Wages, salaries, contributions and other staff costs include payments to social funds in the amount of RR'mln 9,201 (year ended 31 December 2017: RR'mln 8,984). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR'mln 6,628 (year ended 31 December 2017: RR'mln 6,113).

Depreciation totalling RR'mln 634 (year ended 31 December 2017: RR'mln 1,228) and staff costs totalling RR'mln 4,138 (year ended 31 December 2017: RR'mln 2,204) were incurred by the Group's construction divisions and were capitalised into property, plant and equipment in the year.

21. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2018	Year ended 31 December 2017
Wages, salaries, contributions and other staff costs	6,946	6,675
Services and other administrative expenses	4,785	4,445
Allowance for expected credit losses (note 10)	4	468
Total general and administrative expenses	**11,735**	**11,588**

Wages, salaries, contributions and other staff costs include payments to social funds in the amount of RR'mln 923 (year ended 31 December 2017: RR'mln 1,263). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR'mln 564 (year ended 31 December 2017: RR'mln 738).

(in millions of Russian roubles, unless otherwise stated)

22. SELLING AND MARKETING EXPENSES

	Year ended 31 December 2018	Year ended 31 December 2017
Wages, salaries, contributions and other staff costs	1,852	1,901
Services and other selling and marketing expenses	2,754	1,118
Total selling and marketing expenses	**4,606**	**3,019**

Wages, salaries, contributions and other staff costs include payments to social funds in the amount of RR'mln 378 (year ended 31 December 2017: RR'mln 391). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR'mln 280 (year ended 31 December 2017: RR'mln 247).

23. OTHER OPERATING INCOME

	Year ended 31 December 2018	Year ended 31 December 2017
Foreign exchange gain, net	3,250	-
Reversal of loss on impairment of property, plant and equipment (note 2)	124	-
Income from insurance settlement (note 2)	-	10,490
Income from changes in terms of defined benefit plan (note 16)	-	3,470
Income on disposal of subsidiaries	-	14
Other	2,009	1,405
Total other operating income	**5,383**	**15,379**

24. OTHER OPERATING EXPENSES

	Year ended 31 December 2018	Year ended 31 December 2017
Exploration expenses	8,085	8,761
Impairment loss on property, plant and equipment due to the accident at the Mir underground mine (note 2)	7,815	-
Social costs	6,027	5,973
Taxes other than income tax, extraction tax and payments to social funds (note 18)	5,553	5,451
Loss on disposal of subsidiaries	1,754	-
Loss on disposal of property, plant and equipment	416	1,728
Impairment of investments in associates and joint ventures	26	-
Loss on disposal of property, plant and equipment due to the accident at the Mir underground mine (note 2)	-	8,449
Impairment of gas assets (note 5.1)	-	5,744
Foreign exchange loss, net	-	1,882
Other	4,166	3,963
Total other operating expenses	**33,842**	**41,951**

In the years ended 31 December 2018 and 31 December 2017 the amounts of operating cash outflows associated with exploration expenses were approximately equal to the respective amounts recognised within other operating expenses.

Social costs consist of:

	Year ended 31 December 2018	Year ended 31 December 2017
Charity	3,248	3,260
Maintenance of local infrastructure	1,787	1,993
Hospital expenses	231	289
Education	97	114
Other	664	317
Total social costs	**6,027**	**5,973**

(in millions of Russian roubles, unless otherwise stated)

25. FINANCE INCOME AND COSTS

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income	1,912	2,957
Interest expense:		
Eurobonds	(3,965)	(4,347)
Bank loans	(571)	(2,314)
Other liabilities*	(1,810)	(3,747)
Unwinding of discount of provisions	(265)	(359)
Foreign exchange (loss) /gain, net	(11,202)	6,490
Total finance income / (costs), net	**(15,901)**	**(1,320)**

*Other financial liabilities include interest expense on pension obligation (note 16).

In February 2017 the Group paid commission fee in the amount RR'mln 2,364 for early repayment of loans received from PJSC VTB Bank (note 12). Commission fee was included into financing activity of the consolidated statement of the cash flow as part of interest paid.

26. CASH GENERATED FROM OPERATING ACTIVITIES

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

	Year ended 31 December 2018	Year ended 31 December 2017
Profit before income tax	**114,612**	**100,790**
Adjustments for:		
Share of net profit of associates and joint ventures (note 5)	(3,418)	(3,027)
Interest income (note 25)	(1,912)	(2,957)
Interest expense and discounting of provisions (note 25)	6,611	10,767
Income from insurance settlement (note 23)	-	(10,490)
Loss on disposal and write-off of property, plant and equipment (note 24)	416	9,224
Loss / (gain) on disposal of subsidiaries (note 23, 24)	1,754	(14)
Loss on impairment of gas assets (note 24)	-	5,744
Change in provision for impairment of receivables and obsolete inventories, net	(264)	316
Depreciation of property, plant and equipment (notes 8, 20)	21,642	23,962
Adjustments for non-cash financing activity	1,396	(447)
Impairment of of property, plant and equipment (note 8)	7,691	953
Income from changes in terms of defined benefit plan (note 23)	-	(3,470)
Unrealised foreign exchange effect on non-operating items	8,137	(3,795)
Net operating cash flows before changes in working capital	**156,665**	**127,556**
Net (increase) / decrease in inventories	(1,030)	6,532
Net increase in trade and other receivables, excluding dividends receivable	(458)	(4,634)
Net decrease in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(7,289)	(5,703)
Net increase / (decrease) in taxes payable other than income tax	2,040	(792)
Cash inflows from operating activities	**149,928**	**122,959**
Income tax paid	(29,806)	(22,495)
Net Cash Inflows from Operating Activities	**120,122**	**100,464**

27. CONTINGENCIES AND COMMITMENTS

(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 economy is negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Stable oil prices, low level of unemployment, growth of average salary level led to a moderate growth of Russian economy in 2018. 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 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.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. 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 of the Group believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the transfer pricing legislation.

Tax liabilities arising from transactions between Group's 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.

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 Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The profit of the CFC, with exemption under the Law, is taxed at a rate of 20%.

(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 31 December 2018.

(d) Capital commitments

As at 31 December 2018 the Group had contractual commitments for capital expenditures of approximately RR'mln 5,052 (31 December 2017: RR'mln 12,370).

(in millions of Russian roubles, unless otherwise stated)

27. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(e) Operating lease commitments

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

	31 December 2018	31 December 2017
Not later than 1 year	1,203	1,101
Later than 1 year and not later than 5 years	2,375	2,721
Later than 5 years	1,987	1,409
Total operating lease commitments	**5,565**	**5,231**

(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. At 31 December 2018 the Group recognised a provision for these future expenses in the amount of RR'mln 5,473 (31 December 2017: RR'mln 5,233), see note 14.

(g) Compliance with covenant

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 at 31 December 2018 and 31 December 2017.

(h) Guarantees

The Group has guaranteed the obligations of JSC "Aviacompania Yakutiya" to PJSC VTB Bank under the loan agreement amounting to RR'mln 1,500 and accrued interest till July 2022. The Group has recognized financial liability relating to this guarantee in full amount. Management estimates the probability of loan default to be above average.

28. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if parties are under common control, or one party has the ability to control the other party, 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)

Federal Agency for State Property Management on behalf of the government of the Russian Federation and the Ministry of the property and land relations of the Republic of Sakha (Yakutia) on behalf of the Republic of Sakha (Yakutia) are the major shareholders of the Company. As at 31 December 2018 58.0 per cent of the Company's issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia).

Also as at 31 December 2018 8 per cent of the Company's shares were owned by administrations of 8 districts of the Republic of Sakha (Yakutia).

Following the General Meeting of Shareholders on 26 June 2018, the 15 seats on the Supervisory Board include 6 representatives of the Russian Federation (including 1 – the Chair of the Management Board), 4 representatives of the Republic of Sakha (Yakutia), 4 independent directors according to the Russian Corporate Law (1 of them were nominated by the Government of the Russian Federation, 1- was nominated by the Government of the Republic of Sakha (Yakutia), 2

(in millions of Russian roubles, unless otherwise stated)

28. RELATED PARTY TRANSACTIONS (CONTINUED)

were nominated by foreign minority shareholders), and 1 representative of the districts of the Republic of Sakha (Yakutia).

In 2017 year the 15 seats on the Supervisory Board included 6 representatives of the Russian Federation (including 1 – the Chair of the Management Board and 1 – member of the Management Board), 4 representatives of the Republic of Sakha (Yakutia), 4 independent directors according to the Russian Corporate Law (1 of them were nominated by the Government of the Russian Federation, 1- was nominated by the Government of the Republic of Sakha (Yakutia), 2 were nominated by foreign minority shareholders), and 1 representative of the districts of the Republic of Sakha (Yakutia).

Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

Group's tax balances are disclosed in the consolidated statement of financial position and in notes 10 and 18. Tax transactions are disclosed in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and in notes 18, 20, 21, 22, 26 and 27.

Parties under control or significant influence of the Government

In the normal course of business the Group enters into transactions with other entities under Governmental control or significant influence. 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 Governmental control or significant influence are detailed below:

Consolidated Statement of Financial Position	31 December 2018	31 December 2017
Long-term accounts receivable	34	-
Short-term accounts receivable	5,625	15,857
Short-term accounts payable	993	775
Loans received by the Group*	2,714	987
Cash and cash equivalents	13,919	2,897
Bank deposits	10,038	-

* The line includes the loans received from banks under the Government control with various due dates and interest rates ranging from 7.5% to 11.5%.

Consolidated Statement of Profit or Loss and Other Comprehensive Income	Year ended 31 December 2018	Year ended 31 December 2017
Sales of diamonds	12,017	6,458
Other sales	2,469	4,969
Income from grants	5,775	5,675
Other operating income (note 2, 23)	-	10,490
Fuel purchases	(7,831)	(5,976)
Electricity and heating expenses	(4,243)	(5,853)
Other purchases	(4,648)	(4,997)
Interest income	525	1,618
Interest expense	(123)	(580)

Key management compensation

The Supervisory Council of the Company consists of 15 members, including state representatives of Governments of the Russian Federation and the Republic of Sakha (Yakutia) and the minority shareholders. Compensation for serving as members of the Supervisory Council is not paid to the Chairman and members of the Supervisory Council who have the status of government or municipal public employee - according to Russian legislation, as well as to the members of the Supervisory Council who are also the individual executive body or a member of the collegial executive body.

(in millions of Russian roubles, unless otherwise stated)

28. RELATED PARTY TRANSACTIONS (CONTINUED)

As at 31 December 2018 and 31 December 2017 the Management Board consisted of 8 members. As at 31 December 2018 one of the Management Board member was also a member of the Supervisory Council, as at 31 December 2017 two of the Management Board members were also members 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 6 October 2015, with the changes incorporated by the decision of the Supervisory Council on 26 August 2016.

According to Russian legislation, the Group makes contributions to the Pension Fund of Russian Federation 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 year ended 31 December 2018 totalling RR’mln 378 (year ended 31 December 2017: RR’mln 914). The portion of provision for pension obligations attributable to key management as at 31 December 2018 equals to RR’mln 10 (31 December 2017: RR’mln 22). The amount of income recognised in the consolidated statement of profit or loss and other comprehensive income in respect of the operation of the defined benefit plan for key management in the year ended 31 December 2018 equals to RR’mln 12 (year ended 31 December 2017: RR’mln 38). The Group paid dividends RR’mln 40 to key management hold the Company’s shares.

Share-based payments

As at 31 December 2018 within the framework of the approved Long-Term Motivation Program for the Company's management the Group recognized a liability for remuneration of employees with share-based payments in the amount of RR’mln 718 in other long-term liabilities. The program is set for a period of 3 years and is tied to the indicators of shareholders profitability and applies to members of the Management Board, heads of subsidiaries, units and other employees whose professional activities have key impact on the operating and financial results of the Group. The liability is remeasured at fair value at each reporting date and all changes are recognized immediately in profit or loss statement.

Fair value of shares and share options was valued by Black-Scholes model.

Associates and Joint Ventures

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

Current accounts receivable	**31 December 2018**	**31 December 2017**
Catoca Mining Company Ltd, dividends and other receivables	3,461	1,222
Total current accounts receivable	**3,461**	**1,222**

Transactions with the Group’s pension plan are disclosed in note 16, accounts payable to associates are disclosed in note 17.

(in millions of Russian roubles, unless otherwise stated)

29. NON-CONTROLLING INTEREST

The following tables provide information about each subsidiary that has non-controlling interest that is material to the Group:

Name	Carrying amount of non-controlling interest		Profit/(loss) attributable to non-controlling interest		Revenue		Net profit/(loss)		Total comprehensive income/(loss)	
	31.12.2018	**31.12.2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
PJSC ALROSA-Nyurba	372	(97)	1,186	1,582	44,265	41,113	15,639	12,645	15,639	12,645
PJSC Severalmaz	34	88	4	(3)	9,645	7,369	2,584	(1,018)	2,584	(1,018)
JSC Viluyskaya GES-3	(56)	(59)	3	3	2,734	4,611	1,091	997	1,091	997
Hydroshikapa S.A.R.L.	(386)	(233)	37	60	847	840	83	120	407	(14)
Total	**(36)**	**(301)**	**1,230**	**1,642**	**57,491**	**53,933**	**19,397**	**12,744**	**19,721**	**12,610**
Other non-material for the Group	(3)	(37)	(43)	(101)						
Total per financial statements	**(39)**	**(338)**	**1,187**	**1,541**						

Name	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
PJSC ALROSA-Nyurba	2,959	3,092	25,601	15,807	1,966	1,027	2,358	7,777
PJSC Severalmaz	20,882	20,728	9,793	6,458	1,459	1,522	2,858	1,296
JSC Viluyskaya GES-3	11,113	10,497	1,593	734	3,219	2,785	1,114	1,164
Hydroshikapa S.A.R.L.	4,300	3,699	418	502	6,011	5,292	1,532	1,339
Total	**39,254**	**38,016**	**37,405**	**23,501**	**12,655**	**10,626**	**7,862**	**11,576**

Name	PJSC ALROSA-Nyurba		PJSC Severalmaz		JSC Viluyskaya GES-3		Hydroshikapa S.A.R.L.	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Cash Flow from Operating Activity	18,078	16,259	1,544	517	678	1,587	323	227
Income tax paid	(3,906)	(2,811)	(357)	(92)	(23)	(211)	-	-
Net Cash Inflows from Operating Activities	14,172	13,448	1,187	425	655	1,376	323	227
Net Cash Outflow from Investing Activities	(8,787)	(301)	(1,141)	(866)	(937)	(180)	(39)	(13)
Net Cash (Outflow) /Inflow from Financing Activities	(5,427)	(13,183)	(47)	438	212	(1,090)	(414)	(154)
Net (Decrease) / Increase in Cash and Cash Equivalents	**(42)**	**(36)**	**(1)**	**(3)**	**(70)**	**106**	**(130)**	**60**
Cash and cash equivalents at the beginning of the period	26	62	1	3	109	4	404	362
Foreign exchange gains/(losses) on cash and cash equivalents	17	-	-	1	-	(1)	(93)	(18)
Cash and Cash Equivalents at the End of the Period	**1**	**26**	**-**	**1**	**39**	**109**	**181**	**404**

The figures presented above are before inter-company eliminations.

The following table provides information about dividends paid by subsidiaries to non-controlling shareholders that interest is material to the Group:

Subsidiary	Dividends paid	
	Year ended 31 December 2018	**Year ended 31 December 2017**
PJSC ALROSA-Nyurba	-	1,690
JSC Viluyskaya GES-3	-	1
Other	9	16
Total dividends paid by subsidiaries to non-controlling shareholders	**9**	**1,707**

Holders of the non-controlling interest in PJSC ALROSA-Nyurba have a right to veto any transaction with related parties with a financial effect above RR'mln 3,004. These restrictions apply to 10 per cent of the subsidiaries' total assets.

30. 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 production 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 prepared in accordance with internal policies and applicable accounting standards.

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

The following reportable segments were identified by the Management Board:

- 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 infrastructure;
- Gas – extraction and sale of natural gas;
- Other activities.

(in millions of Russian roubles, unless otherwise stated)

30. SEGMENT INFORMATION (CONTINUED)

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 consolidated financial statements include those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Year ended 31 December 2018	Diamonds segment	Transpor-tation	Social infrastructure	Gas	Other activities	Total
Revenue	278,077	10,527	4,745	2,034	11,572	306,955
Intersegment revenue	-	(2,129)	(1,844)	(1,005)	(8,458)	(13,436)
Cost of sales, including	111,876	9,652	8,471	1,409	17,771	149,179
Depreciation	15,994	928	286	211	2,448	19,867
Gross profit / (loss)	**166,201**	**875**	**(3,726)**	**625**	**(6,199)**	**157,776**

Year ended 31 December 2017	Diamonds segment	Transpor-tation	Social infrastructure	Gas	Other* activities	Total
Revenue	248,314	8,983	4,821	7,509	9,653	279,280
Intersegment revenue	-	(1,840)	(1,793)	(1,028)	(5,788)	(10,449)
Cost of sales, including	115,435	7,685	8,358	4,678	15,960	152,116
depreciation	16,769	669	276	869	2,253	20,836
Gross profit / (loss)	**132,879**	**1,298**	**(3,537)**	**2,831**	**(6,307)**	**127,164**

*In 2018 the accounting policy for the geological exploration expenses based on RAS statutory accounting records has been changed. The comparative information of the segment for 2017 has been changed to make it comparable.

Reconciliation of revenue is presented below:

	Year ended 31 December 2018	Year ended 31 December 2017
Segment revenue	**306,955**	**279,280**
Elimination of intersegment revenue	(13,436)	(10,449)
Other adjustments and reclassifications	351	875
Revenue	293,870	269,706
Income from grants	5,775	5,675
Total revenue and income from grants as per consolidated statement of profit or loss and other comprehensive income	**299,645**	**275,381**

Reconciliation of cost of sales including depreciation is presented below:

	Year ended 31 December 2018	Year ended 31 December 2017
Segment cost of sales	**149,179**	**152,116**
Adjustment for depreciation of property, plant and equipment	1,543	2,956
Elimination of intersegment purchases	(10,066)	(7,906)
Accrued provision for pension obligation [1]	(623)	(2,325)
Adjustment for inventories [2]	469	2,249
Accrual for employee holidays and flights [3]	(19)	(493)
Accrual for annual bonuses	(82)	114
Other adjustments	(314)	42
Reclassification of exploration expenses [4]	(7,574)	(7,264)
Other reclassifications	(5,972)	(5,579)
Cost of sales as per consolidated statement of profit or loss and other comprehensive income	**126,541**	**133,910**

[1] *Accrued provision for pension obligation – recognition of pension obligation in accordance with IAS 19*

[2] *Adjustment for inventories – treatment of extraction tax as direct expenses for financial statements, with a corresponding entry in inventory figure and other adjustments*

[3] *Accrual for employee holidays and flights – recognition of employee holidays and flights reserve*

[4] *Reclassification of exploration expenses – reclassification part of exploration expenses to other operating expenses*

(in millions of Russian roubles, unless otherwise stated)

30. SEGMENT INFORMATION (CONTINUED)

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

	Year ended 31 December 2018	Year ended 31 December 2017
Belgium	130,392	125,886
Russian Federation (including grants)	53,338	49,601
India	41,135	39,774
Israel	29,526	24,863
United Arab Emirates	27,584	19,329
China	11,540	10,713
Belarus	1,699	775
Republic of Botswana	1,088	1,048
USA	852	762
Angola	847	840
United Kingdom	634	588
Armenia	545	911
Switzerland	457	203
Other countries	8	88
Total revenue and income from grants as per consolidated statement of profit or loss and other comprehensive income	**299,645**	**275,381**

Non-current assets (other than financial instruments, deferred tax assets and prepayment for share in Catoca Mining Company Ltd.), including financial assets at fair value through profit or loss (31 December 2017: available-for-sale investments) and investments in associates and joint ventures, by their geographical location are as follows:

	31 December 2018	31 December 2017
Russian Federation	236,027	238,289
Angola	4,601	3,715
Other countries	1,814	3,424
Total non-current assets	**242,442**	**245,428**

(in millions of Russian roubles, unless otherwise stated)

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 (that is, as prices) or indirectly (that is, derived from prices). 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:

	31 December 2018				31 December 2017			
	Level				Level			
	1	2	3	Total	1	2	3	Total
Financial assets at fair value through profit or loss	835	-	3	**838**	-	-	-	-
Available-for-sale investments	-	-	-	-	2,474	-	433	**2,907**
Total	**835**	**-**	**3**	**838**	**2,474**	**-**	**433**	**2,907**

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

As at 31 December 2018 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	-	11,784	-	11,784
Current and non-current financial receivable	-	18,011	-	18,011
Loans issued	-	-	985	985
Cash and cash equivalents	-	27,437	-	27,437
Total financial assets	**-**	**57,232**	**985**	**58,217**
Non-current financial liabilities				
Loans from banks	-	2,841	-	2,841
Eurobonds	62,133	-	-	62,133
Total non-current financial liabilities	**62,133**	**2,841**	**-**	**64,974**
Current financial liabilities				
Loans from banks	-	41,682	-	41,682
Financial accounts payable	-	7,798	5	7,803
Financial guarantee	-	-	1,500	1,500
Dividends payable	-	146	-	146
Total current financial liabilities	**-**	**49,626**	**1,505**	**51,131**
Total financial liabilities	**62,133**	**52,467**	**1,505**	**116,105**

(in millions of Russian roubles, unless otherwise stated)

31. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2017 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 receivable	-	22,151	-	22,151
Loans issued	-	-	1,151	1,151
Cash and cash equivalents	-	7,381	-	7,381
Total financial assets	**-**	**29,532**	**1,151**	**30,683**
Non-current financial liabilities				
Long-term debt	-	1,087	7	1,094
Eurobonds	57,600	-	-	57,600
Total non-current financial liabilities	**57,600**	**1,087**	**7**	**58,694**
Current financial liabilities				
Short-term debt	-	34,560	83	34,643
Financial accounts payable	-	8,260	-	8,260
Finance lease obligation	-	-	91	91
Dividends payable	-	149	-	149
Total current financial liabilities	**-**	**42,969**	**174**	**43,143**
Total financial liabilities	**57,600**	**44,056**	**181**	**101,837**

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. There were no reclassifications of available-for-sale investments' losses from other comprehensive income into the profit or loss.