PJSC ALROSA

IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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 (the "Company" or PJSC ALROSA) and its subsidiaries (together – the "Group") as at 31 December 2019, 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 2019;
- 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.

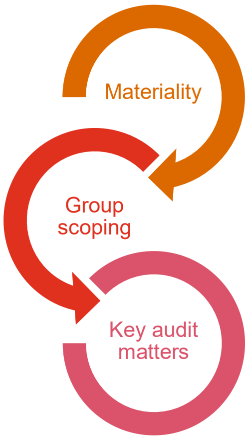
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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) and 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.

Our audit approach

Overview



Materiality

Overall Group materiality: Russian Roubles ("RUB") 4,900 million, which represents 5% of average profit before tax for the last three years.

Group scoping

- 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 the companies of the Group in Moscow, Mirny (Republic of Sakha (Yakutia)) and Smolensk.
- Our audit scope addressed 90% of the Group's revenues and 97% of the Group's absolute value of underlying profit before tax and elimination adjustments for intragroup operations.

Key audit matter

- Acquisition of Kristall group.

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 4,900 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
The acquisition of Kristall group Refer to Note 5 to the consolidated financial statements. In October 2019, the Company acquired 100% shares of JSC “Production Corporation “Kristall”, the parent company of Kristall group. The Group’s management classified this transaction as a business combination based on the definition in IFRS 3, *Business Combinations*, and recognised it using the acquisition method. A consideration of RUB 1,886 million was paid to the former owner of Kristall group in cash. We focused on the recognition of this transaction in the consolidated financial statements of the Group due to its overall materiality, complexity of the calculations and certain accounting estimates applied by management.	Our audit procedures included: We reviewed the acquisition contract and reconciled the consideration paid to the former owner to the contract. We received the fair value calculation of identifiable assets and liabilities prepared by management with the involvement of an independent appraiser for the acquisition of Kristall group and reviewed it for compliance with the requirements of IFRS 13, *Fair Value Measurement*. We engaged our valuation specialists to audit the purchase price allocation between the acquired assets and liabilities and to review the methodology and mathematical accuracy of the management’s calculations. We tested the fair value of the acquired assets and undertaken liabilities and performed a sample-based comparison of major assets and liabilities of Kristall group as at the acquisition date with the supporting documents: • the volume of gems was reconciled with the stock-count results (taking into account the stock movement in the period between the valuation and the stock-count date);

- the value of gems was reconciled to external sources, taking into account discounts for quality characteristics;
- property, plant and equipment items were reconciled on the sample basis with the accounting records of Kristall group and the stock-count results;
- loans and cash were confirmed by circularisation of the respective financial institutions and reconciling received responses with data in the valuation model;
- at acquisition date accounts payable were mainly represented by the balance payable due to PJSC ALROSA and were tested by the reconciliation with the relevant accounting records of the Company.

We tested the calculation of goodwill arising in connection with the acquisition of Kristall group, which is the difference between the consideration paid to the former owner and the fair value of the net identifiable assets and liabilities.

We reviewed the presentation and disclosure of information about the business combination transaction in Note 5 to the consolidated financial statements for compliance with the requirements of IFRS 3, *Business Combinations*, and the adequacy of corresponding disclosures in the context of the consolidated financial statements as a whole.

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 PJSC ALROSA's Annual Report for 2019 and Issuer's Report for the first quarter of 2020 (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 identified above when it becomes available 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 PJSC ALROSA's Annual Report for 2019 and Issuer's Report for the first quarter of 2020, 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 Tatiana Viktorovna Sirotinskaya.

AO PricewaterhouseCoopers Audit

6 March 2020

Moscow, Russian Federation

T.V. Sirotinskaya, certified auditor (licence No. 01-000527), 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

Taxpayer Identification Number 1433000147

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

Taxpayer Identification Number 7705051102

Member of Self-regulatory organization of auditors Association «Sodruzhestvo»

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 12006020338

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Financial Position

	Notes	31 December 2019	31 December 2018
ASSETS			
Non-current Assets			
Goodwill	5.1	1,439	1,439
Property, plant and equipment	8	226,261	234,873
Right-of-use assets	9	8,368	-
Investments in associates and joint ventures	5.2	8,487	5,191
Deferred tax assets	19	5,637	4,785
Financial assets at fair value through profit or loss		191	838
Long-term accounts receivable	11	982	9,316
Total Non-current Assets		**251,365**	**256,442**
Current Assets			
Inventories	10	121,302	92,619
Prepaid current income tax		440	639
Trade and other receivables	11	15,161	22,271
Bank deposits	6	24,340	11,784
Cash and cash equivalents	7	13,315	27,437
Non-current assets held for sale	5.2	4,175	-
Total Current Assets		**178,733**	**154,750**
Total Assets		**430,098**	**411,192**
EQUITY			
Share capital	12	12,473	12,473
Share premium		10,431	10,431
Treasury shares	12	(264)	(264)
Retained earnings and other reserves	12	230,737	224,976
Equity attributable to owners of PJSC ALROSA		**253,377**	**247,616**
Non-Controlling Interest	30	**589**	**(39)**
Total Equity		**253,966**	**247,577**
LIABILITIES			
Non-current Liabilities			
Long-term debt and other financial liabilities	3, 13	84,171	64,974
Provision for pension obligations	17	7,731	11,638
Other provisions	15	11,572	5,586
Deferred tax liabilities	19	4,684	3,245
Government grants	16	3,073	2,873
Other liabilities	29	714	718
Total Non-current Liabilities		**111,945**	**89,034**
Current Liabilities			
Short-term loans and other financial liabilities	14	33,113	41,687
Trade and other payables	18	21,205	21,835
Income tax payable		2,088	828
Other taxes payable	19	7,572	8,585
Dividends payable		209	146
Guarantees issued	28	-	1,500
Total Current Liabilities		**64,187**	**74,581**
Total Liabilities		**176,132**	**163,615**
Total Equity and Liabilities		**430,098**	**411,192**

Approved for issue and signed on 6 March 2020 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 2019	Year ended 31 December 2018
Revenue	20	232,856	293,870
Income from government grants	16	5,330	5,775
Cost of sales	21	(119,071)	(126,541)
Royalty	19	(1,209)	(1,209)
Gross profit		**117,906**	**171,895**
General and administrative expenses	22	(12,830)	(11,735)
Selling and marketing expenses	23	(2,794)	(4,606)
Other operating income	24	6,734	5,383
Other operating expenses	25	(33,873)	(33,842)
Operating profit		**75,143**	**127,095**
Finance (costs) / income, net	26	2,828	(15,901)
Share of results of associates and joint ventures	5.2	3,485	3,418
Profit before income tax		**81,456**	**114,612**
Income tax	19	(18,726)	(24,208)
Profit for the year		**62,730**	**90,404**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement provision of pension obligations, net of deferred tax	17, 19	1,417	(1,115)
Total items that will not be reclassified to profit or loss		**1,417**	**(1,115)**
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences, net of tax		(236)	177
Total items that may be reclassified subsequently to profit or loss		**(236)**	**177**
Total other comprehensive income / (loss) for the year		**1,181**	**(938)**
Total comprehensive income for the year		**63,911**	**89,466**
Profit attributable to:			
Owners of PJSC ALROSA		62,026	89,217
Non-controlling interest	30	704	1,187
Profit for the year		**62,730**	**90,404**
Total comprehensive income attributable to:			
Owners of PJSC ALROSA		63,072	88,279
Non-controlling interest		839	1,187
Total comprehensive income for the year		**63,911**	**89,466**

Basic and diluted earnings per share for profit attributable to the owners of PJSC ALROSA (in Roubles)	12	8.60	12.29

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Net Cash Inflow from Operating Activities	**27**	**67,560**	**120,122**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(19,974)	(27,816)
Proceeds from sales of property, plant and equipment		2,011	903
Sale of financial assets at fair value through profit or loss		385	1,433
Interest received		1,969	1,912
Proceeds from disposal of subsidiaries, net of cash disposed of		1,566	30,801
Cash transfer to deposit accounts		(76,944)	(17,053)
Cash transfer from deposit accounts		62,231	5,455
Acquisition of Kristall group, net of cash acquired	5.4	(1,286)	-
Dividends received from associates		5,739	1,124
Insurance settlement from SOGAZ		-	10,490
Purchase of shares of PJSC ALROSA-Nyurba	5.3	-	(12,000)
Government grants		693	2,938
Net Cash Outflow used in Investing Activities		**(23,610)**	**(1,813)**
Cash Flows from Financing Activities			
Repayments of loans		(53,324)	(41,221)
Loans received		63,692	41,871
Interest paid		(7,465)	(5,995)
Purchase of treasury shares	12	-	(14,077)
Dividends paid to non-controlling shareholders		(215)	(9)
Dividends paid		(57,246)	(80,739)
Repayment of lease obligations		(1,361)	-
Net Cash Outflow used in Financing Activities	**13**	**(55,919)**	**(100,170)**
Net (Decrease) / Increase in Cash and Cash Equivalents		**(11,969)**	**18,139**
Cash and cash equivalents at the beginning of the year		27,437	7,381
Effect of exchange rate changes on cash and cash equivalents		(2,153)	1,917
Cash and Cash Equivalents at the End of the Year	**7**	**13,315**	**27,437**

(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 12)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2018	**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 12)	-	-	-	-	-	(80,736)	(80,736)	(9)	(80,745)
Purchase of treasury shares (note 12)	(156,059,800)	-	-	(264)	-	(13,813)	(14,077)	-	(14,077)
Change in ownership in subsidiaries (note 12)	-	-	-	-	(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**

Balance at 1 January 2019	**7,208,905,830**	**12,473**	**10,431**	**(264)**	**(31,355)**	**256,331**	**247,616**	**(39)**	**247,577**
Comprehensive income									
Profit for the year	-	-	-	-	-	62,026	62,026	704	62,730
Other comprehensive income	-	-	-	-	1,046	-	1,046	135	1,181
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**1,046**	**62,026**	**63,072**	**839**	**63,911**
Transactions with owners									
Dividends (note 12)	-	-	-	-	-	(57,311)	(57,311)	(213)	(57,524)
Change in ownership in subsidiaries	-	-	-	-	-	-	-	2	2
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(57,311)**	**(57,311)**	**(211)**	**(57,522)**
Balance at 31 December 2019	**7,208,905,830**	**12,473**	**10,431**	**(264)**	**(30,309)**	**261,046**	**253,377**	**589**	**253,966**

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 2022 and 2048. Management believes the Group will be able to extend the licenses' terms after they expire.

As at 31 December 2019 and 31 December 2018 the Company's principal shareholders were: the Russian Federation (33.0 per cent of shares) represented by the Federal Agency for State Property Management and the Republic of Sakha (Yakutia) (25.0 per cent of shares) represented by the Ministry of the property and land relations of Sakha (Yakutia). Therefore the total share of state is above 50%.

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 61.9057 and 69.4706 as at 31 December 2019 and 31 December 2018, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 69.3406 and 79.4605 as at 31 December 2019 and 31 December 2018, respectively.

(b) Recent accounting pronouncements

In 2019 the Group has adopted all IFRS, amendments and interpretations which were effective as at 1 January 2019 and which are relevant to its operations.

IFRS 16 "Leases"

The Group adopted ***IFRS 16 "Leases"*** from 1 January 2019 (the standard was issued on 13 January 2016 and is 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.

The Group leases buildings, transport and plant and equipment. A lease is a contract, or part of a contract, that conveys the right to control usage of an an asset (the underlying asset) for a period of time in exchange for consideration.

In accordance with the transition provisions of IFRS 16, the Group has elected modified retrospective method without restatement of comparatives with the effect of transition to be recognised as at 1 January 2019.

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

Changes in accounting policies effective January 1, 2019 due to adoption of IFRS 16 «Leases»

Accounting for lease obligation and right-of-use assets

The right-of-use assets are measured at initial cost and depreciated on a straight-line basis over the shorter of the lease term and the useful life of the right-of-use asset. The initial cost of the right-of-use asset consists of the amount of initial measurement of lease liability, adjusted by any lease payments made to the lessor at or before the commencement date and initial direct costs. The right-of-use assets are subsequently measured at cost, less accumulated depreciation and any accumulated impairment losses.

The lease liability is initially recognised at present value of lease payments that are not paid by the commencement date and is subsequently measured at amortised cost, recognising interest expenses within finance costs in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The carrying amount is remeasured to reflect any reassessment, lease modification, or revised in-substance fixed lease payments. Reassessment of the lease liability takes place if the cash flows based on the original terms and conditions of the lease agreement are changed. Lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. Any remeasurement of the lease liability based on situations described above results in a corresponding adjustment to the right-of-use asset. Any change that is triggered by a clause that is already part of the original lease contract, including changes due to a market rent review clause or the exercise of an extension option, is a reassessment. The effective date of the modification is the date when the parties agreed to the modification of the lease.

Accounting for periodical repair and technical maintenance costs of aircrafts

At the start of the lease the lessee estimates the cost of regular overhaul which forms the working life of the aircraft when it is returned, and recognizes this amount as right-of-use asset in correspondence with a provision to restore the underlying asset to the state that is required in accordance with the lease terms of aircraft. A right-of-use asset is amortized using the straight-line method over the lease term.

The provision for repair and maintenance on return of aircraft to lessor is revaluated on a regular basis and changes in the carrying amount of the provision are recognized in correspondence with the relevant right-of-use asset. The provision is recognized at present value using discounting rate method.

When carrying out repair works the utilization of the previously created provision is accounted for in correspondence with the repairs settlements accounts. The amount of excess or underutilization of the reserve is recognized in income / expenses of the period.

Accounting for HFM (heavy form of maintenance) reserve

According to certain aircraft lease agreements the Group regularly makes payments to lessor's aircraft maintenance reserve for "heavy forms of maintenance" specified in the lease agreement during the lease period.

After carrying out relevant repairs the Group makes an enquiry to the lessor for the reimbursement of such expenses and receives partial or full compensation from the lessor depending on the various conditions.

Accounting for HFM depends on the terms of the lease contract:

1. Payments for the regular overhauls which will be reimbursed during the lease term

A financial asset is recognized when the respective payment to maintenance reserve is made and is initially measured at present value of future reimbursement payments, the amount of the discount is recognized directly in the period expenses. Over its life period the financial asset is increased by interest accruals to its nominal amount to be returned by the lessor to the lessee using the effective interest rate method.

When reimbursement is received the refund amount is offset against the financial asset. If the amount of the refund received is less than the carrying amount of financial asset, the Group estimates the probability of the return of the residual part of the reserve and if the balance is not expected to be received it is written off as a variable payment in the expenses of the period.

(in millions of Russian roubles, unless otherwise stated)

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

2. Payments to the reserve reimbursement for which are not expected as HFM will be performed by the lessor or other lessee after the lease term.

Payments to the reserve fund which are not returned to the lessee should be accounted for as any other lease payments under *IFRS 16 «Leases»*.

Disclosure in the financial statements

Right-of-use assets are represented in "Right-of-use assets" in the Consolidated Statement of Financial Position, long-term lease liabilities and current portion of lease liabilities are represented in "Long-term debt and other financial liabilities" as a part of non-current liabilities and "Short-term debt and other financial liabilities" as a part of current liabilities in the Consolidated Statement of Financial Position. Interest expenses are presented in "Finance costs" in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, depreciation of right-of-use assets is represented in "Cost of sales", "General and administrative expenses", "Selling and marketing expenses" in the Consolidated Statement of Profit or Loss. Total cash outflow related to lease liability is represented in "Net cash flow from financing activities" in the Consolidated Statement of Cash Flows.

Short-term lease (with a lease term of 12 months or less) as well as lease of low-value assets is recognized as an expense in the consolidated statement of profit or loss over period of the lease.

Transition provisions

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases, which had previously been classified as operating leases under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's weighted average incremental borrowing rate as of 1 January 2019. The Group also recognized repair and maintenance provision on aircraft leases in accordance with the accounting principles described above. The associated right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the Consolidated Statement of Financial Position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

In applying IFRS 16 for the first time, the Group has used the following practical expedients:

- the use of a single discount rate for a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous in assessing whether the right-of-use asset is impaired;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease".

As at January 1, 2019 the Group recognized in the form of right-of-use assets in the following categories:

Transport: leasing	4,457
Transport: repair and maintenance	3,518
Buildings	984
Machinery and equipment	18
Total:	**8,977**

(in millions of Russian roubles, unless otherwise stated)

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

The reconciliation of future minimum operating lease payments to recognized lease liabilities is presented below:

Total future minimum lease payments for operating leases as at 31 December 2018	**5,565**
Less future lease payments for leases with a term of less than 12 months and leases with low-value	(16)
Effect of discounting using incremental borrowing rate as of the date of initial recognition	(1,241)
Present value of future minimum lease payments	**4,308**
Change in future lease payments relating to reassessment of lease extension options	2,518
Less present value of lease payments on land lease contracts, where land value is based on cadastral cost or depends on rate of forest unit area set by the Government order and regional authorities	(1,367)
Present value of future mandatory payments for non-reimbursable repairs and technical maintenance under aircraft lease agreements	929
Lease liability recognized as of January 1, 2019	**6,388**
- long-term part	4,975
- short-term part	1,413
Provision for reimbursable repairs and maintenance	**2,589**

Weighted average discount rate applied to the lease liabilities on 1 January 2019 is 9.0% for the contracts with lease payments in Russian roubles, 5.5% for the contracts with lease payments in US dollars.

The following amended Standards became effective for the Group from 1 January 2019, but did not have any material impact on the Group:

- Clarification to IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- 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).

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 2020 or later, and which the Group has not early adopted.

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).
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- 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).
- 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).

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

- 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).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).

(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 all subsidiaries including those purchased from parties under common control. 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. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Costs of minor repairs and day-to-day maintenance are expensed when incurred.

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

(in millions of Russian roubles, unless otherwise stated)

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

consolidated financial statements. As at 31 December 2019 the net book value of production licenses included in property, plant and equipment is RR'mln 4,145 (31 December 2018: RR'mln 5,116).

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 ore deposit. 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 7.07 per cent in the year ended 31 December 2019 (year ended 31 December 2018: 6.84 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.

(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 future 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".

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.

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

Changes in the present value of 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 carrying amount 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 quoted 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 or minus accrued interest, and for financial assets less any allowance for expected credit 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.

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.

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

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 buy or sell 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.

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.

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

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 financial assets 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.

As at December 31, 2019 and December 31, 2018 the Group didn’t have any financial assets measured at fair value through other comprehensive income.

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, on a forward-looking basis, the ECL for financial assets measured at AC and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Group measures ECL and recognises net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC, bank deposits, trade and other receivables and loans issued are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position.

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 applies simplified approach for impairment of trade receivables.

To assess the expected credit loss on loans given the Group applies 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)

(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 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.

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

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.

Non-parity pension program remained in force till 1 July 2017. According to the program 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.

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.

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

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.

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.

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

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 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 roubles 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 Consolidated Statement of Profit or Loss and Other Comprehensive Income within 'Other operating income' or 'Other operating expenses'.

The statements of financial position of foreign subsidiaries are translated into Russian Roubles at the exchange rate prevailing at the end of the respective reporting period. The statements of profit or loss and other comprehensive income 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.

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

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) Social costs

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

(x) 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.

(y) 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.

(z) 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 Consolidated Statement of Financial Position are not reclassified or re-presented in the comparative Consolidated 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.

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

(aa) 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 2019 the Group recognized impairment of property plant and equipment which are not planned to be utilized in the future in the amount of RR'mln 3 093 (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 (notes 8, 24 and 25) also the Group wrote off a provision for impairment of property, plant and equipment in the amount of RR'mln 196 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 2018 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 7,815 (notes 8, 25). In 2019, part of Mir's property and equipment items which have not been impaired were used by other business units of the Company.

According to the framework adopted in 2019, a decision regarding the future underground mine Mir will be made after further exploration of the deep horizons of the mine. In case of positive results of studies on the economic feasibility of mining and confirmation of the ability to carry out construction and mining while ensuring the maximum level of industrial safety, work to restore the mine can begin no earlier than 2024.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (note 28).

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 2019, 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 1,847 (year ended 31 December 2018: RR'mln 1,596) 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.

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

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 17).

Provision for land recultivation. Based on legal requirements of the Russian Federation, licenses agreements and estimated period of resources 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 15).

(bb) Accounting policies applicable to periods ending before January 1, 2019

The following are accounting policies applicable to the comparable period ended 31 December 2018 as amended by IFRS 16.

Finance lease. In cases where the Group is a lessee under a lease agreement which implies all risks and benefits associated with ownership of the asset are transferred to the Group, the leased assets are recognized as property, plant and equipment at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The amount of each lease payment is distributed between the reduction of the outstanding liability and the cost of financing so that a constant periodic interest rate on the outstanding balance of the finance lease obligation is obtained. The corresponding lease obligations net of future finance costs are included in loans and borrowings. Interest expense in lease payments is recognized in profit or loss over the lease term using the effective interest method. Assets acquired under finance lease are amortized over their useful lives or the lease term when the latter is shorter if the Group does not have sufficient confidence that it will acquire ownership of the asset by the end of the lease term.

Operating lease. 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.

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 2019 and 2018, the Group’s borrowings were denominated in US dollars and Russian Roubles (notes 13 and 14).

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 2019 and 31 December 2018 the borrowings with floating rate were repaid (note 13).

(in millions of Russian roubles, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2019			31 December 2018		
	Monetary financial assets	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
US Dollar	27,562	113,402	(85,840)	43,406	104,325	(60,919)
Euro	389	93	296	125	301	(176)
Other foreign currency	91	-	91	558	-	558
Total	**28,042**	**113,495**	**(85,453)**	**44,089**	**104,626**	**(60,537)**

At 31 December 2019, 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 13,734 lower / higher (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), 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 secure receivables from customers of diamonds the Group requires liquid collateral such as bank or any other third party's guarantee (with excellent or good 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.

(in millions of Russian roubles, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

The ECLs that are estimated by management for the purposes of these consolidated 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.

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 6,7,11 and 28, 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 2019						
Borrowings, loans and interest payable	4	-	36,671	50,526	35,365	122,566
Lease liabilities	-	286	1,164	2,668	2,448	6,566
Trade payables	2,794	2,037	1,552	6	5	6,394
Payables to associates	11	-	-	-	-	11
Other payables	260	-	-	-	-	260
	3,069	**2,323**	**39,387**	**53,200**	**37,818**	**135,797**
31 December 2018						
Borrowings, loans, finance lease obligations and interest payable	-	-	47,569	67,657	2,008	117,234
Trade payables	4,576	1,174	609	21	-	6,380
Payables to associates	12	-	-	-	-	12
Other payables	595	-	-	-	-	595
Financial guarantee (Note 27)	1,500	-	-	-	-	1,500
	6,683	**1,174**	**48,178**	**67,678**	**2,008**	**125,721**

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 is to maintain and further expand the Group’s operations.

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 2019 and 2018.

(in millions of Russian roubles, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

According to the Group's Financial Policy approved in 2018 (amended in 2019) the Group assesses the debt burden level on the basis of the Net Debt / EBITDA ratio for the last twelve months.

The Group seeks to minimize the weighted average cost of capital (WACC) through the effective selection of sources of financing (equity and borrowed capital).

Capital management is carried out through the control of the Company Management over the results of the Group's activities based on the following indicators:

- free cash flow,
- net debt to EBITDA,
- share of borrowed capital in total amount of financing of the Company (gearing ratio).

Free cash flow (FCF) - is calculated as cash flow from operating activities less cash outflow for financing capital expenditures (according to the "Purchase of property plan and equipment" line of Consolidated statement of Cash Flows)

EBITDA is calculated as Net profit or loss of the Group adjusted for income tax, finance gains and losses, share of net profit of associates and joint ventures, foreign exchange gain and losses, depreciation and amortization, impairment of property plant and equipment, gains or losses from disposal of subsidiaries, fair valuation effects and one-off items. The total value of these one-off items amounted to RR'mln 2,802 in 2019.

Total debt includes short-term and long-term loans and borrowings and other financial liabilities (notes 13 and 14).

Net debt is calculated as **Total Debt** less cash and cash equivalents and bank deposits as of reporting date.

Total capital is calculated as a sum of Total equity as per Consolidated Statement of Financial Position and Total debt.

Management assess the relevance of the above indicators values depending on the current economic situation. After the analysis is completed management would develop an action plan to improve these indicators if necessary. The values of the indicators are presented below:

	31 December 2019	**31 December 2018**
Total debt	117,284	106,661
Cash, cash equivalents, bank deposits (note 6,7)	37,655	39,221
Net Debt	**79,629**	**67,440**
Total equity attributable to owners of PJSC ALROSA and Non-Controlling Interest	253,966	247,577
Total capital	371,250	354,238
Gearing ratio	**0.32**	**0.30**
Free cashflow	47,586	92,306
EBITDA	107,054	155,972
Net Debt/EBITDA	**0.74**	**0.43**

In 2019 and 2018 neither the Company nor its subsidiaries had capital requirements set by third parties with the exception of the statutory minimum share capital.

(in millions of Russian roubles, unless otherwise stated)

4. FINANCIAL INSTRUMENTS BY CATEGORY

FINANCIAL ASSETS	**Financial assets at amortised cost**		**Financial assets at fair value through profit or loss**		**Total**	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Non-current financial assets						
Financial assets at fair value through profit or loss	-	-	191	838	191	838
Loans issued	411	602	-	-	411	602
Financial asset relating to HFM provision	336	-	-	-	336	-
Other long-term receivables	216	263	-	-	216	263
Total non-current financial assets	**963**	**865**	**191**	**838**	**1,154**	**1,703**
Current financial assets						
Loans issued	346	383	-	-	346	383
Trade receivables for supplied diamonds	6,948	12,080	-	-	6,948	12,080
Receivables from associates	1,673	3,461	-	-	1,673	3,461
Consideration receivable for disposed interest in CJSC MMC Timir	-	535	-	-	-	535
Other trade receivables	1,923	1,672	-	-	1,923	1,672
Bank deposits	24,340	11,784	-	-	24,340	11,784
Cash and cash equivalents	13,315	27,437	-	-	13,315	27,437
Total current financial assets	**48,545**	**57,352**	**-**	**-**	**48,545**	**57,352**
Total financial assets	**49,508**	**58,217**	**191**	**838**	**49,699**	**59,055**

FINANCIAL LIABILITIES	**Liabilities at amortised cost**	
	31 December 2019	**31 December 2018**
Non-current financial liabilities		
Long-term debt and other financial liabilities	84,171	64,974
Total non-current financial liabilities	**84,171**	**64,974**
Current financial liabilities		
Short-term loans and other financial liabilities	33,113	41,687
Trade payables	6,394	6,380
Interest payable	796	811
Dividends payable	209	146
Payables to associates	11	12
Other payables	260	595
Total current financial liabilities	**40,783**	**49,631**
Total financial liabilities	**124,954**	**114,605**

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 2019	**31 December 2018**
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
JSC ALROSA Air Company	Air transportation	Russia		100.0	100.0
JSC Kristall	Polished diamonds production	Russia		100.0	-
PJSC Severalmaz	Diamonds production	Russia		99.9	99.9
JSC Viluyskaya GES-3	Electricity production	Russia		99.7	99.7
PJSC ALROSA-Nyurba	Diamonds production	Russia		97.5	97.5
Hydroshikapa S.A.R.L	Electricity production	Angola		55.0	55.0

As at 31 December 2019 and 31 December 2018 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

(in millions of Russian roubles, unless otherwise stated)

5. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

5.1. 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 2019 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 2020-2038 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 2019 and 31 December 2018.

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 2019	31 December 2018
Pre-tax discount rate	12.1%	13.5%
Producer price index for 2020-2038	2.9 - 5.7%	4.3 - 7.1%
Average diamond price, RR / carat	5,597	7,737
EBITDA margin	22% - 44%	44% - 64%

Management believes that their judgments are reasonable and supportable in the current economic environment. However, reasonable changes of key assumptions as at 31 December 2019 and 31 December 2018 will not lead to an excess of carrying value of assets over their value-in-use.

5.2. 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 for the year ended 31 December	
Name	**Country of incorporation**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Catoca Mining Company Ltd. (associate)	Angola	41.0	32.8	8,283	4,993	3,477	3,414
Other (associates and joint ventures)	Russia	20-50	20-50	204	198	8	4
Total				**8,487**	**5,191**	**3,485**	**3,418**

As at 31 December 2019 and 31 December 2018 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 July 2019 Catoca Mining Company Ltd declared dividends for the year ended 31 December 2018; the Group's share of these dividends amounted to RR'mln 3,803 before taxation in the amount of RR'mln 380. For the year ended 31 December 2018 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 534.

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 April 2019 the Group has finalized the acquisition of 16.4% share in Catoca Mining Company Ltd. having increased the effective interest in share capital of Catoca Mining Company Ltd. by 8.2% to 41% and recognized additional 8.2% in this company amounted to RR'mln 4,175 within assets held for sale. The Group has an intention to sale this asset during 2020.

(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	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Non-current assets	11,614	16,759	6,061	6,068	17,675	22,827
Current assets	26,481	24,738	109	76	26,590	24,814
Total assets	**38,095**	**41,497**	**6,170**	**6,144**	**44,265**	**47,641**
Non-current liabilities	-	-	133	133	133	133
Current liabilities	24,188	26,274	1,718	1,648	25,906	27,922
Total liabilities	**24,188**	**26,274**	**1,851**	**1,781**	**26,039**	**28,055**
Net assets	**13,907**	**15,223**	**4,319**	**4,363**	**18,226**	**19,586**
Group's share	41%	32,8%	20-50	20-50		
Group's share in net assets	5,702	4,993	2,109	2,130	7,811	7,123

	Catoca Mining Company Ltd		Other		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Revenue	43,546	48,136	163	154	43,709	48,290
Profit/(loss) for the year	9,468	10,409	(30)	(48)	9,438	10,361
Dividends declared to shareholders	(9,276)	(10,268)	(4)	(4)	(9,280)	(10,272)

5.3 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 comprised 97.5%.

5.4 Acquisition of Kristall group

Following the Supervisory Board decision dated September 24, 2019, the Company and the Russian Federation represented by the Federal Agency for State Property Management (Rosimushchestvo) (Note 29) have signed an agreement to purchase 100% stake in Joint-Stock Company "Production Corporation "Kristall" (JSC Kristall) for the total consideration of RR'mln 1,886. The deal was finalized on October 3, 2019.

JSC Kristall is the parent company of Kristall group. JSC Kristall was founded in Smolensk in 1963 and is the largest producer of polished diamonds in Russia and Europe. The purpose of the acquisition of Kristall group is to integrate the production and marketing processes of lapidary sites.

(in millions of Russian roubles, unless otherwise stated)

5. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

The purchase price allocation to the fair value of the acquired assets and liabilities as of the acquisition date based on the report of an independent appraiser is presented below:

ASSETS	
Property, plant and equipment	979
Other long-term assets	2
Inventory	8,726
(incl. diamonds and polished diamonds)	*8,094*
Accounts receivable	403
Cash and bank deposits	600
Other current assets	16
Total assets	**10,726**
LIABILITIES	
Loans and borrowings	7,008
Accounts payable	231
Other liabilities	41
Total liabilities	**7,280**
Non-controlling interest*	2
Fair value of identified net assets of Kristall group	**3,444**
Goodwill on acquisition	**899**
Settlement of pre-existing relationship**	(2,457)
Consideration paid (cash)	**(1,886)**
Less: cash and cash equivalents of the acquired Kristall group	600
Net cash outflow on acquisition Kristall group	**(1,286)**

*Non-controlling interest relates to the subsidiaries of JSC Kristall with shares of less than 100.0 per cent.

** Settlement of pre-existing relationship is represented by account payable by JSC Kristall to ALROSA for sales of diamonds.

Fair value of the acquired assets relates to Level 2 fair value measurement hierarchy.

As at 31 December 2019 due to significant indicators of impairment the Group recognized impairment loss on goodwill arising from the acquisition of Kristall group. Impairment loss in the amount of RR'mln 899 is included in Other operating expenses line of Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019 (Note 25).

Kristall group contributed RR'mln 1,576 to the revenues and RR'mln 281 (loss) – to the net profit of the Group for the period from acquisition date to 31 December 2019. If the acquisition had occurred on 1 January 2019, Group revenue for 2019 would have been RR'mln 230,371 and profit for 2019 would have been RR'mln 59,491.

5.5. Sale of 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 the transaction the Group lost an ability to control financial and operating activity of the gas companies.

(in millions of Russian roubles, unless otherwise stated)

6. BANK DEPOSITS

	31 December 2019	31 December 2018
Deposits in PJSC Sovcombank	12,308	1,042
Deposits in PJSC Moscow Credit Bank	6,191	-
Deposits in JSC Alfa-Bank	2,578	704
Deposits in PJSC VTB Bank	1,898	5,935
Deposits in Bank GPB (JSC)	1,365	936
Deposits in PJSC Sberbank	-	3,167
Total bank deposits	**24,340**	**11,784**

The credit quality of banks is disclosed in Note 7.

As at 31 December 2019 the Group placed in banks deposits in roubles with maturity dates exceeding three months and interest rates ranging from 6.9% to 7.6% per annum, deposits in dollars – 1.3% to 2.3%.

As at 31 December 2018 the Group placed in banks deposits in roubles with maturity dates exceeding three months and interest rates ranging from 7.1% to 8.1% per annum, deposits in dollars – 3.7% to 4.1%.

The table below discloses the credit quality of bank deposits based on credit risk grades at 31 December 2019. Refer to Note 3 for the description of the Group's credit risk grading system.

	31 December 2019	31 December 2018
Excellent	16,252	4,807
Good	8,088	6,977
Total bank deposits	**24,340**	**11,784**

7. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Deposit accounts	10,774	25,292
Cash in banks and on hand	2,541	2,145
Total cash and cash equivalents	**13,315**	**27,437**

Deposit accounts at 31 December 2019 and 31 December 2018 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 2019 and 31 December 2018. Refer to Note 3 for the description of the Group's credit risk grading system.

As at 31 December 2019	Deposit accounts	Cash in banks	Total
Excellent	9,400	890	10,290
Good	1,312	1,644	2,956
No rating	62	-	62
Total cash and cash equivalents, excluding cash on hand	**10,774**	**2,534**	**13,308**

As at 31 December 2018	Deposit accounts	Cash in banks	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**

(in millions of Russian roubles, unless otherwise stated)

7. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	Credit rating at 31 December 2019	Rating agency	31 December 2019	31 December 2018
PJSC SOVCOMBANK	BB	Standard & Poor's	7,400	1,347
PJSC VTB Bank	BBB-	Standard & Poor's	1,593	13,546
PJSC Sberbank	Baa3	Moody's	1,284	32
PJSC Bank ZENIT	Ba3	Moody's	1,000	3,474
PJSC FK Otkritye Bank	Ba2	Moody's	1,000	-
JSC Alfa-Bank	BB+	Standard & Poor's	804	958
ABN AMRO Bank N.V.	A+	Fitch	24	15
Bank of China (Hong Kong) Ltd.	Aa3	Moody's	15	17
The Bank of New York Mellon S.A	AA-	Fitch	11	267
JSC UniCredit Bank	BBB-	Standard & Poor's	7	7
Gazprombank (Switzerland), Ltd.	BBB-	Fitch	4	222
Bank GPB (JSC)	BB+	Standard & Poor's	3	119
PJSC Moscow Credit Bank	BB-	Standard & Poor's	-	7,074
First Abu Dhabi Bank	Aa3	Moody's	-	52
Other banks and cash on hand	n/a	n/a	170	307
Total cash and cash equivalents			**13,315**	**27,437**

(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 31.12.2017	**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	(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 15)	-	102	-	-	-	-	-	102
Cost at 31.12.2018	**82,310**	**175,428**	**103,401**	**28,217**	**14,477**	**23,826**	**4,242**	**431,901**
Additions	202	1,546	5,951	4,343	7	8,844	125	21,018
Acquisition of subsidiaries	507	155	157	100	-	1	59	979
Transfers	717	9,392	1,989	700	-	(12,461)	(337)	-
Disposal of subsidiaries – at cost	(566)	(476)	(167)	(17)	-	(26)	(171)	(1,423)
Other disposals – at cost	(1,419)	(4,366)	(2,012)	(1,114)	(108)	(106)	(337)	(9,462)
Currency translation differences	1	(780)	-	(7)	1	70	(4)	(719)
Change in estimate of provision for land recultivation (note 15)	-	(11)	-	-	-	-	-	(11)
Cost at 31.12.2019	**81,752**	**180,888**	**109,319**	**32,222**	**14,377**	**20,148**	**3,577**	**442,283**
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)**
Depreciation charge for the year	(2,247)	(8,178)	(8,919)	(3,135)	(975)	(1)	(494)	(23,949)
Disposal of subsidiaries – accumulated depreciation	65	210	87	10	-	-	58	430
Other disposals – accumulated depreciation	1,012	2,875	1,863	1,072	105	-	361	7,288
Currency translation differences	-	325	(1)	4	(1)	-	3	330
Impairment of property, plant and equipment (note 2)	(1,721)	(721)	(529)	(130)	-	9	(1)	(3,093)
Accumulated depreciation and impairment losses at 31.12.2019	**(35,907)**	**(76,826)**	**(71,935)**	**(18,697)**	**(10,232)**	**(56)**	**(2,369)**	**(216,022)**
Net book value at 31.12.2018	**49,294**	**104,091**	**38,965**	**11,699**	**5,116**	**23,762**	**1,946**	**234,873**
Net book value at 31.12.2019	**45,845**	**104,062**	**37,384**	**13,525**	**4,145**	**20,092**	**1,208**	**226,261**

Capitalised borrowing costs

During the year ended 31 December 2019 the Group capitalised borrowing costs amounting to RR'mln 222 (2018: RR'mln 706) most of which is paid at 31 December 2019 in construction of qualifying asset totalling RR'mln 3,961 (2018: RR'mln 10,123). 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 2019 borrowing costs were capitalized at the weighted average rate of its general borrowing of 5.40 per cent per annum (31 December 2018: 6.79 per cent per annum).

(in millions of Russian roubles, unless otherwise stated)

9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The group rents various buildings, vehicles and machinery and equipment. Prior to 31 December 2018 leases of fixed assets were classified as either finance leases or operating leases. As of January 1, 2019 a lease is recognized as an asset in the form of a right-of-use with the corresponding liability reflected starting from the date on which the leased asset is available for use by the Group.

	Buildings	Plant and equipment	Transport	TOTAL
At 1 January, 2019	**984**	**18**	**7,975**	**8,977**
Additions	108	49	1,215	1,372
Changes in estimation	17	8	(412)	(387)
Depreciation (note 21)	(241)	(25)	(1,328)	(1,594)
At 31 December, 2019	**868**	**50**	**7,450**	**8,368**

Lease liabilities recognized by the Group are stated below (note 13,14):

	31 December 2019	1 January 2019
Long-term lease liabilities	4,274	4,975
Short-term lease liabilities	1,447	1,413
Total lease liabilities	**5,721**	**6,388**

As at 1 January 2019, right-of-use assets were mainly represented by five aircraft leased by the Group's airline. Interest expense on lease liabilities included in finance costs comprised RR'mln 333 for the year ended 31 December 2019.

As at 31 December 2019 future payments under lease contracts with variable payments amounted to RR'mln 2,356.

10. INVENTORIES

	31 December 2019	31 December 2018
Diamonds*	73,905	49,587
Ores and sands mined	15,413	14,032
Mining and repair materials	30,075	27,164
Consumable and other supplies	1,909	1,836
Total inventories	**121,302**	**92,619**

*At 31 December 2019 diamonds include diamonds purchased from third parties (including Catoca Mining Company Ltd) in the amount of RR'mln 1,143 (2018: RR'mln 2,032).

11. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 December 2019	31 December 2018
Financial accounts receivable	***963***	***865***
Loans issued*	411	602
Financial asset on heavy repairs and maintenance provision	336	-
Other long-term receivables	216	263
Non-financial accounts receivable	***19***	***8,451***
Prepayment for share in Catoca Mining Company Ltd.**	-	8,350
Advances to suppliers	14	90
Long-term VAT recoverable	5	11
Total long-term accounts receivable	**982**	**9,316**

*The loans issued of RR'mln 400 nominal value as at 31 December 2019 (31 December 2018: RR'mln 622) 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 for expected credit losses was not created.

** 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 transaction was completed in 2019 (note 5.2).

(in millions of Russian roubles, unless otherwise stated)

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

Short-term accounts receivable	31 December 2019	31 December 2018
Financial accounts receivable	***10,890***	***18,131***
Trade receivables for supplied diamonds	6,948	12,080
Receivables from associates (note 29)	1,673	3,461
Loans issued	346	383
Interest on deposits	300	64
Consideration receivable for disposed interest in CJSC MMC Timir	-	535
Other short-term receivables	1,623	1,608
Non-financial accounts receivable	***4,271***	***4,140***
VAT recoverable	2,810	2,827
Advances to suppliers	1,146	1,013
Prepaid taxes, other than income tax	315	300
Total short-term accounts receivable	**15,161**	**22,271**

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 debtors 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 2019 and 31 December 2018 approximates their carrying value.

Trade and other accounts receivables relate to Level 2 fair value measurement hierarchy described in note 32.

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 receivables.

To assess expected credit losses allowance, trade and other financial receivables were grouped based on the general characteristics of credit risk and the number of past-due days.

The levels of expected credit losses are based on payment schedules for sales for 36 months before 31 December 2019 or 1 January 2019, 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.

	31 December 2019		31 December 2018	
	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL
Long-term accounts receivable				
Good	552	(1)	313	(50)
Special monitoring	411	(1)	602	-
Short-term accounts receivable				
Excellent	19	-	866	-
Good	9,075	(2)	15,795	(8)
Special monitoring	4,710	(2,910)	4,253	(2,777)
Default	2	(2)	2	-
Total financial accounts receivables (gross carrying amount)	**14,769**	-	21,831	-
Credit loss allowance	-	(2,916)	-	(2,835)
Total financial accounts receivables (carrying amount)	**11,853**	-	**18,996**	-

(in millions of Russian roubles, unless otherwise stated)

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

Long-term accounts receivable	**31 December 2019**	**ECL release**	**Reclassification from long-term to short-term part**	**ECL expense / (reversal of ECL)**	**31 December 2018**
Receivables from associates	-	-	(35)	-	35
Other long-term receivables	2	-	-	(13)	15
	2	**-**	**(35)**	**(13)**	**50**
Short-term accounts receivable					
Receivables from associates	899	(1)	35	9	856
Loans issued	23	-	-	23	-
Advances to suppliers	4	-	-	2	2
Other trade receivables	1,992	(147)	-	210	1,929
	2,918	**(148)**	**35**	**244**	**2,787**

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**

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:

	31 December 2019				**31 December 2018**			
	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
Other long term receivables	2	-	-	2	-	15	-	15
Total long-term accounts receivable	**2**	**-**	**-**	**2**	**-**	**15**	**35**	**50**
Short-term accounts receivable								
Loans issued	23	-	-	23	-	-	-	-
Receivables from associates	899	-	-	899	848	-	8	856
Advances to suppliers	4	-	-	4	2	-	-	2
Other short-term receivables	596	770	626	1,992	459	1,315	155	1,929
Total short-term accounts receivable	**1,522**	**770**	**626**	**2,918**	**1,309**	**1,315**	**163**	**2,787**

12. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 31 December 2019 and 31 December 2018 and consists of 7,364,965,630 ordinary shares, at RR 0.5 par value share. As at 31 December 2019 and 31 December 2018 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.

(in millions of Russian roubles, unless otherwise stated)

12. SHAREHOLDERS' EQUITY (CONTINUED)

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 2019 and at 31 December 2018 subsidiaries of the Group held 156,059,800 ordinary shares of the Company.

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 7,208,905,830 and 7,257,315,514 weighted average shares outstanding for the years ended 31 December 2019 and 31 December 2018, respectively.

There are no dilutive financial instruments outstanding.

Other reserves

	Currency translation	Purchase of non-controlling interest	Recognition of accumulated actuarial loss	Total other reserves
Balance at 1 January 2018	**39**	**69**	**(19,456)**	**(19,348)**
Actuarial remeasurement on post employment benefit obligation (note 17)	-	-	(1,115)	(1,115)
Currency translation differences	397	-	-	397
Purchase of non-controlling interest (note 5.3)	-	(11,289)	-	(11,289)
Balance at 31 December 2018	**436**	**(11,220)**	**(20,571)**	**(31,355)**

	Currency translation	Purchase of non-controlling interest	Recognition of accumulated actuarial loss	Total other reserves
Balance at 31 December 2018	**436**	**(11,220)**	**(20,571)**	**(31,355)**
Currency translation differences	(371)	-	-	(371)
Actuarial remeasurement on post employment benefit obligation (note 17)	-	-	1 417	1 417
Balance at 31 December 2019	**65**	**(11,220)**	**(19,154)**	**(30,309)**

Dividends

On 30 September 2019 the Company's extraordinary shareholders' meeting approved dividends for the first half of the year ended 31 December 2019 totalling RR'mln 28,281 (including RR'mln 599 on ordinary shares held by the subsidiaries). Dividends per share amounted to RR 3.84.

On 26 June 2019 the Company's annual shareholders' meeting approved dividends for the second half of year ended 31 December 2018 totalling RR'mln 30,270 (including RR'mln 641 on ordinary shares held by the subsidiaries). Dividends per share amounted to RR 4.11.

(in millions of Russian roubles, unless otherwise stated)

12. SHAREHOLDERS' EQUITY (CONTINUED)

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. Therefore total dividends for the year ended 31 December 2018 comprised RR'mln 73,944 (including RR'mln 1,566 on ordinary shares held by the subsidiaries). Dividends per share amounted to RR 10.04.

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.

13. LONG-TERM DEBT AND OTHER FINANCIAL LIABILITIES

	31 December 2019	31 December 2018
Debt to banks:		
US$ denominated fixed rate	46,429	-
EUR denominated fixed rate	8	-
RR denominated fixed rate	2,678	2,841
	49,115	**2,841**
Eurobonds US$ denominated	61,387	62,133
	110,502	**64,974**
Less: current portion of long-term debt (note 14)	(30,605)	-
Total long-term debt	**79,897**	**64,974**
Lease liabilities	5,721	-
Less: current portion of long-term lease liabilities (note 14)	(1,447)	-
Total long-term lease liabilities	**4,274**	**-**

During 2019 the Group has obtained several bank loans denominated in US dollars in the total amount of US$ 750 mln all due in 2021.

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

	31 December 2019	31 December 2018
Debt to banks:		
US$ denominated fixed rate	3,2%	-
RR denominated fixed rate	8,7%	9,0%
Eurobonds US$ denominated	3,7%	6,1%

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 2019		31 December 2018	
	Carrying value	Fair value	Carrying value	Fair value
Debt to banks:				
US$ denominated fixed rate	46,429	45,523	-	-
RR denominated fixed rate	2,678	2,891	2,841	2,795
EUR denominated fixed rate	8	9		
Eurobonds US$ denominated	61,387	65,204	62,133	65,689

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 32.

(in millions of Russian roubles, unless otherwise stated)

13. LONG-TERM DEBT AND OTHER FINANCIAL LIABILITIES (CONTINUED)

Eurobonds

On 9 April 2019 the Group completed placement of Eurobond issue in the amount of US$ 500 million for a term of 5 years with a coupon rate of 4.65% per annum. The Group announced a partial redemption of Eurobonds in the amount of US$ 400 million with a maturity date in 2020, the redemption price of bonds was set at 106.75% of the nominal value. On 16 April 2019 the deal to buy back Eurobonds in the amount of US$ 400 million was completed.

	Year ended 31 December 2019	Year ended 31 December 2018
Balance at the beginning of the reporting period	**62,133**	**57,600**
Amortisation of discount	23	3
Issuance of bonds	32,472	-
Repayment	(25,699)	(6,993)
Foreign exchange (gains) / losses	(7,541)	11,523
Balance at the end of the reporting period	**61,388**	**62,133**

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**	**Lease obligation**	**Total**
Liabilities at 31 December 2018	**106,661**	**811**	**146**	**-**	**107,618**
Cash flows	10,368	(7,465)	(57,461)	(1 361)	(55,919)
Effect of Kristall group acquisition (non-cash operation)	7,008	-	-	-	7,008
Interest accrued	-	7,535	-	337	7,872
Dividends declared	-	-	57,524	-	57,524
Foreign exchange differences adjustments	(12,531)	(64)	-	(630)	(13,225)
Disposal of subsidiaries	35	-	-	-	35
Recognition of lease obligation	-	-	-	7,595	7,595
Other non-cash movements	22	(21)	-	(220)	(219)
Liabilities at 31 December 2019	**111,563**	**796**	**209**	**5,721**	**118,289**

	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)

14. SHORT-TERM LOANS AND OTHER FINANCIAL LIABILITIES

	31 December 2019	31 December 2018
Debt to banks:		
RR denominated floating rate	1,054	-
US$ denominated fixed rate	-	41,682
	1,054	**41,682**
Other RR denominated fixed rate loans	7	5
Add: current portion of long-term debt (note 13)	30,605	-
Total short-term debt and current portion of long-term debt	**31,666**	**41,687**
Add: current portion of lease liabilities (note 13)	1,447	-
Total current portion of long-term lease liabilities and short-term lease liabilities	**1,447**	**-**

As at 31 December 2019 and 31 December 2018 the fair value of short-term loans is approximately equal to the carrying value.

15. OTHER PROVISIONS

	31 December 2019	31 December 2018
Provision for land recultivation	8,962	5,473
Provision for reimbursable repair and maintenance	2,490	-
Provision for social obligations	119	113
Total other provisions	**11,571**	**5,586**

Provision for land recultivation

	Year ended 31 December 2019	Year ended 31 December 2018
At the beginning of the year	**5,473**	**5,233**
Accrual of provision (note 25)	3,532	508
Unwinding of the present value discount during the year	390	383
Utilisation of provision	(234)	(604)
Disposal of subsidiaries	-	(141)
Reversal of the provision	(188)	(8)
Change in estimate of provision (note 8)	(11)	102
At the end of the year	**8,962**	**5,473**

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 and other operating expenses (note 8, 25).

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 2019 was 7.29 per cent (31 December 2018: 8.32 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.

Provision for reimbursable repair and maintenance

At the start of the lease the lessee estimates the cost of regular overhaul which forms the working life of the aircraft when it is returned, and recognizes this amount as right-of-use asset in correspondence with a provision to restore the underlying asset to the state that is required in accordance with the lease terms of aircraft.

The provision for repair and maintenance on return of aircraft to lessor is revaluated on a regular basis and changes in the carrying amount of the provision are recognized in correspondence with the relevant right-of-use asset. The provision is recognized at present value using discounting rate method. When carrying out repair works the utilization of the previously created provision is accounted for in correspondence with the repairs settlements accounts. The amount of excess or underutilization of the reserve is recognized in income / expenses of the period.

15. OTHER PROVISIONS (CONTINUED)

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 2019 the Group has partially fulfilled these obligations in the amount of RR'mln 74. The current portion of provision for social obligation as at 31 December 2019 in the amount of RR'mln 66 (31 December 2018: RR'mln 306) was included in trade and other payables within the Group's current liabilities (note 18).

16. 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 Verkhne-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 494 for the year ended 31 December 2019 (RR'mln 65 for the period since the date it was put into operation until 31 December 2018). The Company recognized 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 2019 the grant is recognised within the non-current liabilities of the consolidated statement of financial position in the amount of actual cash received less RR'mln 494 recognised as income in the statement of profit or loss for the year ended 31 December 2019 (RR'mln 65 for the year ended 31 December 2018).

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 2019 the Group received government grants in the amount of RR'mln 5,330 (year ended 31 December 2018: RR'mln 5,775) 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.

17. 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. The Group has retained its obligation to pay pensions to employees who have reached the age of 15 years or more.

(in millions of Russian roubles, unless otherwise stated)

17. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

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:

	31 December 2019	**31 December 2018**
Present value of obligations*	32,959	33,475
Fair value of pension plan assets	(26,551)	(22,790)
Pension obligations for the funded plan	6,408	10,685
Present value of unfunded obligation	1,323	953
Net liability value	**7,731**	**11,638**

*Obligations include obligations to former employees of the Group, secured by assets of the pension plan, the settlements of which with NPF will be fully made by the Group in 2020.

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 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:				
Expected return on plan assets, excluding amounts included in interest expense / (income)	-	604	-	604
Gain from changes in demographic actuarial assumptions	(95)	-	(24)	(119)
Gain 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**

	Present value of obligations on funded plans	**Fair value of plan assets**	**Present value of obligations on unfunded plans**	**Total**
At 1 January 2019	**33,475**	**(22,790)**	**953**	**11,638**
Current service cost	210	-	23	233
Past service cost and curtailment (note 23)	(7)	-	(33)	(40)
Interest expense / (income)	2,862	(1,983)	82	961
	3,065	**(1,983)**	**72**	**1,154**
Remeasurements:				
Expected return on plan assets, excluding amounts included in interest expense / (income)	-	286	-	286
Loss from changes in financial actuarial assumptions	167	-	278	445
(Gain) / loss from experience adjustments	(2,388)	-	51	(2,337)
	(2,221)	**286**	**329**	**(1,606)**
Contributions to plan:				
Employer contributions	-	(3,424)	-	(3,424)
Benefits paid	(1,360)	1,360	(31)	(31)
	(1,360)	**(2,064)**	**(31)**	**(3,455)**
At 31 December 2019	**32,959**	**(26,551)**	**1,323**	**7,731**

(in millions of Russian roubles, unless otherwise stated)

17. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

Expenses recognised in the consolidated statement of profit or loss and other comprehensive income are included in cost of sales, general and administrative expenses, selling and marketing expenses in the amounts of RR'mln 176 (year ended 31 December 2018: RR'mln 100), RR'mln 1 (year ended 31 December 2018: RR'mln 1) and RR'mln 16 (year ended 31 December 2018: RR'mln 12), respectively.

Expense / (income) recognised through profit or loss	Year ended 31 December 2019	Year ended 31 December 2018
Current service cost	233	274
Past service cost and curtailment	(40)	(162)
Interest expense	961	1,137
Total expense recognised through profit or loss	**1,154**	**1,249**

Expense / (income) recognised through other comprehensive income	Year ended 31 December 2019	Year ended 31 December 2018
Gain from changes in demographic actuarial assumptions	-	(119)
Loss / (gain) from changes in financial actuarial assumptions	445	(255)
(Gain) / loss from experience adjustments	(2,051)	1,454
Total (income) / expense recognised through other comprehensive income	**(1,606)**	**1,080**

Change in amount of remeasurements charged to other comprehensive income during the reporting period	Year ended 31 December 2019	Year ended 31 December 2018
Remeasurement amount at 1 January	21,918	20,838
Change in remeasurement amount	(1,606)	1,080
Remeasurement amount at 31 December	**20,312**	**21,918**

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 10.5 years (at 31 December 2018 – 9.90 years).

	Year ended 31 December 2019	Year ended 31 December 2018
Discount rate (nominal)	6.5%	8.7%
Future salary increases (nominal)	5.5%	5.6%
Future pension increases (nominal)	4.0%	4.1%

In the year ended 31 December 2019 the actual income on plan assets was RR'mln 1,697 (year ended 31 December 2018: RR'mln 687). The Group expects to contribute RR'mln 3,131 to the defined benefit plans during the year beginning 1 January 2020.

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 2019	Year ended 31 December 2018
Expected age of retirement		
Male	60	60
Female	58	58
Source - table of mortality dated:	2015– adjusted	2015– adjusted
The life expectancy in the expected retirement age		
Male	20.25	20.25
Female	26	26

(in millions of Russian roubles, unless otherwise stated)

17. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

The expected staff turnover is determined on the basis of historical data and is inversely related to the employee's work experience and continuously decreases due to increase of employment period. The average turnover rates are: for employees with work experience from 0 to 10 years – 11.4 per cent per year, for employees with work experience from 10 to 20 years – 4.8 per cent per year, for employees with work experience from 20 to 30 years – 2.7 per cent per year, for employees with work experience of more than 30 years – 0.7 per cent per year. Sensitivity of the total amount of pension obligations to changes in underlying actuarial assumptions set out below:

	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	-	6.19%
Inflation rate	Increase / decrease by 0.5%	Decrease / increase by	-	4.65%
Future salary increases	Increase / decrease by 0.5%	Increase / decrease by	-	2.08%
Expected return on plan assets	Increase / decrease by 0.5%	Increase / decrease by	7.69%	-
Expected age of retirement	Increase /decrease by 1 year	Decrease / increase by	1.11%	1.13%
Employee turnover	Increase /decrease by 10%	Decrease / increase by	-	1.14%
Mortality level	Increase /decrease by 10%	Decrease / increase by	0.06%	0.60%

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 2019	Year ended 31 December 2018
Russian corporate bonds	35.0%	26.6%
Bank deposits	38.3%	46.4%
Russian Government and municipal bonds	26.7%	24.2%
Debt securities of Russian issuers	-	2.8%
Total plan assets	**100.0%**	**100.0%**

All categories of plan assets are measured at fair value.

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 millions of Russian roubles, unless otherwise stated)

17. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

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.

18. TRADE AND OTHER PAYABLES

	31 December 2019	31 December 2018
Accrual for employee holidays and flights	7,367	7,000
Trade payables	6,394	6,380
Wages and salaries	4,550	5,591
Advances from customers	1,761	1,140
Interest payable	796	811
Current portion of provision for social obligation (note 15)	66	306
Payables to associates	11	12
Other payables	260	595
Total trade and other payables	**21,205**	**21,835**

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

The fair value of short-term trade and other payables at 31 December 2019 and 31 December 2018 approximates their carrying value.

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

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

	31 December 2019	31 December 2018
Payments to social funds	2,646	2,977
Extraction tax	1,883	1,924
Property tax	1,086	1,308
Personal income tax (employees)	654	797
Value added tax	549	1,216
Other taxes and accruals	754	363
Total taxes payable, other than income tax	**7,572**	**8,585**

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

	Year ended 31 December 2019	Year ended 31 December 2018
Property tax	4,444	5,172
Other taxes and accruals	488	381
Total taxes and payments other than income tax expense	**4,932**	**5,553**

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 royalty payments to the Republic of Sakha (Yakutia) starting from 1 January 2012 in the amount of RR'mln 1,209 per annum.

(in millions of Russian roubles, unless otherwise stated)

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

Income tax comprise the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Current tax expense	18,311	27,878
Deferred tax benefit	545	(3,336)
Adjustments recognised in the period for current tax of prior periods	(130)	(334)
Total income tax expense	**18,726**	**24,208**

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

	Year ended 31 December 2019	Year ended 31 December 2018
Profit before income tax	81,456	114,612
Theoretical tax charge at rate of 20 per cent thereon	16,291	22,922
Prior periods adjustments recognised in the current period	(130)	(334)
Tax effect of:		
charity and social program carried out for Republic of Sakha (Yakutia)	1,199	1,089
impairment loss on goodwill arising from acquisition of Kristall Group	180	-
other expenses not deductible for income tax purposes	1,186	531
Total income tax expense	**18,726**	**24,208**

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 consolidated 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 2019	Charged/ (credited) to profit or loss	Charged/ (credited) directly to other comprehensive income	Disposal of subsidiaries	31 December 2018
Property, plant and equipment	5,227	(70)	-	(20)	5,317
Inventories	2,451	1,593	-	6	852
Long-term investments	24	40	(133)	-	117
Right-of-use asset	1,652	1,652	-	-	-
Accruals and provisions	(3,602)	(742)	-	-	(2,860)
Exploration costs write-off	(2,241)	(252)	-	-	(1,989)
Provision for pension obligations	(1,706)	(55)	189	-	(1,840)
Allowance for expected credit losses	(585)	706	-	-	(1,291)
Lease liabilities	(1,123)	(1,123)	-	-	-
Provision for repair and maintenance	(498)	(498)	-	-	-
Other deductible temporary differences	(552)	(706)	-	-	154
Net deferred tax liability/(asset)	**(953)**	**545**	**56**	**(14)**	**(1,540)**
Deferred tax asset	(5,637)	-	-	-	(4,785)
Deferred tax liability	4,684	-	-	-	3,245
Net deferred tax liability/(asset)	**(953)**	**545**	**56**	**(14)**	**(1,540)**

(in millions of Russian roubles, unless otherwise stated)

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

				Effect of changes temporary difference on deferred tax		
	31 December 2018	**Charged/ (credited) to profit or loss**	**Charged 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**

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.

20. REVENUE

	Year ended 31 December 2019	**Year ended 31 December 2018**
Revenue from cutting and polished diamond sales:		
Export	189,244	245,443
Domestic	24,022	32,588
Revenue from diamonds for resale	2,156	46
Total revenue from cutting and polished diamond sales	**215,422**	**278,077**
Other revenue:		
Transport	8,541	8,445
Sales of energy	3,414	918
Social infrastructure	2,136	2,263
Other	3,343	4,167
Total revenue	**232,856**	**293,870**

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

In the years ended 31 December 2019 and 31 December 2018 the Group did not sell diamonds to any buyer in an amount exceeding 10 per cent of the Group's total revenue.

(in millions of Russian roubles, unless otherwise stated)

21. COST OF SALES

	Year ended 31 December 2019	Year ended 31 December 2018
Wages, salaries, contributions and other staff costs	48,463	43,741
Depreciation	24,089	21,410
Extraction tax	21,937	20,623
Fuel and energy	17,598	13,534
Materials	13,678	12,272
Services	6,350	8,693
Cost of diamonds for resale	2,776	37
Transport	1,398	1,667
Other	1,276	1,407
Movement in inventory of diamonds, ores and sands	(18,494)	3,157
Total cost of sales	**119,071**	**126,541**

Wages, salaries, contributions and other staff costs include payments to social funds in the amount of RR'mln 9,342 (year ended 31 December 2018: RR'mln 9,201). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR'mln 8,143 (year ended 31 December 2018: RR'mln 6,628).

Depreciation totalling RR'mln 504 (year ended 31 December 2018: RR'mln 634) and staff costs totalling RR'mln 2,921 (year ended 31 December 2018: RR'mln 4,138) were incurred by the Group's construction divisions and were capitalised into property, plant and equipment in the year.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2019	Year ended 31 December 2018
Wages, salaries, contributions and other staff costs	7,092	6,946
Services and other administrative expenses	5,507	4,785
Allowance for expected credit losses (note 11)	231	4
Total general and administrative expenses	**12,830**	**11,735**

Wages, salaries, contributions and other staff costs include payments to social funds in the amount of RR'mln 1,112 (year ended 31 December 2018: RR'mln 923). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR'mln 759 (year ended 31 December 2018: RR'mln 564).

23. SELLING AND MARKETING EXPENSES

	Year ended 31 December 2019	Year ended 31 December 2018
Wages, salaries, contributions and other staff costs	1,788	1,852
Services and other selling and marketing expenses	1,066	2,754
Total selling and marketing expenses	**2,794**	**4,606**

Wages, salaries, contributions and other staff costs include payments to social funds in the amount of RR'mln 354 (year ended 31 December 2018: RR'mln 378). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR'mln 301 (year ended 31 December 2018: RR'mln 280).

(in millions of Russian roubles, unless otherwise stated)

24. OTHER OPERATING INCOME

	Year ended 31 December 2019	Year ended 31 December 2018
Gain on disposal of property, plant and equipment	2,011	-
Derecognition of financial guarantee (note 28)	1,500	-
Income on disposal of subsidiaries	179	-
Foreign exchange gain, net	-	3,250
Reversal of loss on impairment of property, plant and equipment (note 2)	-	124
Other	3,044	2,009
Total other operating income	**6,734**	**5,383**

25. OTHER OPERATING EXPENSES

	Year ended 31 December 2019	Year ended 31 December 2018
Exploration expenses	7,681	8,085
Social costs	7,341	6,027
Taxes other than income tax, extraction tax and payments to social funds (note 19)	4,932	5,553
Expenses related to Aikhal Processing Plant №8 operations termination*	3,403	-
Impairment of property, plant and equipment*	2,525	-
Foreign exchange loss, net	2,099	-
Loss on disposal of property, plant and equipment	1,956	416
Impairment loss on goodwill arising from acquisition of JSC Kristall (note 5)	899	-
Change in fair value of financial assets carried through profit and loss	208	598
Impairment loss on property, plant and equipment due to the accident at the Mir underground mine (note 2)	-	7,815
Loss on disposal of subsidiaries	-	1,754
Impairment of investments in associates and joint ventures	-	26
Other	2,829	3,568
Total other operating expenses	**33,873**	**33,842**

* In 2019 the management of the Company decided to terminate operations at the Processing plant No. 8 of the Aikhal GOK starting January 1, 2020. Based on the developed action plan for the liquidation of the Processing Plant No. 8 facility the Company created provision for upcoming expenses related to dismantling, demolition, liquidation of the plant's facilities, as well as the restoration of disturbed land of the tailings (note 15). Expenses related to Aikhal Processing Plant №8 operations termination include impairment of property, plant and equipment of the plant totalling RR'mln 568.

In the years ended 31 December 2019 and 31 December 2018 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 2019	Year ended 31 December 2018
Charity	3,878	3,248
Maintenance of local infrastructure	2,265	1,787
Hospital expenses	247	231
Education	112	97
Other	839	664
Total social costs	**7,341**	**6,027**

(in millions of Russian roubles, unless otherwise stated)

26. FINANCE INCOME AND COSTS

	Year ended 31 December 2019	Year ended 31 December 2018
Interest income	2,311	1,912
Interest expense:		
Eurobonds	(4,026)	(3,965)
Bank loans	(1,228)	(571)
Other finance expenses*	(2,848)	(1,810)
Unwinding of discount of provisions	(385)	(265)
Interest expense on lease liabilities and other unwinding effect for lease liabilities	(400)	-
Foreign exchange gain / (loss), net	9,404	(11,202)
Total finance income / (costs), net	**2,828**	**(15,901)**

*Other finance expenses include interest expense on pension obligation (note 17), and expenses (in the amount of RR' mln 1 745, equivalent to US$ mln 27) related to premium paid on Eurobond ALROSA-2020 partial redemption in the amount of US$ mln 400 announced in April 2019 (note 13).

27. CASH GENERATED FROM OPERATING ACTIVITIES

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

	Year ended 31 December 2019	Year ended 31 December 2018
Profit before income tax	**81,456**	**114,612**
Adjustments for:		
Share of net profit of associates and joint ventures (note 5)	(3,485)	(3,418)
Interest income (note 26)	(2,311)	(1,912)
Interest expense and discounting of provisions (note 26)	8,890	6,611
Loss on disposal and write-off of property, plant and equipment (note 24, 25)	(55)	416
Loss / (gain) on disposal of subsidiaries (note 24, 25)	(179)	1,754
Change in provision for impairment of receivables and obsolete inventories, net	352	(264)
Depreciation (notes 8, 9, 21)	24,511	21,642
Adjustments for non-cash financing activity	189	1,396
Impairment of of property, plant and equipment (note 25)	2,525	7,691
Impairment loss on goodwill on acquisition of Kristall group (note 5, 25)	899	-
Unrealised foreign exchange effect on non-operating items	(7,512)	8,137
Termination of financial guarantee recognition (note 24)	(1,500)	-
Expenses related to Aikhal Processing Plant №8 operations termination	3,403	-
Net operating cash flows before changes in working capital	**107,183**	**156,665**
Net increase in inventories	(19,584)	(1,030)
Net decrease / (increase) in trade and other receivables, excluding dividends receivable	3,368	(458)
Net decrease in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(5,688)	(7,289)
Net (decrease) / increase in taxes payable other than income tax	(1,001)	2,040
Cash inflows from operating activities	**84,278**	**149,928**
Income tax paid	(16,718)	(29,806)
Net Cash Inflows from Operating Activities	**67,560**	**120,122**

28. 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 2019. 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.

28. CONTINGENCIES AND COMMITMENTS (CONTINUED)

For the purpose of measurement of expected credit losses ("ECL") on the Group's loans, receivables and similar assets the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected.

(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 2019.

(d) Capital commitments

As at 31 December 2019 the Group had contractual commitments for capital expenditures of approximately RR'mln 4,415 (31 December 2018: RR'mln 5,052).

(in millions of Russian roubles, unless otherwise stated)

28. 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 (applicable to the comparable period ended 31 December 2018 as amended by IFRS 16):

	31 December 2019	31 December 2018
Not later than 1 year	-	1,203
Later than 1 year and not later than 5 years	-	2,375
Later than 5 years	-	1,987
Total operating lease commitments	**-**	**5,565**

(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 2019 the Group recognised a provision for these future expenses in the amount of RR'mln 8,962 (31 December 2018: RR'mln 5,473), see note 15.

According to the Rules for the remediation and conservation of land, approved by Decree of the Government of the Russian Federation №800 dated July 10, 2018 the Group bears obligations on restoration and rehabilitation of land under seven hydraulic structures – tailings. The amount of these liabilities can be reliably estimated only after the development of project documentation on the liquidation of hydraulic structures and the restoration of disturbed lands; however, it may be significant to the financial position and/or the overall operations of the Group. The expected period of restoration of these tailings is from 2039 to 2063.

(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 2019 and 31 December 2018.

(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.

In July 2019 the obligations of JSC "Aviacompania Yakutiya" to PJSC VTB Bank under the loan agreement amounting to RR'mln 1,500 and accrued interest were fully settled. The Group recognized income on termination of financial guarantee recognition in other operating income for the year ended 31 December 2019.

29. 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.

(in millions of Russian roubles, unless otherwise stated)

29. RELATED PARTY TRANSACTIONS (CONTINUED)

The Russian Federation and the Republic of Sakha (Yakutia)

Federal Agency for State Property Management on behalf 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 2019 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 2019 eight per cent of the Company's shares were owned by administrations of 8 districts of the Republic of Sakha (Yakutia).

In accordance with the Company Charter, the Supervisory Board is elected in the amount of 15 people. Following the General Meeting of Shareholders on 26 June 2019, 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 (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).

As at 31 December 2018 the 15 seats on the Supervisory Board included 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 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 11 and 19. Tax transactions are disclosed in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and in notes 19, 21, 22, 23, 27 and 28.

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, fuel and 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:

	31 December 2019	**31 December 2018**
Long-term accounts receivable	25	34
Short-term accounts receivable	1,149	5,625
Short-term accounts payable	999	993
Loans received by the Group*	2,716	2,714
Cash and cash equivalents	3,884	13,919
Bank deposits	3,262	10,038

* The line includes the loans received from banks under the Government control with various due dates and interest rates (note 13, 14).

(in millions of Russian roubles, unless otherwise stated)

29. RELATED PARTY TRANSACTIONS (CONTINUED)

Consolidated Statement of Profit or Loss and Other Comprehensive Income	Year ended 31 December 2019	Year ended 31 December 2018
Sales of diamonds	6,746	12,017
Other sales	5,749	2,469
Income from grants	5,330	5,775
Fuel purchases	(7,960)	(7,831)
Electricity and heating expenses	(4,831)	(4,243)
Other purchases	(4,316)	(4,648)
Interest income	831	525
Interest expense	(240)	(123)

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.

As at 31 December 2019 the Management Board consisted of 6 members (31 December 2018:8 members). As at 31 December 2019 and 31 December 2018 one of the Management Board member was also a member of the Supervisory Council. Management Board members are entitled to salary, bonuses, voluntary medical insurance and other short-term employee benefits. Salary and bonus compensation paid to members of the Management Board is determined by the terms of “Remuneration Policy for the members of the Management Board of PJSC ALROSA” approved by the Company’s Supervisory Council on 24 June 2019.

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 2019 totalling RR’mln 919 (year ended 31 December 2018: RR’mln 378). The portion of provision for pension obligations attributable to key management as at 31 December 2019 equals to RR’mln 11 (31 December 2018: RR’mln 10). 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 2019 equals to RR’mln 1 (year ended 31 December 2018: RR’mln 12). In 2019 the Group declared dividends RR’mln 7 to key management hold the Company’s shares (RR’mln 40 in 2018).

Share-based payments

As at 31 December 2019 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 714 in other long-term liabilities (31 December 2018: RR’mln 718). 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 2019	31 December 2018
Catoca Mining Company Ltd, dividends and other receivables	1,673	3,461
Total current accounts receivable	**1,673**	**3,461**

Transactions with the Group’s pension plan are disclosed in note 17, accounts payable to associates are disclosed in note 18.

(in millions of Russian roubles, unless otherwise stated)

30. 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		Total comprehensive income	
	31.12.2019	**31.12.2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
PJSC ALROSA-Nyurba	716	372	551	1,186	51,033	44,265	21,927	15,639	21,927	15,639
PJSC Severalmaz	33	34	2	4	10,350	9,645	1,332	2,584	1,332	2,584
JSC Viluyskaya GES-3	(52)	(56)	4	3	5,713	2,734	1,359	1,091	1,359	1,091
Hydroshikapa S.A.R.L.	(160)	(386)	91	37	852	847	202	83	501	407
Total	**537**	**(36)**	**648**	**1,230**	**67,948**	**57,491**	**24,820**	**19,397**	**25,119**	**19,721**
Other non-material for the Group	52	(3)	56	(43)						
Total per financial statements	**589**	**(39)**	**704**	**1,187**						

Name	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
PJSC ALROSA-Nyurba	2,751	2,959	38,753	25,601	2,222	1,966	1,433	2,358
PJSC Severalmaz	20,200	20,882	10,424	9,793	2,883	1,459	1,829	2,858
JSC Viluyskaya GES-3	11,349	11,113	1,504	1,593	2,423	3,219	698	1,114
Hydroshikapa S.A.R.L.	3,671	4,300	309	418	5,476	6,011	827	1,532
Total	**37,971**	**39,254**	**50,990**	**37,405**	**13,004**	**12,655**	**4,787**	**7,862**

Name	PJSC ALROSA-Nyurba		PJSC Severalmaz		JSC Viluyskaya GES-3		Hydroshikapa S.A.R.L.	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Cash Flow from Operating Activity	22,168	18,078	4	1,544	2,280	678	358	323
Income tax paid	(4,832)	(3,906)	(252)	(357)	(158)	(23)	-	-
Net Cash Inflows from Operating Activities	17,336	14,172	(248)	1,187	2,122	655	358	323
Net Cash Outflow from Investing Activities	(9,032)	(8,787)	(457)	(1,141)	(188)	(937)	(14)	(39)
Net Cash (Outflow) /Inflow from Financing Activities	(8,305)	(5,427)	705	(47)	(1,414)	212	(383)	(414)
Net (Decrease) / Increase in Cash and Cash Equivalents	**(1)**	**(42)**	**-**	**(1)**	**520**	**(70)**	**(39)**	**(130)**
Cash and cash equivalents at the beginning of the period	1	26	-	1	39	109	181	404
Foreign exchange gains/(losses) on cash and cash equivalents	-	17	-	-	-	-	(69)	(93)
Cash and Cash Equivalents at the End of the Period	**-**	**1**	**-**	**-**	**559**	**39**	**73**	**181**

The figures presented above are before inter-company eliminations.

The following table provides information about dividends paid by subsidiaries to non-controlling shareholders:

Subsidiary	Dividends paid	
	Year ended 31 December 2019	**Year ended 31 December 2018**
PJSC ALROSA-Nyurba	209	-
Other	6	9
Total dividends paid by subsidiaries to non-controlling shareholders	**215**	**9**

(in millions of Russian roubles, unless otherwise stated)

31. 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;
- Other activities.

Information regarding the results of the reportable segments is presented below. Segment items are based on financial information reported in statutory accounts and can differ significantly from those for financial statements prepared under IFRS. Reconciliation of items measured as reported to the Management Board with similar items in these 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 2019	**Diamonds segment**	**Transportation**	**Social infrastructure**	**Other activities**	**Total**
Revenue	215,422	10,917	4,582	15,672	246,593
Intersegment revenue	-	(2,381)	(1,599)	(9,939)	(13,919)
Cost of sales, including	100,629	9,680	8,439	20,444	139,192
Depreciation	20,510	1,539	300	2,961	25,310
Gross profit / (loss)	**114,793**	**1,237**	**(3,857)**	**(4,772)**	**107,401**

(in millions of Russian roubles, unless otherwise stated)

31. SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2018	Diamonds segment	Transportation	Social infrastructure	Other activities	Total
Revenue	278,077	10,527	4,745	13,606	306,955
Intersegment revenue	-	(2,129)	(1,844)	(9,463)	(13,436)
Cost of sales, including	111,876	9,652	8,471	19,180	149,179
depreciation	15,994	928	286	2,659	19,867
Gross profit / (loss)	**166,201**	**875**	**(3,726)**	**(5,574)**	**157,776**

Reconciliation of revenue is presented below:

	Year ended 31 December 2019	Year ended 31 December 2018
Segment revenue	**246,593**	**306,955**
Elimination of intersegment revenue	(13,919)	(13,436)
Other adjustments and reclassifications	182	351
Revenue	232,856	293,870
Income from grants	5,330	5,775
Total revenue and income from grants as per consolidated statement of profit or loss and other comprehensive income	**238,186**	**299,645**

Reconciliation of cost of sales including depreciation is presented below:

	Year ended 31 December 2019	Year ended 31 December 2018
Segment cost of sales	**139,192**	**149,179**
Adjustment for depreciation	(1,221)	1,543
Elimination of intersegment purchases	(10,540)	(10,066)
Accrued provision for pension obligation [1]	1,625	(623)
Adjustment for inventories [2]	2,715	469
Accrual for employee holidays and flights [3]	(61)	(19)
Accrual for annual bonuses	(224)	(82)
Other adjustments	142	(314)
Reclassification of exploration expenses [4]	(6,477)	(7,574)
Other reclassifications	(6,080)	(5,972)
Cost of sales as per consolidated statement of profit or loss and other comprehensive income	**119,071**	**126,541**

[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)

31. SEGMENT INFORMATION (CONTINUED)

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

	Year ended 31 December 2019	Year ended 31 December 2018
Belgium	100,381	130,392
Russian Federation (including grants)	45,929	53,338
India	37,486	41,135
United Arab Emirates	22,546	27,584
Israel	17,585	29,526
China	8,683	11,540
Switzerland	1,309	457
USA	1,207	852
Angola	855	847
Belarus	765	1,699
Republic of Botswana	731	1,088
United Kingdom	561	634
Armenia	68	545
Other countries	80	8
Total revenue and income from grants as per consolidated statement of profit or loss and other comprehensive income	**238,186**	**299,645**

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

	31 December 2019	31 December 2018
Russian Federation	232,232	231,034
Angola	11,973	9,594
Other countries	560	1,814
Total non-current assets	**244,765**	**242,442**

32. 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.

(in millions of Russian roubles, unless otherwise stated)

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 2019				31 December 2018			
	Level				Level			
	1	2	3	Total	1	2	3	Total
Financial assets at fair value through profit or loss	186	-	5	**191**	835	-	3	**838**
Total	**186**	**-**	**5**	**191**	**835**	**-**	**3**	**838**

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

As at 31 December 2019 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	-	24,340	-	24,340
Current and non-current financial receivable	-	11,096	-	11,096
Loans issued	-	-	757	757
Cash and cash equivalents	-	13,315	-	13,315
Total financial assets	**-**	**48,751**	**757**	**49,508**
Loans from banks	-	49,115	-	49,115
Eurobonds	61,387	-	-	61,387
Total non-current financial liabilities	**61,387**	**49,115**	**-**	**110,502**
Current financial liabilities				
Loans from banks	-	1,054	7	1,061
Financial accounts payable	-	7,461	-	7,461
Dividends payable	-	209	-	209
Total current financial liabilities	**-**	**8,724**	**7**	**8,731**
Total financial liabilities	**61,387**	**57,839**	**7**	**119,233**

(in millions of Russian roubles, unless otherwise stated)

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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**

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.