PJSC ALROSA

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 AND

INDEPENDENT AUDITOR'S REPORT

CONTENTS

Independent Auditor's Report

To the Shareholders and Supervisory Council of PJSC ALROSA:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC ALROSA (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2017, 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 2017;
- 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 (hereafter - IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

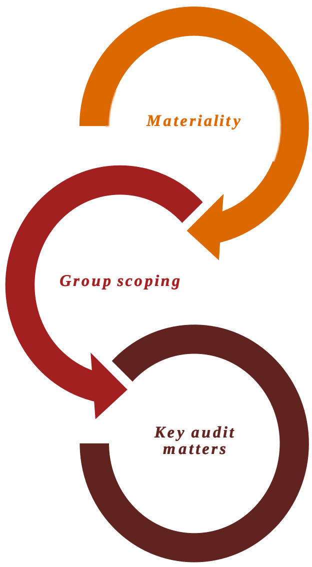
Our audit approach

Overview

Materiality

- Overall group materiality: Russian Roubles ("RUB") 5,100 million, which represents 5% of average profit before tax for the last three years.

AO PricewaterhouseCoopers Audit
White Square Office Center 10 Butyrsky Val Moscow, Russia, 125047
T: +7 (495) 967-6000, F:+7 (495) 967-6001, www.pwc.ru



Audit scope

- We conducted audit work at the parent company of the Group – PJSC ALROSA. In respect of the other Group entities, we performed audit procedures over significant financial statements line items and analytical procedures.
- The group engagement team visited the divisions of PJSC ALROSA in Mirny and Aikhal (Republic of Sakha (Yakutia)).
- Our audit scope addressed 96% of the Group's revenues and 84% of the Group's absolute value of underlying profit before tax and before adjustments to eliminate intragroup transactions.

Key audit matters

- Recognition of insurance claim in connection with the accident at the Mir mine;
- Impairment assessment of the Mir mine property, plant and equipment
- Non-current assets held for sale.

We designed our audit by determining materiality and assessing 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. 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 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 financial statements as a whole.

Overall group materiality	RUB 5,100 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
Recognition of insurance claim in connection with the accident at the Mir mine *Refer to Note 2* In August 2017 there was an accident at the Mir underground mine of the Mirny Mining and Processing Division of PJSC Alrosa (hereinafter – the "Company") as a result of which ore extraction activities at the mine were halted and some assets were written off due to their further unserviceability. The Company's assets were insured under the contract with AO SOGAZ (hereinafter – the "Insurer"). Under the contract, the insurance compensation is paid out after an insurance event is recognised by Insurer and a claim report is signed. The consolidated financial statements for the year ended 31 December 2017 include a receivable of RUB 10,490 million due from the Insurer as a compensation in connection with the accident. As at the issue date of the consolidated financial statements, the parties did not sign the claim report. We focused on this matter due to materiality of the insurance compensation amount and the nature of judgements used by the Group management for recognition of the insurance compensation amount in the consolidated	We analysed judgements used by management for recognising the insurance compensation amount in the consolidated financial statements for the year ended 31 December 2017. As part of our audit, the following procedures were performed: • We analysed the insurance contract terms to verify that the maximum insurance compensation for each insurance event is RUB 10,490 million, after deduction of the RUB 10 million of the unconditional deductible amount. • We analysed the list of documents submitted to the Insurer under the insurance contract, including the calculation of damage caused by the accident at the Mir underground mine. The claimed amount of damage significantly exceeds the requested insurance compensation. • We analysed the report of an external expert organisation on the technical state of the mine machinery and equipment damaged in the accident. The specialists concluded that further operation of the machinery and equipment is impossible. • We received the letter sent by the Insurer

financial statements for the year ended 31 December 2017 despite the absence of a signed claim report.	to the Company's management in which the Insurer recognised the accident at the Mir underground mine as an insurance event as at the reporting date. • We analysed the Insurer's letter and verified that the insurance provision of RUB 10,500 million made by the Insurer covers the insurance compensation recognised in the consolidated financial statements for the year ended 31 December 2017. • We considered the conclusion of the Company's legal department on the likelihood of receiving the insurance compensation in case there are disputes with the Insurer. Based on the analysis of available documents and contracted terms the legal department identified no grounds for a refusal to pay the insurance compensation. The likelihood of receiving the insurance compensation was assessed as high. • We assessed presentation and completeness of the relevant disclosure in the consolidated financial statements of the Group. Based on the procedures performed, we concluded that judgements used by the Group management for recognition of the insurance claim in the consolidated financial statements for the year ended 31 December 2017 are justifiable and no adjustments are required and that presentation and disclosure of the matter is sufficient and appropriate.
Impairment assessment of the Mir mine property, plant and equipment *Refer to Note 2* The assessment performed by the Group management as at 31 December 2017 revealed indications that Mir underground mine's assets can be impaired due to the halt of the mine's operations as a result of the accident in August 2017. In accordance with IAS 36	Together with our valuation specialists we tested management's impairment testing model that is based on forecasts of future cash flows related to the Mir underground mine. As part of our audit, the following procedures were performed: • We tested source data underlying future cash flow forecasts that were used in the impairment testing model, including

"*Impairment of Assets*" management of the Group performed impairment test by calculation of the value in use of the cash-generating unit (CGU). Following results of the test performed as at 31 December 2017, the management concluded that there was no need to recognise impairment of mine assets.

We focused on the matter due to the materiality of the carrying amount of assets included in this CGU (RUB 13,304 million as at 31 December 2017), a high degree of uncertainty about when operations at the Mir underground mine will resume as well as related judgements and plans to use the remaining assets.

Moreover, management's assessment of the CGU's value in use anticipates the use of significant judgements and projections of future performance, capital expenditures for the restoration and repair of the mine, prices for rough diamonds and discount rate.

planned volume of capital investments for restoration and repair of the Mir underground mine and planned amount of operating expenses by reconciling them with the technical and economic assessment of the mine construction effective before the accident.

- We verified that total ore extraction volume in the impairment testing model complies with ore reserves confirmed by the independent reserves appraiser.

- We verified that future cash flow forecast period complies with the period covered by the license for ore extraction at the mine, held by the Company.

- We verified that the methodology underlying future cash flow forecasts complies with IAS 36 "*Impairment of Assets*", including the fact that the recoverable amount was determined based on the value in use concept and some other aspects.

- We compared expected diamond prices used in future cash flow forecasts, with forecasts of independent market analyst.

- We compared macroeconomic assumptions for expected USD/RUB exchange rate with forecasts of independent analysts well known in the market.

- We analysed the methodology of calculating the used discount rate and its components.

We identified assumptions to the change of which the future cash flows forecast prepared by the management was most sensitive, and analysed results of testing for changes in the assumptions. The scope of our work in respect of impairment test's sensitivity included diamond prices forecasts, USD/RUB appreciation rates, ore extraction growth rate and discount rate. We ensured that information about the impact of a reasonably acceptable change in the above assumptions on the test results was correctly disclosed in the consolidated financial statements.

We also paid attention to the completeness of disclosure all relevant information in Note 2 of consolidated financial statements according to IAS 36 "*Impairment of Assets*".

Based on the results of our work, we concluded that there is no need in adjusting the key assumptions used by the management in impairment test for the Mir underground mine assets or the conclusion that as at the reporting date there was no impairment of assets, for the purposes of the consolidated financial statements presentation. Disclosure made in the consolidated financial statements is in compliance with requirements of IAS 36 "*Impairment of Assets*".

Non-current assets held for sale

Refer to Note 5.1

In December 2017 the Company's Supervisory Board approved the sale of 100% interest in Maretiom Investments Limited and Velarion Investments Limited that own JSC Geotransgaz and Urengoy Gaz Company LLC (hereinafter together "gas assets" or "gas companies"). The sale by auction was planned for February 2018. Shares of the two companies were presented as a single lot. The starting sale price was RUB 30 000 million.

On 19 February 2018 the winner of the sale auction was announced who proposed RUB 30 300 million for the two gas companies.

We analysed the Group management's judgements behind classifying the gas companies as non-current assets held for sale and not recognising them as discontinued operations as per the definition in IFRS 5 "*Non-Current Assets Held for Sale and Discontinued Operations*", and concluded that their judgements were justifiable. We analysed criteria set by IFRS 5 for discontinued operations and analysed qualitative aspect of the gas companies' operations and accepted management's conclusion that disposal of these assets does not represent discontinuing operation for the Group.

We analysed management's assessment of the criteria for classifying the gas companies as assets held for sale. Based on performed procedures we made sure that the criteria in IFRS 5 "*Non-Current Assets Held for Sale and Discontinued Operations*" were met:

Given that as at 31 December 2017 there was plan to sell the gas assets, the Group management analysed the classification criteria in IFRS 5 "*Non-Current Assets Held for Sale and Discontinued Operations*" and classified the companies as non-current assets held for sale for the purposes of the consolidated financial statements for the year ended 31 December 2017. In addition, as required by IFRS 5, management assessed the fair value less costs to sell of gas assets and recognised a loss of RUB 5,744 million in the consolidated financial statements of the Group.

We focused on this matter and its presentation and disclosure in the consolidated financial statements due to the nature of judgements used by the Group management in their analysis of the criteria for recognising the gas companies as assets held for sale at their fair value.

- The decision to sell the gas assets was made by the Company's Supervisory Board before the end of 2017;
- Information about the conditions of the gas assets sale auction was published on the Company's official website in December 2017;
- The starting selling price for the gas assets was determined based on the independent valuation of the shares of gas companies in 2017 that amounted to RUB 29,625 million;
- The sale auction took place in February 2018 based on the results of which the winner was announced. We verified that the parties signed the share purchase agreement and that cash payment for the shares was transferred to the Company's account.

We assessed the appropriateness of the approach used to calculate the fair value less costs to sell of the gas assets, and of the resulting impairment of RUB 5,744 million representing the amount by which the carrying amount of the assets exceeds their fair value, and did not identify any additional impairment.

We assessed completeness of the relevant disclosure in the consolidated financial statements of the Group.

Following the procedures performed, we concluded that judgements used by the Group management for classifying the gas companies as assets held for sale and not presenting them as discontinued operation as well as their fair value measurement are reasonable and require no adjustments in the 2017 consolidated financial statements of the Group. Disclosure made for these matters in the consolidated financial statements is sufficient and appropriate.

How we tailored our group audit scope

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

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

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

Other information

Management is responsible for the other information. The other information comprises the PJSC ALROSA's Annual Report for 2017 and Issuer's Report for the first quarter of 2018 (but does not include the consolidated financial statements and our auditor's report thereon). The PJSC ALROSA's Annual Report for 2017 and Issuer's Report for the first quarter of 2018 are expected to be made available to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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 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.

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

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

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

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

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

AO PricewaterhouseCoopers Audit

15 March 2018

Moscow, Russian Federation

Акционерное общество "ПрайсвотерхаусКуперс Аудит" * ОГРН 1027700148431 * PricewaterhouseCoopers Audit pwc * Москва

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

Audited entity: PJSC ALROSA

State registration certificate № 1, issued by Administration of Mirninsky district (ulus) of the Republic of Sakha (Yakutia) on 13 August 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 17 July 2002 under registration № 1021400967092

6, Lenin Street, Mirny, 678170, Republic of Sakha (Yakutia), Russia

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

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

ORNZ 11603050547 in the register of auditors and audit organizations

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Financial Position

	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current Assets			
Goodwill	5.2	1,439	1,439
Property, plant and equipment	8	236,589	288,874
Investments in associates and joint ventures	5.3	4,312	4,061
Deferred tax assets	17	3,837	1,967
Available-for-sale investments		2,913	1,424
Long-term accounts receivable	10	10,165	2,093
Total Non-current Assets		**259,255**	**299,858**
Current Assets			
Inventories	9	91,976	98,576
Prepaid income tax		78	121
Trade and other receivables	10	29,637	15,179
Bank deposits	6	-	28,570
Cash and cash equivalents	7	7,381	30,410
Non-current assets held for sale	5.1	39,454	-
Total Current Assets		**168,526**	**172,856**
Total Assets		**427,781**	**472,714**
EQUITY			
Share capital	11	12,473	12,473
Share premium		10,431	10,431
Retained earnings and other reserves	11	243,921	234,298
Equity attributable to owners of PJSC ALROSA		**266,825**	**257,202**
Non-Controlling Interest	28	**(338)**	**(232)**
Total Equity		**266,487**	**256,970**
LIABILITIES			
Non-current Liabilities			
Long-term debt	12	58,694	141,669
Provision for pension obligations	15	16,017	19,954
Other provisions	14	5,462	6,691
Deferred tax liabilities	17	5,466	11,018
Total Non-current Liabilities		**85,639**	**179,332**
Current Liabilities			
Short-term loans and current portion of long-term debt	13	34,734	666
Trade and other payables	16	22,259	25,488
Income tax payable		2,853	2,368
Other taxes payable	17	6,506	7,804
Dividends payable		149	86
Liabilities of disposal group classified as held for sale	5.1	9,154	-
Total Current Liabilities		**75,655**	**36,412**
Total Liabilities		**161,294**	**215,744**
Total Equity and Liabilities		**427,781**	**472,714**

Approved for issue and signed on 15 March 2018 by the following members of management:

Sergey S. Ivanov
Chief Executive Officer

Alexey N. Filippovsky
Chief Financial Officer

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	18	269,706	314,336
Income from grants		5,675	2,754
Cost of sales	19	(133,910)	(129,751)
Royalty	17	(1,209)	(1,209)
Gross profit		**140,262**	**186,130**
General and administrative expenses	20	(11,588)	(12,436)
Selling and marketing expenses	21	(3,019)	(3,346)
Other operating income	22	15,379	3,090
Other operating expenses	23	(41,951)	(30,473)
Operating profit		**99,083**	**142,965**
Finance (costs) / income, net	24	(1,320)	24,124
Share of net profit of associates and joint ventures	5.3	3,027	2,650
Profit before income tax		**100,790**	**169,739**
Income tax	17	(22,174)	(36,268)
Profit for the year		**78,616**	**133,471**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations, net of deferred tax	15,17	(1,874)	(11,098)
Total items that will not be reclassified to profit or loss		**(1,874)**	**(11,098)**
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences, net of tax		(72)	(101)
Change in fair value of available for sale investments		323	181
Total items that may be reclassified subsequently to profit or loss		**251**	**80**
Total other comprehensive loss for the year		**(1,623)**	**(11,018)**
Total comprehensive income for the year		**76,993**	**122,453**
Profit attributable to:			
Owners of PJSC ALROSA		77,075	131,392
Non-controlling interest	28	1,541	2,079
Profit for the year		**78,616**	**133,471**
Total comprehensive income attributable to:			
Owners of PJSC ALROSA		75,392	120,147
Non-controlling interest		1,601	2,306
Total comprehensive income for the year		**76,993**	**122,453**
Basic and diluted earnings per share for profit attributable to the owners of PJSC ALROSA (in Roubles)	11	10.47	17.85

The accompanying notes on pages 5 to 58 are an integral part of these consolidated financial statements.

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Net Cash Inflow from Operating Activities	**25**	**100,464**	**143,138**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(26,944)	(31,752)
Proceeds from sales of property, plant and equipment		377	1,231
Prepayment for share in Catoca Mining Company Ltd		(8,350)	-
Acquisition of available-for-sale investments		(1,266)	(522)
Proceeds from disposal of subsidiaries, net of cash disposed of		500	388
Interest received		3,653	3,526
Cash transfer from / (to) deposit accounts		28,570	(30,825)
Dividends received from associates		1,188	4,591
Net Cash Outflow from Investing Activities		**(2,272)**	**(53,363)**
Cash Flows from Financing Activities	**12**		
Repayments of loans		(90,205)	(45,830)
Loans received		49,067	217
Interest paid		(9,992)	(11,368)
Sale of treasury shares		-	621
Dividens paid to non-controlling shareholders		(1,707)	(2,196)
Dividends paid		(65,706)	(15,382)
Net Cash Outflow from Financing Activities		**(118,543)**	**(73,938)**
Net (Decrease) / Increase in Cash and Cash Equivalents		**(20, 351)**	**15,837**
Cash and cash equivalents at the beginning of the year		30,410	20,503
Cash of assets held for sale		(226)	-
Effect of exchange rate changes on cash and cash equivalents		(2,452)	(5,930)
Cash and Cash Equivalents at the End of the Year	**7**	**7,381**	**30,410**

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Changes in Equity

		Attributable to owners of PJSC ALROSA							
	Number of shares outstanding	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves (note 11)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2016	**7,356,366,330**	**12,473**	**10,431**	**(15)**	**(5,944)**	**134,797**	**151,742**	**(257)**	**151,485**
Comprehensive income / (loss)									
Profit for the year	-	-	-	-	-	131,392	131,392	2,079	133,471
Other comprehensive loss	-	-	-	-	(11,245)	-	(11,245)	227	(11,018)
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**-**	**(11,245)**	**131,392**	**120,147**	**2,306**	**122,453**
Transactions with owners									
Dividends (note 11)	-	-	-	-	-	(15,393)	(15,393)	-	(15,393)
Sale of treasury shares	8,599,300	-	-	15	-	606	621	-	621
Sale of non-controlling interest in subsidiaries	-	-	-	-	85	-	85	(85)	-
Dividends of subsidiaries to non-controlling shareholders	-	-	-	-	-	-	-	(2,196)	(2,196)
Total transactions with owners	**8,599,300**	**-**	**-**	**15**	**85**	**(14,787)**	**(14,687)**	**(2,281)**	**(16,968)**
Balance at 31 December 2016	**7,364,965,630**	**12,473**	**10,431**	**-**	**(17,104)**	**251,402**	**257,202**	**(232)**	**256,970**
Comprehensive income / (loss)									
Profit for the year	-	-	-	-	-	77,075	77,075	1,541	78,616
Other comprehensive income / (loss)	-	-	-	-	(1, 683)	-	(1,683)	60	(1,623)
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**-**	**(1, 683)**	**77,075**	**75, 392**	**1, 601**	**76,993**
Transactions with owners									
Dividends (note 11)	-	-	-	-	-	(65,769)	(65,769)	-	(65,769)
Dividends of subsidiaries to non-controlling shareholders	-	-	-	-	-	-	-	(1,707)	(1,707)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(65,769)**	**(65,769)**	**(1,707)**	**(67,476)**
Balance at 31 December 2017	**7,364,965,630**	**12,473**	**10,431**	**-**	**(18,787)**	**262,708**	**266, 825**	**(338)**	**266,487**

1. ACTIVITIES

The core activities of Public Joint Stock Company ALROSA ("the Company") and its subsidiaries ("the Group") are exploration and extraction of diamond reserves and marketing and distribution of raw and cut diamonds. The Company was registered on 13 August 1992 in the Republic of Sakha (Yakutia), which is located within the Russian Federation.

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

As at 31 December 2017 and 31 December 2016 the Company's principal shareholders are the Federal Agency for State Property Management on behalf of the government of the Russian Federation (33.0 per cent of shares) and the Ministry of the property and land relations of the Republic of Sakha (Yakutia) on behalf of the Republic of Sakha (Yakutia) (25.0 per cent of shares).

The Company is registered and its principal operating office is situated at 6, Lenin Street, Mirny, 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"). 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 57.6002 and 60.6569 as at 31 December 2017 and 31 December 2016, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 68.8668 and 63.8111 as at 31 December 2017 and 31 December 2016, respectively.

(b) Recent accounting pronouncements

In 2017 the Group has adopted all IFRS, amendments and interpretations which were effective as at 1 January 2017 and which are relevant to its operations.

The following new standards and interpretations became effective for the Group from 1 January 2017, but did not have any material impact on the Group, unless otherwise stated:

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The Group has disclosed the required information in note 12 of these consolidated financial statements.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).

Amendments to IFRS 12, IFRS 1 and IAS 28 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 (considering IFRS 12).

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

Standards, Amendments and Interpretations to existing Standards that are not yet effective and have not been early adopted by the Group:

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted:

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on an analysis of regular flows of the Group for the year ended 31 December 2017, terms of individual agreements and according to the facts, conditions the effect of the new standard implementation from 01 January, 2018 will not influence significantly on the Group's consolidated financial statements

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

(in millions of Russian roubles, unless otherwise stated)

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

	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect				Carrying value per IFRS 9 (opening balance at 1 January 2018)
				Remeasurement		Reclassification		
	IAS 39	IFRS 9		ECL	Other	Mandatory	Voluntary	
Cash and cash equivalents	L&R	AC	7,381	-	-	-	-	7,381
Investments in debt securities	AFS	FVOCI	1,486	-	-	(1,486)	-	-
Investments in debt securities	AFS	FVTPL (mandatory)	-	-	-	1,486	-	1,486
Total investments in debt securities			**1,486**	**-**	**-**	**-**	**-**	**1,486**
Investments in equity securities	AFS	FVOCI	1,427	-	-	(1,427)	-	-
Investments in equity securities	AFS	FVTPL (mandatory)	-	-	(7)	1,427	-	1,420
Total investments in equity securities			**1,427**	**-**	**(7)**	**-**	**-**	**1,420**
Loans and accounts receivable	L&R	AC	23,302	(132)	-	-	-	23,170
Total loans and accounts receivable			**23,302**	**(132)**	**-**	**-**	**-**	**23,170**
Total financial assets			**33,596**	**(132)**	**(7)**	**-**	**-**	**33,457**

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. The Group has guaranteed the obligations of JSC "Aviacompania Yakutiya" to PJSC VTB Bank under the loan agreement amounting to RR'mln 1,500 and accrued interest till the March 2021. The group will recognize financial liability relating to this guarantee as of IFRS 9 effective date.

No significant changes are expected for financial liabilities, other than the abovementioned guarantee and changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

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

Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

In accordance with the transition provisions in IFRS 15 the Group has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the consolidated financial statements for the year-ending 31 December 2018 which will be the first year when the Group will apply IFRS 15.

The Group plans to apply the practical expedient available for simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018).

The adoption of IFRS 15 will result in changes in accounting policies and adjustments to be recognised in the consolidated financial statements.

The main changes expected from adoption of IFRS 15 are explained below:

- Accounting for contract modifications,
- Additional performance obligations identified,
- Accounting for variable consideration,
- Accounting for significant financing component,
- Accounting for customer loyalty programmes,
- Changes in timing of revenue recognition (from over time to point in time or vice versa),
- Accounting for refunds,
- Accounting for licences,
- Accounting for costs to obtain a contract,
- Accounting for costs to fulfil a contract,
- Presentation of contract assets and contract liabilities,
- Other.

Based on an analysis of regular flows of the Group for the year ended 31 December 2017, terms of individual agreements and according to the facts, conditions, and taking into account the application of simplified transition method, the effect of the new standard implementation from 1 January, 2018 will not influence significantly on the Group's consolidated financial statements.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the consolidated statement of profit or loss. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as

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

operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

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

The following other new pronouncements 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).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019.

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

- 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).

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

(c) Principles of consolidation

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

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

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

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

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

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

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

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

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

Associates are entities over which the Company 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.

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

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.

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

(e) Property, plant and equipment

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

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

Expenditure related to geophysical analysis and exploration is expensed until it is determined to be probable that economically recoverable 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 for the year.

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.

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.

(in millions of Russian roubles, unless otherwise stated)

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

Classification of production licenses. Management treats cost of production licenses as an integral part of acquisition cost of tangible mining properties; accordingly, production licenses are included in property, plant and equipment in these consolidated financial statements. As at 31 December 2017 the net book value of production licenses included in property, plant and equipment is RR’mln 6 425 (31 December 2016: RR’mln 31,652).

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

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

Summary of useful lives and alternative basis for depreciation:

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

The average depreciation rate for the property, plant and equipment depreciated on a units of production basis was 6.67 per cent in the year ended 31 December 2017 (year ended 31 December 2016: 7.29 per cent).

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

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

(f) Provisions

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

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

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

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

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

(g) Inventories

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

Cost 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

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

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

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

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

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

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

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

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

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

(i) Non derivative financial assets

The Group classifies its financial assets in the following categories:

(i) available-for-sale financial assets, and

(ii) loans and receivables.

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

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

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

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

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

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

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

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

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

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

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

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

(j) 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.

(k) 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.

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

(l) 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.

(m) 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 borrowings.

Borrowing costs (the interests) 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.

(n) Pension and other post-retirement benefits

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

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

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

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

(o) 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.

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

(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.

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

Revenues from sale of diamonds are recognised when goods are transferred to the customer, as this is the date on which the risks and rewards of ownership are transferred to the customer. Sales are shown net of VAT and export duties, and after eliminating sales within the Group.

Revenue from rendering of transport and other services is recognised in consolidated financial statements in the period when the services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method .

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

(r) 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 financial statements are authorised prior to filing relevant tax returns.

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

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

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

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.

(s) Foreign currencies

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies, are translated into functional currencies at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") prevailing at the reporting date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the Group's profit or loss. Foreign exchange gains and losses that relate to borrowings and bank deposits above 3 months are presented in the consolidated statement of profit or loss and other comprehensive income statement within 'Finance costs, net'. All other foreign exchange gains and losses are presented in the income statement 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. Statements of profit and loss and other comprehensive income of foreign entities are translated at the average exchange rate for the reporting period. Exchange differences arising from the translation of the net assets of foreign subsidiaries are recognised as translation differences and included in other comprehensive income.

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

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

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

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

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

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

(t) Operating leases

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

(u) Social costs

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

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

(v) 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 cash flow statement. Investing and financing activities and the total of operating activities represent actual cash flows.

(w) 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.

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

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

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

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

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

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

Critical accounting estimates and judgements in applying accounting policies

The Group makes 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 provision for receivables. The impairment provision for trade receivables is based on management's assessment of the probability of collection of individual customer accounts receivable. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates of the Group.

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

When there is no expectation of recovering additional cash for an amount receivable, amount receivable is written off against associated provision.

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 2017 the Group recognized impairment of property, plant and equipment which are currently on conservation and are not planned for further use in the amount of 953 RR'mln (31 December 2016: 651 RR'mln) (note 8 and 23).

Property, plant and equipment of the underground mine Mir. On 4 August 2017 in the underground mine Mir an accident occurred, in connection with which the activities of the ore mine were suspended. As a result, as at 31 December 2017 the Group recognized impairment loss equals to carrying value of property, plant and equipment damaged in the accident in the amount of RR'mln 8,449 (note 8, 23).

Damaged property, plant and equipment items were insured by AO SOGAZ insurance company (hereinafter – the Insurer) based on their replacement values. At reporting date, the Group has received from the Insurer a written acknowledgment of insurance event and the fact of recognition the provision for the full amount of insurance indemnity. Based on this and all other available information, management of the Group assesses the probability of insurance payment from the Insurer as virtually certain and recognized insurance income and accounts receivable due from the Insurer in the amount of RR'mln 10,490 in the consolidated financial statements for the year ended 31 December 2017.

As of 31 December 2017, the Group has performed assessment of the consequences of the accident, including estimation of capital construction and repair works and estimation of possible mining resumption time. One of the main options for restoring the mine is using the existing surface complex of the Mir mine and its entire infrastructure: vertical shafts, buildings of lifting machines, fan and heater plants. The final technical solutions will be reflected in the project which is due in 2019.

Taken into account that extraction activities are not being conducted, the renewal of the mine and the restoration of necessary infrastructure will require significant capital expenditures, management of the Group has tested the assets of the mine Mir for impairment at reporting date.

The recoverable amount has been assessed by reference to value in use. In arriving at value in use, discount rate of 13.4 per cent has been applied to the cash flows expressed in real terms. The value in use was determined by estimating cash flows for a period up to 2048. The cash flow projections are based on the technical and economic assessment of the construction of the mine, capital investment projection, the terms of production, the volumes of confirmed reserves and the forecast of prices for rough diamonds.

The key assumptions used to determine the value in use to which the calculation is the most sensitive include:

- future prices for rough diamonds;
- the exchange rate of the ruble to the dollar;
- the projected volume of extraction of the ore;
- a discount rate (based on WACC).

(in millions of Russian roubles, unless otherwise stated)

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

Based on the impairment test, the recoverable amount of the assets of the mine Mir, which representing a separate CGU, exceeds the book value amounted to RR'mln 13,304. The result of the test is very sensitive to changes in all the above assumptions. The sensitivity of the value of use, determined by the results of testing for impairment of the company's fixed assets to these parameters, is given in the table below:

Change in assumption: the future prices for rough diamonds, %	(15%)	(10%)	(5%)	-	5%	10%	15%
Recoverable amount, RR'mln	7,899	11,226	14,554	17,882	21,210	24,537	27,865
Change in assumption: the exchange rate RR/USD , %	(15%)	(10%)	(5%)	-	5%	10%	15%
Recoverable amount, RR'mln	7,898	11,226	14,554	17,882	21,210	24,538	27,866
Change in assumption: the projected volume of extraction, %	(15%)	(10%)	(5%)	-	5%	10%	15%
Recoverable amount, RR'mln	12,024	13,983	15,937	17,882	19,814	21,726	23,597
Change in assumption: discount rate, p.p.	(3 p.p)	(2 p.p.)	(1 p.p.)	-	1 p.p.	2 p.p.	3 p.p.
Recoverable amount, RR'mln	31,246	26,024	21,595	17,882	14,672	11,988	9,635

The management believes that all assumptions used to determine the value in use of the assets of the mine Mir for testing for impairment are reasonable and represent the best management estimate as at 31 December 2017.

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

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (note 26).

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 2017, 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 1 559 (year ended 31 December 2016– RR'mln 1,487) lower / higher.

Pension obligations. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the yield to maturity on federal loan bonds denominated in the currency in which the benefits will be paid, and with terms to maturity approximating the terms of the related pension liability (note 15).

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

(in millions of Russian roubles, unless otherwise stated)

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 2017 and 2016, the Group's borrowings were denominated in US dollars and Russian Roubles (notes 12 and 13).

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.

At 31 December 2016 if interest rates on US dollar-denominated borrowings had been 100 basis points higher / lower with all other variables held constant, post-tax profit for the year would have been RR'mln 335 lower / higher, mainly as result of higher / lower interest expense on floating rate borrowings. Other components of equity would have not been significantly affected. At 31 December 2017 borrowings with floating rate were repaid (note 12).

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

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

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

	31 December 2017			31 December 2016		
	Monetary financial assets	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
US Dollar	3,093	57,754	(54,661)	25,570	142,292	(116,722)
Euro	97	255	(158)	92	306	(214)
Other foreign currency	972	-	972	291	19	272
Total	**4,162**	**58,009**	**(53,847)**	**25,953**	**142,617**	**(116,664)**

At 31 December 2017, if the Russian Rouble had weakened / strengthened by 20 per cent against the US dollar with all other variables held constant, post-tax profit for the year would have been RR'mln 8,746 lower / higher (31 December 2016: 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 18,676 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.

(in millions of Russian roubles, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk. Credit risk arises from cash and cash equivalents, as well as credit exposures to customers, including outstanding trade receivables, loans issued and other financial assets, issued financial guarantees. Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to have minimal risk of default. Due to the fact that most of the counterparties do not have individual external credit rating, the Group has policies in place to ensure that sales of products and services and loans issued are made to counterparties with positive credit history. These procedures include assessment of financial position, past experience and other factors. To support certain receivables from customers of diamonds the Group may require either collateral, or bank or any other third party's guarantee. Although collections of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

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 10 and 26 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 and 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 2017						
Borrowings and finance lease obligations	-	-	34,734	58,568	126	93,428
Trade payables	4,402	784	1,239	180	-	6,605
Interest payable	18	35	5,466	8,673	20	14,212
Payables to associates	8	-	-	-	-	8
Other payables	859	-	-	-	-	859
Guarantees issued*	1,500	-	-	-	-	1,500
	6,787	**819**	**41,439**	**67,421**	**146**	**116,612**
31 December 2016						
Borrowings and finance lease obligations	9	15	642	80,842	60,827	142,335
Trade payables	5,458	356	900	106	-	6,820
Interest payable	165	335	8,834	15,038	3,975	28,347
Payables to associates	11	-	-	-	-	11
Other payables	1,125	-	-	-	-	1,125
Guarantees issued*	1,500	-	-	-	-	1,500
	8,268	**706**	**10,376**	**95,986**	**64,802**	**180,138**

*The subsidiary of PJSC ALROSA has guaranteed the obligations of JSC "Aviacompania Yakutiya" to PJSC VTB Bank under the loan agreement for the period until March 31, 2021. This guarantee is classified as "on demand", the rest financial liabilities in the column "on demand and less than 1 month" are less than one month.

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

(in millions of Russian roubles, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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 2017 and 2016.

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

The gearing ratios at 31 December 2017 and 31 December 2016 were as follows:

	31 December 2017	31 December 2016
Total borrowings	93,428	142,335
Less: cash and cash equivalents	(7,381)	(30,410)
bank deposits	-	(28,570)
Net debt	86,047	83,355
Total equity	266,487	256,970
Total capital	**352,534**	**340,325**
Gearing ratio	0.24	0.24

4. FINANCIAL INSTRUMENTS BY CATEGORY

FINANCIAL ASSETS	Loans and receivables		Available for sale investments		Total	
	31 December		31 December		31 December	
	2017	2016	2017	2016	2017	2016
Non-current financial assets						
Available-for-sale investments	-	-	2,913	1,424	2,913	1,424
Loans issued	774	960	-	-	774	960
Consideration receivable for disposed interest in CJSC MMC Timir	467	934	-	-	467	934
Other long-term receivables	399	41	-	-	399	41
Total non-current financial assets	**1,640**	**1,935**	**2,913**	**1,424**	**4,553**	**3,359**
Current financial assets						
Insurance settlement	10,490	-	-	-	10,490	-
Loans issued	377	319	-	-	377	319
Trade receivables for supplied diamonds	6,038	1,498	-	-	6,038	1,498
Receivables from associates	1,222	84	-	-	1,222	84
Consideration receivable for disposed interest in CJSC MMC Timir	613	664	-	-	613	664
Other trade receivables	2,922	3,921	-	-	2,922	3,921
Bank deposits	-	28,570	-	-	-	28,570
Cash and cash equivalents	7,381	30,410	-	-	7,381	30,410
Total current financial assets	**29,043**	**65,466**	**-**	**-**	**29,043**	**65,466**
Total financial assets	**30,683**	**67,401**	**2,913**	**1,424**	**33,596**	**68,825**

(in millions of Russian roubles, unless otherwise stated)

4 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

FINANCIAL LIABILITIES	Liabilities at amortised cost	
	31 December	
	2017	2016
Non-current financial liabilities		
Long-term debt	58,694	141,669
Total non-current financial liabilities	**58,694**	**141,669**
Current financial liabilities		
Short-term loans and current portion of long-term debt	34,734	666
Trade payables	6,605	6,820
Interest payable	788	1,342
Dividends payable	149	86
Payables to associates	8	11
Other payables	859	1,125
Total current financial liabilities	**43,143**	**10,050**
Total financial liabilities	**101,837**	**151,719**

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 2017	31 December 2016
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 Geotransgaz	Gas production	Russia		100.0	100.0
Urengoy Gaz Company LLC	Gas production	Russia		100.0	100.0
JSC Nizhne-Lenskoe	Diamonds production	Russia		100.0	100.0
JSC Viluyskaya GES-3	Electricity production	Russia		99.7	99.7
PJSC Severalmaz	Diamonds production	Russia		99.6	99.6
Alrosa Belgium N.V.	Diamonds trading	Belgium		99.6	99.6
PJSC ALROSA-Nyurba	Diamonds production	Russia		87.5	87.5
Hydroshikapa S.A.R.L	Electricity production	Angola		55.0	55.0

As at 31 December 2017 and 31 December 2016 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

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

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

On 19 February 2018 PJSC NOVATEK was declared the winner in an open auction of PJSC ALROSA on sale of 100 per cent share of the gas assets of JSC Geotransgaz and Urengoy Gas Company LLC for approximate consideration of RR'mln 30,300.

(in millions of Russian roubles, unless otherwise stated)

5. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

As a result of reclassification to assets held for sale the Group recognised impairment loss amounting to RR'mln 5,744 (note 23). Fair value of the assets was calculated as auction price plus minor positive fuctualtion. Fair value of the gas assets relates to Level 3 fair value measurement hierarchy.

The Gas companies assets and liabilities represent a disposal group. However, the activity of the Gas companies is a non-core activity for the Group that generates an insignificant net profit and is being disposed of as a part of disposal program for non-core activities. Therefore, the management believes the assets and liabilities of the gas companies do not represent a major line of business or geographical area of operation of the Group and were not classified as discontinued operations at 31 December 2017. Gas companies contributed revenue of RR'mln 6,386 and net income of RR'mln 600 (without loss on non-current assets impairment) to the Group for the year ended 31 December 2017. Gas companies contributed revenue of RR'mln 5,814 and net income of RR'mln 594 to the Group for the year ended 31 December 2016.

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

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

5.2. Goodwill

The amount of goodwill totalling RR'mln 1,439 relates to acquisition of a 49.0 per cent. shares in JSC Almazy Anabara in December 2007. The goodwill is attributable to the operational synergies expected to arise after this acquisition as a result of more effective integration of operational activity of this subsidiary into the Group's one. As of the date of acquisition goodwill was attributed to the diamond mining businesses of JSC Almazy Anabara. As at 31 December 2017 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 2018-2035 that reflects the expected period of production activity on the existing deposits. Based on results of the analysis, management concluded that there is no impairment for goodwill as at 31 December 2017 and 31 December 2016.

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 2017	31 December 2016
Pre-tax discount rate	13.3%	14.4%
Producer price index for 2018-2035	4.2 - 7.0%	2.5% - 7.7%
Average diamond price, RR / carat	6,058	5,596
EBITDA margin	38% - 58%	23% - 44%

Management believes that their judgments are reasonable and supportable in the current economic environment. However, reasonable changes of key assumptions as at 31 December 2017 and 31 December 2016 will not lead to an excess of carrying value of assets over their value-in-use allocated to the respective cash generating unit.

(in millions of Russian roubles, unless otherwise stated)

5. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

5.2. Investments in Associates and Joint Ventures

Name	Place of business	Percentage of ownership interest held at 31 December		Carrying value of investment at 31 December		Group's share of net profit/(loss) for the year ended 31 December	
		2017	2016	2017	2016	2017	2016
Catoca Mining Company Ltd. (associate)	Angola	32.8	32.8	4,115	3,847	3,041	2,726
Other* (associates and joint ventures)	Russia	20-50	20-50	197	214	(14)	(76)
				4,312	**4,061**	**3,027**	**2,650**

*As of 31 December 2016 the Group recognised an impairment of the investment in Timir (share of the Group is 49%) amounting to RR'mln 2,211.

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

In April 2016 Catoca Mining Company Ltd declared dividends for the year ended 31 December 2015; the Group's share of these dividends amounted to RR'mln 2,560 before taxation in the amount of RR'mln 256. For the year ended 31 December 2016 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 748.

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

	Catoca Mining Company Ltd		Other		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Non-current assets	16,027	13,930	6,072	6,081	22,099	20,011
Current assets	12,836	13,960	64	73	12,900	14,033
Total assets	28,863	27,890	6,136	6,154	34,999	34,044
Non-current liabilities	65	915	1,698	130	1,763	1,045
Current liabilities	16,252	15,247	27	1,555	16,279	16,802
Total liabilities	16,317	16,162	1,725	1,685	18,042	17,847
Net assets	12,546	11,728	4,411	4,469	16,957	16,197

	Catoca Mining Company Ltd		Other		Total	
2015	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Group's share in net assets (not including impairment)	4,115	3,847	2,155	2,189	6,270	6,036
Revenue	39,441	36,857	148	192	39,589	37,049
Profit/(loss) for the year	9,271	8,993	(22)	(68)	9,249	8,925
Dividends declared to shareholders	(7,668)	(8,913)	(4)	-	(7,672)	(8,913)

(in millions of Russian roubles, unless otherwise stated)

6. BANK DEPOSITS

	31 December 2017	31 December 2016
Deposits in PJSC VTB Bank	-	25,570
Deposits in JSC ROSBANK	-	3,000
Total bank deposits	**-**	**28,570**

As at 31 December 2017 the Group did not have bank deposits with maturity dates exceeding three months. As at 31 December 2016 the Group placed in banks deposits in roubles with maturity dates exceeding three months and interest rates ranging from 9.3% to 9.81% per annum.

7. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Deposit accounts	4,000	24,525
Cash in banks and on hand	3,381	5,885
Total cash and cash equivalents	**7,381**	**30,410**

Deposit accounts at 31 December 2017 and 31 December 2016 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 analyses the credit quality of banks at which the Group holds cash and cash equivalents:

	Credit rating at 31 December 2017	Rating agency	31 December 2017	31 December 2016
PJSC SOVCOMBANK	BB-	Standard & Poor's	2,500	-
PJSC VTB Bank	BB+	Standard & Poor's	2,391	24,089
PJSC CREDIT BANK OF MOSCOW	BB-	Standard & Poor's	1,400	-
Gazprombank (Switzerland), Ltd.	BB+	Fitch	499	476
The Bank of New York Mellon S.A.	Aa1	Moody's	125	132
Bank of China (Hong Kong) Ltd.	A+	Standard & Poor's	81	-
Gazprombank (JSC)	Ba2	Moody's	63	1,131
ABN AMRO Bank N.V.	A1	Moody's	39	65
PJSC Sberbank	Ba2	Moody's	36	707
JSC UniCredit Bank	BBB-	Fitch	34	35
VTB 24 (PJSC)*	Ba2	Moody's	9	998
First Abu Dhabi Bank	Aa3	Moody's	5	421
JSC Alfa-Bank	BB	Standard & Poor's	2	1,461
HSBC Bank LLC	BBB-	Fitch	-	245
Other banks and cash on hand	n/a	n/a	197	650
Total cash and cash equivalents			**7,381**	**30,410**

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

(in millions of Russian roubles, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Land and Improvements	Plant and Equipment	Transport	Licenses	Assets under Construction	Other	TOTAL
Cost at 31.12.2015	**69,507**	**151,773**	**86,247**	**23,593**	**39,061**	**56,430**	**3,373**	**429,984**
Additions	923	772	6,960	1,544	372	22,614	584	33,769
Transfers	10,711	18,778	6,627	419	-	(36,801)	266	-
Disposal of subsidiaries – at cost	(92)	(5)	(45)	(74)	-	-	(14)	(230)
Other disposals – at cost	(1,835)	(461)	(3,230)	(3,209)	(137)	(1,059)	(119)	(10,050)
Currency translation differences	-	(1,258)	(4)	(16)	-	93	(16)	(1,201)
Change in estimate of provision for land recultivation (note 14)	-	191	-	-	-	-	-	191
Cost at 31.12.2016	**79,214**	**168,940**	**96,555**	**22,267**	**39,296**	**41,277**	**4,074**	**452,463**
Additions	375	509	4,506	1,737	87	20,555	192	27,961
Transfers	3,473	16,197	4,826	122	-	(24,643)	25	-
Reclassification to disposal group – at cost (note 5.1)	(1,188)	(16,245)	(2,276)	(73)	(24,767)	(4,162)	(25)	(48,736)
Disposal of subsidiaries – at cost	-	-	(6)	(2)	-	(4)	-	(12)
Other disposals – at cost (note 2)	(1,275)	(8,664)	(8,021)	(748)	(74)	(1,854)	(294)	(20,930)
Currency translation differences	12	(317)	1	26	4	110	(2)	(166)
Change in estimate of provision for land recultivation (note 14)	-	81	-	-	-	-	-	81
Cost at 31.12.2017	**80,611**	**161,351**	**95,585**	**23,319**	**14,546**	**31,279**	**3,970**	**410,661**
Accumulated depreciation and impairment losses at 31.12.2015	**(26,247)**	**(45,822)**	**(51,592)**	**(14,266)**	**(5,417)**	**(1,028)**	**(1,649)**	**(146,021)**
Depreciation charge for the year	(2,921)	(9,474)	(8,628)	(2,466)	(2,286)	-	(254)	(26,029)
Disposal of subsidiaries – accumulated depreciation	17	-	44	39	-	-	11	111
Other disposals – accumulated depreciation	1,322	332	3,102	2,593	59	1,028	106	8,542
Currency translation differences	-	434	-	10	-	-	15	459
Impairment of property, plant and equipment	(562)	(19)	(47)	(18)	-	-	(5)	(651)
Accumulated depreciation and impairment losses at 31.12.2016	**(28,391)**	**(54,549)**	**(57,121)**	**(14,108)**	**(7,644)**	**-**	**(1,776)**	**(163,589)**
Depreciation charge for the year	(2,421)	(8,629)	(9,035)	(2,239)	(2,318)	-	(548)	(25,190)
Reclassification to disposal group – accumulated depreciation (note 5.1)	291	3,651	1,168	56	4,725	-	20	9,911
Disposal of subsidiaries – accumulated depreciation	-	-	6	2	-	-	-	8
Other disposals – accumulated depreciation (note 2)	860	2,748	6,768	735	54	-	236	11,401
Currency translation differences	(13)	118	9	(28)	(5)	-	3	84
Impairment of property, plant and equipment	(667)	(1,913)	(578)	(35)	(2,933)	(575)	4	(6,697)
Accumulated depreciation and impairment losses at 31.12.2017	**(30,341)**	**(58,574)**	**(58,783)**	**(15,617)**	**(8,121)**	**(575)**	**(2,061)**	**(174,072)**
Net book value at 31.12.2016	**50,823**	**115,241**	**39,434**	**8,149**	**31,652**	**41,277**	**2,298**	**288,874**
Net book value at 31.12.2017	**50,270**	**102,777**	**36,802**	**7,702**	**6,425**	**30,704**	**1,909**	**236,589**

Capitalised borrowing costs

During the year the Group has capitalised borrowing costs amounting to RR'mln 475 (2016: RR'mln 221) on qualifying asset totalling RR'mln 10,085 (2016: RR'mln 4,806). The major part of the borrowing costs were paid at 31 December 2017. In the consolidated statement of cash flow the capitalised borrowing costs were included into financing activity as part of interest paid. For the year ended 31 December 2017 borrowing costs were capitalized at the weighted average rate of its general borrowing of 6.2 per cent per annum (31 December 2016: 4.62 per cent per annum).

(in millions of Russian roubles, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Finance leases

Property, plant and equipment include the mining equipment and transport which the Group received under finance lease agreements. As at 31 December 2017 the carrying value of this equipment is RR'mln 61 (31 December 2016: RR'mln 209).

9. INVENTORIES

	31 December 2017	31 December 2016
Diamonds	50,223	55,526
Ores and sands mined	14,522	16,566
Mining and repair materials	24,505	23,970
Consumable and other supplies	2,726	2,514
Total inventories	**91,976**	**98,576**

10. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 December 2017	31 December 2016
Prepayment for share in Catoca Mining Company Ltd.*	8,350	-
Loans issued**	774	960
Consideration receivable for disposed interest in CJSC MMC Timir***	467	934
Advances to suppliers	162	145
Long-term VAT recoverable	13	13
Other long-term receivables	399	41
Total long-term accounts receivable	**10,165**	**2,093**

*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 140 mln USD. The completion of the transaction is expected in the fist half of 2018.

**The several loans issued of RR'mln 800 nominal value as at 31 December 2017 (31 December 2016: RR'mln 1,000) to be repaid in December 2021, are collateralised by shares of OJSC Pur-Navolok Otel and real estate. The management estimates that collateral taken exceeds the current value of the loans issued.

***The consideration is receivable from Evraz plc, which credit rating as at 31 December 2017 is BB- (Negative) assessed by Fitch.

Short-term accounts receivable	31 December 2017	31 December 2016
Insurance settlement (note 2)	10,490	-
Trade receivables for supplied diamonds	6,038	1,498
Prepaid taxes, other than income tax	4,168	5,010
VAT recoverable	2,126	2,311
Advances to suppliers	1,681	1,372
Receivables from associates (note 27)	1,222	84
Consideration receivable for disposed interest in CJSC MMC Timir***	613	664
Loans issued	377	319
Interest on deposits	3	995
Other short-term receivables	2,919	2,926
Total short-term accounts receivable	**29,637**	**15,179**

(in millions of Russian roubles, unless otherwise stated)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

The fair value of each class of long-term and short-term trade and other accounts receivable at 31 December 2017 and 31 December 2016 approximates their carrying value.
Trade and other accounts receivables relate to Level 2 fair value measurement hierarchy described in Note 30.

The impairment provision offset against individual receivable balances is as follows:

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

Long-term accounts receivable	31 December 2016	Bad debt write-off	Bad debt expense / (reversal of bad debt expense)	31 December 2015
Receivables from associates	873	-	838	35
Other long term receivables	29	-	(49)	78
	902	**-**	**789**	**113**
Short-term accounts receivable				
Receivables from associates	99	-	99	-
Loans issued	128	-	128	-
Other trade receivables	1,692	(21)	697	1,016
	1,919	**(21)**	**924**	**1,016**

The individually impaired receivables mainly relate to the counterparties, which are in difficult economic situations or under bankruptcy procedures. The ageing analysis of these receivables is as follows:

	31 December 2017				31 December 2016			
	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	-	848	35	883	838	-	35	873
Other long term receivables	6	-	-	6	-	29	-	29
Total long-term accounts receivable	**6**	**848**	**35**	**889**	**838**	**29**	**35**	**902**
Short-term accounts receivable								
Loans issued	-	32	25	57	4	33	91	128
Receivables from associates	3	-	12	15	9	-	90	99
Other short-term receivables	561	996	421	1,978	411	755	526	1,692
Total short-term accounts receivable	**564**	**1,028**	**458**	**2,050**	**424**	**788**	**707**	**1,919**

(in millions of Russian roubles, unless otherwise stated)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

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

31 December 2016	Large customers	Medium and small customers	Entities controlled by the Government	Individuals	Total
Long-term accounts receivable					
Loans issued	-	514	-	446	960
Other long-term receivables	-	41	-	-	41
Total long-term financial receivable	**-**	**555**	**-**	**446**	**1,001**
Short-term accounts receivable					
Loans issued	-	319	-	-	319
Receivables from associates	84	-	-	-	84
Trade receivables for supplied diamonds	-	827	671	-	1,498
Other trade receivables	129	1,842	1,686	264	3,921
Total short-term financial receivable	**213**	**2,988**	**2,357**	**264**	**5,822**

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

As at 31 December 2017 trade and other receivables in the amount of RR'mln 21,516 (31 December 2016: RR'mln 5,447) were neither past due nor impaired and have no history of overdue payments. Most of these debtors have no individual external credit rating.

(in millions of Russian roubles, unless otherwise stated)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2017		2016	
	Trade receivables	**Other financial receivables**	**Trade receivables**	**Other financial receivables**
Receivables that are neither past due nor impaired:				
Russian Government	2,257	1,453	671	76
Medium customers	1,015	189	827	1,723
Small customers	2,753	1,450	-	550
Large customers of the Republic of Angola	-	1,221	-	83
S&P A-	-	38	-	-
S&P BBB-	-	10,490	-	-
S&P BB+	-	-	-	864
S&P BB	-	-	-	131
No rating assigned	13	637	-	522
Total receivables that are neither past due nor impaired	**6,038**	**15,478**	**1,498**	**3,949**

As at 31 December 2017 accounts receivable in the amount of RR'mln 706 (as at 31 December 2016: RR'mln 1,376) were past due but were not considered impaired. They include only other short-term receivables and relate to a number of independent medium and small customers for whom there is no recent history of default. As at 31 December 2017 and 31 December 2016 none of these accounts receivable was secured by any collateral.

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

	31 December 2017	31 December 2016
Up to 3 months	671	1,320
3 to 6 months	5	9
6 to 12 months	-	2
More than 1 year	30	45
Total past due but not impaired	**706**	**1,376**

As at 31 December 2017 19 individual debtors of the Group (31 December 2016: 16 individual debtors) had the outstanding balance with the Group exceeding RR'mln 100. As at 31 December 2017 total amount of such accounts receivable was RR'mln 25,388 (31 December 2016: RR'mln 11,237).

11. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 31 December 2017 and 31 December 2016 and consists of 7,364,965,630 ordinary shares, at RR 0.5 par value share. In addition as at 31 December 2017 and 31 December 2016 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)

11. 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 approved by the Supervisory Council of the Company at least 35% of the net profit as reported in the IFRS consolidated financial statement of the Group is distributed for dividends payment. This legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation, and accordingly, management believes that at present it would not be appropriate to disclose an amount for the reserves, planned for distribution, in these consolidated financial statements.

Treasury shares

As at 31 December 2017 and 31 December 2016 subsidiaries of the Group held no 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, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares. There were 7,364,965,630 and 7,362,530,908 weighted average shares outstanding for the years ended 31 December 2017 and 31 December 2016, respectively.

There are no dilutive financial instruments outstanding.

Other reserves

	Currency translation	Purchase of non-controlling interest	Available-for-sale investments	Recognition of accumulated actuarial loss	Total other reserves
Balance at 31 December 2015	**499**	**(16)**	**57**	**(6,484)**	**(5,944)**
Currency translation differences	(328)	-	-	-	(328)
Purchase of non-controlling interest	-	85	-	-	85
Actuarial remeasurement on post employment benefit obligation	-	-	-	(11,098)	(11,098)
Change in fair value of available for sale investments	-	-	181	-	181
Balance at 31 December 2016	**171**	**69**	**238**	**(17,582)**	**(17,104)**
Currency translation differences	(132)	-	-	-	(132)
Actuarial remeasurement on post employment benefit obligation (note 15)	-	-	-	(1,874)	(1,874)
Change in fair value of available for sale investments	-	-	323	-	323
Balance at 31 December 2017	**39**	**69**	**561**	**(19,456)**	**(18,787)**

Dividends

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

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

(in millions of Russian roubles, unless otherwise stated)

12. LONG-TERM DEBT

	31 December 2017	31 December 2016
Debt to banks:		
US$ denominated floating rate*	-	36,394
US$ denominated fixed rate**	-	43,673
RR denominated fixed rate	1,087	1,370
	1,087	**81,437**
Eurobonds US$ denominated	57,600	60,657
Finance lease obligation	91	173
Other RR denominated fixed rate loans	20	16
	58,798	**142,283**
Less: current portion of long-term debt (note 13)	(104)	(614)
Total long-term debt	**58,694**	**141,669**

*On 28 February 2017 the Group repaid in advance a US$'mln 600 bank loans received from PJSC VTB Bank due October 2018.

**In December 2017 the Group repaid in advance a US$'mln 720 bank loans received from JSC Alfa-Bank due July 2019.

***As at 31 December 2016 the Group pledged real estate with a carrying value of RR'mln 2,223 to secure obligations under a long-term loan received from PJSC "Sberbank" in the amount of RR'mln 1,200. In December 2017 the loan was fully paid in advance, including short-term part (note 13). As at 31 December 2017 the Group has performed actions to release from pledge of real estate secured the obligations under this loan from PJSC "Sberbank".

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 2017		31 December 2016	
	Effective interest rates	Market interest rates	Effective interest rates	Market interest rates
Debt to banks:				
US$ denominated floating rate	-	-	7.2%	7.1%
US$ denominated fixed rate	-	-	4.3%	5.4%
RR denominated fixed rate	11.2%	9.2%	13.3%	11.7%
Eurobonds US$ denominated	7.8%	5.1%	7.8%	5.8%

The fair value of long-term debt is estimated by discounting the future contractual cash outflows 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 2017		31 December 2016	
	Carrying value	Fair value	Carrying value	Fair value
Debt to banks:				
US$ denominated floating rate	-	-	36,394	36,408
US$ denominated fixed rate	-	-	43,673	43,502
RR denominated fixed rate	1,087	1,138	1,370	1,400
Eurobonds US$ denominated	57,600	64,534	60,657	68,694
Finance lease obligation	91	91	173	173
Other RR denominated fixed rate loans	20	20	16	14

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 30.

(in millions of Russian roubles, unless otherwise stated)

12. LONG-TERM DEBT (CONTINUED)

Eurobonds

	Year ended 31 December 2017	Year ended 31 December 2016
Balance at the beginning of the reporting period	**60,657**	**72,883**
Amortisation of discount	3	3
Repayment	-	-
Foreign exchange gains	(3,060)	(12,229)
Balance at the end of the reporting period	**57,600**	**60,657**

Finance lease obligation

	Minimum lease payments 31 December 2017	Discounted value of minimum lease payments 31 December 2017	Minimum lease payments 31 December 2016	Discounted value of minimum lease payments 31 December 2016
Within 1 year	91	91	96	85
After 1 year	-	-	87	88
Total finance lease obligation	**91**	**91**	**183**	**173**

Finance lease obligations relate to the certain mining equipment and transport recorded as property, plant and equipment items in these consolidated financial statements (note 8). These leased assets are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

Net Debt Reconciliation

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

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

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

	31 December 2017	31 December 2016
Debt to banks:		
US$ denominated fixed rate	34,560	-
	34,560	**-**
Other RR denominated fixed rate loans	70	52
Add: current portion of long-term debt (note 12)	104	614
Total short-term debt and current portion of long-term debt	**34,734**	**666**

As at 31 December 2017 and 31 December 2016 the fair value of short-term loans is approximately equal the carrying value.

(in millions of Russian roubles, unless otherwise stated)

14. OTHER PROVISIONS

	31 December 2017	31 December 2016
Provision for land recultivation	5,233	6,345
Provision for social obligations	229	346
Other provisions	**5,462**	**6,691**

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 2017 the Group has partially fulfilled these obligations in the amount of RR'mln 9. The current portion of provision for social obligation as at 31 December 2017 in the amount of RR'mln 236 (31 December 2016: RR'mln 281) was included in trade and other payables within the Group's current liabilities (note 16).

Provision for land recultivation

	Year ended 31 December 2017	Year ended 31 December 2016
At the beginning of the year	**6,345**	**5,350**
Accrual of provision	39	562
Unwinding of the present value discount	329	641
Utilisation of provision	(451)	(340)
Reclassification in liabilities classified as held for sale	(1,078)	-
Reversal of the provision	(32)	(59)
Change in estimate of provision (note 8)	81	191
At the end of the year	**5,233**	**6,345**

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

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 2017 was 7.74 per cent. (31 December 2016: 8.15 per cent.), which represents adjusted risk free rate for the Group and is considered appropriate to the Group in the economic environment in the Russian Federation at the end of the year.

15. 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 July, 1 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-paruty pension program the record of the length of service for the purpose of calculation the non-state pension was terminated on June 30, 2017, and the Group recognised the income RR'mln 3,470 from reduction of the pension obligations to the employees not reached required length of service under the previous pension plan (note 22). 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)

15. 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 2017	**31 December 2016**
Present value of obligations	31, 624	32,408
Fair value of pension plan assets	(16,771)	(13,638)
Pension obligations for the funded plan	14, 853	18,770
Present value of unfunded obligation	1,164	1,184
Net liability value	**16 017**	**19,954**

Changes in the present value of 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 2016	**19,710**	**(10,312)**	**1,158**	**10,556**
Current service cost	313	-	32	345
Past service cost and curtailment	(206)	-	(21)	(227)
Interest expense / (income)	1,826	(974)	108	960
	1,933	**(974)**	**119**	**1,078**
Remeasurements:				
Return on plan assets, excluding amounts included in interest expense / (income)	-	242	-	242
Loss from changes in demographic actuarial assumptions	10,177	-	2	10,179
Gain from changes in financial actuarial assumptions	(382)	-	(82)	(464)
Loss from experience adjustments	2,079	-	53	2,132
	11,874	**242**	**(27)**	**12,089**
Contributions to plan:				
Employer contributions	-	(3,703)	-	(3,703)
Benefits paid	(1,109)	1,109	(66)	(66)
	(1,109)	**(2,594)**	**(66)**	**(3,769)**
At 31 December 2016	**32,408**	**(13,638)**	**1,184**	**19,954**

(in millions of Russian roubles, unless otherwise stated)

15. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

	Present value of obligations on funded plans	Fair value of plan assets	Present value of obligations on unfunded plans	Total
At 1 January 2017	**32,408**	**(13,638)**	**1,184**	**19,954**
Current service cost	276	-	31	307
Past service cost and curtailment (note 22)	(3, 774)	-	(75)	(3, 849)
Interest expense / (income)	2,346	(1,159)	90	1,277
	(1, 152)	**(1,159)**	**46**	**(2, 265)**
Remeasurements:				
Return on plan assets, excluding amounts included in interest expense / (income)	-	178	-	178
(Gain) / Loss from changes in demographic actuarial assumptions	(1)	-	2	1
Loss from changes in financial actuarial assumptions	21	-	35	56
Loss / (gain) from experience adjustments	1,556	-	(24)	1,532
	1,576	**178**	**13**	**1,767**
Contributions to plan:				
Employer contributions	-	(3,360)	-	(3,360)
Benefits paid	(1,208)	1,208	(79)	(79)
	(1,208)	**(2,152)**	**(79)**	**(3,439)**
At 31 December 2017	**31, 624**	**(16,771)**	**1,164**	**16,017**

Expenses recognised in the consolidated statement of profit or loss and other comprehensive income is included in cost of sales, general and administrative expenses, selling and marketing expenses in the amounts of RR'mln 59 (year ended 31 December 2016: RR'mln 96), RR'mln 6 (year ended 31 December 2016: RR'mln 12) and RR'mln 6 (year ended 31 December 2016: RR'mln 10), respectively.

Expense / (income) recognised through profit or loss	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Current service cost	307	345
Past service cost and curtailment	(3,849)	(227)
Interest expense	1,277	960
Total (income) / expense recognised through profit or loss	**(2,265)**	**1,078**

Expense / (income) recognised through other comprehensive income	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Loss from changes in demographic actuarial assumptions	1	10,179
Loss / (gain) from changes in financial actuarial assumptions	56	(464)
Loss from experience adjustments	1,710	2,374
Total expense recognised through other comprehensive income	**1,767**	**12,089**

Change in amount of remeasurements charged to other comprehensive income during the reporting period	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Remeasurement amount at 1 January	19,071	6,982
Change in remeasurement amount	1,767	12,089
Remeasurement amount at 31 December	**20,838**	**19,071**

Estimation of financial actuarial assumptions was based on market forecasts at the end of the reporting period in relation to period, during which the obligation should be settled. Average estimated term of settlement of Group obligations at the reporting date totals 9.19 years (at 31 December 2016 – 10.04 years).

(in millions of Russian roubles, unless otherwise stated)

15. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

	Year ended 31 December 2017	Year ended 31 December 2016
Discount rate (nominal)	7.7%	8.5%
Future salary increases (nominal)	6.0%	6.5%
Future pension increases (nominal)	4.5%	5.0%

In the year ended 31 December 2017 the actual income on plan assets was RR'mln 981 (year ended 31 December 2016: RR'mln 797). The Group expects to contribute RR'mln 5,404 to the defined benefit plans during the year beginning 1 January 2018.

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 2017	Year ended 31 December 2016
Expected age of retirement		
Male	58	58
Female	57	57
Source - table of mortality dated:	1998– adjusted	1998 – adjusted
The life expectancy in the expected retirement age		
Male	19.84	19.84
Female	24.96	24.96

The assumption of staff turnover was made on the basis of statistical data of the Group layoffs, turnover rate depends on the employment of workers and continuously decreases during seniority of workers. Averaged rates point: with a seniority of 0 to 10 years – 10.8% per year, with a seniority of 10 to 20 years – 4.3% per year, with a seniority of 20 to 30 years – 2.4% per year, with a seniority of more than 30 – 0.1% 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%	Increase / decrease by	0.0%	5.8%
Inflation rate	Increase / decrease by 0.5%	Increase / decrease by	0.0%	4.7%
Future salary increases	Increase / decrease by 0.5%	Increase / decrease by	0.0%	1.4%
Expected return on plan assets	Increase / decrease by 0.5%	Increase / decrease by	6.5%	-
Expected age of retirement	Increase /decrease by 1 year	Increase / decrease by	1.9%	0.6%
Employee turnover	Increase /decrease by 10%	Increase / decrease by	0.0%	1.0%
Mortality level	Increase /decrease by 10%	Increase / decrease by	0.1%	1.1%

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

(in millions of Russian roubles, unless otherwise stated)

15. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

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

	Year ended 31 December 2017	**Year ended 31 December 2016**
Russian corporate bonds	25.1%	27.3%
Bank deposits	50.9%	58.9%
Russian Government and municipal bonds	16.5%	3.1%
Equity securities of Russian issuers	3.7%	6.2%
Debt securities of Russian issuers	3.8%	4.6%
Total plan assets	**100.0%**	**100.0%**

All categories of plan assets are measured at fair value.

As at 31 December 2017 4,454 shares of the Company's subsidiary – PJSC ALROSA-Nyurba with the fair value of RR'mln 646 were held by JSC NPF Almaznaya osen (as at 31 December 2016 4,518 shares with the fair value of RR'mln 838).

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

Pension plan assets volatility

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

Inflation risk

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

Life expectancy

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

In case of the funded plans, the Group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the processes used to manage its risks from previous periods. The Group does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of plan assets in 2017 and 2016 consisted bank deposits.

(in millions of Russian roubles, unless otherwise stated)

16. TRADE AND OTHER PAYABLES

	31 December 2017	31 December 2016
Accrual for employee holidays and flights	7,458	7,890
Trade payables	6,605	6,820
Wages and salaries	5,755	6,666
Interest payable	788	1,342
Advances from customers	550	1,353
Current portion of provision for social obligation (note 14)	236	281
Payables to associates	8	11
Other payables	859	1,125
Total trade and other payables	**22,259**	**25,488**

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

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2017 and 31 December 2016 approximates their carrying value.

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

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

	31 December 2017	31 December 2016
Payments to social funds	2,462	2,676
Extraction tax	1,396	1,465
Property tax	1,168	1,067
Personal income tax (employees)	803	946
Value added tax	322	1,364
Other taxes and accruals	355	286
Total taxes payable, other than income tax	**6,506**	**7,804**

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

	Year ended 31 December 2017	Year ended 31 December 2016
Property tax	5,010	4,791
Other taxes and accruals	441	927
Total taxes and payments other than income tax expense	**5,451**	**5,718**

In accordance with Resolution № 795 of the Government of the Russian Federation dated 23 December 2006, in addition to the taxes noted above, the Group is obliged to pay 6.5 per cent. on the value of diamonds sold for export in the form of an export duty (note 18). In accordance with Russian Federation Government Decree №797 dated 15 August 2016, export duties relating to rough diamonds export sales will be cancelled effective 1 September 2016.

In accordance with the amendment to the license agreement registered in May 2007, PJSC ALROSA-Nyurba, a subsidiary of the Group, is obliged to make annual fixed royalty payments to the Republic of Sakha (Yakutia) starting from 1 January 2012 in the amount of RR'mln 1,209 per annum.

(in millions of Russian roubles, unless otherwise stated)

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

Income tax comprise the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Current tax expense	24,002	37,961
Deferred tax benefit	(1,615)	(1,882)
Adjustments recognised in the period for current tax of prior periods	(213)	189
Total income tax expense	**22,174**	**36,268**

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

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before income tax	100,790	169,739
Theoretical tax charge at rate of 20 per cent. thereon	20,158	33,948
Prior periods adjustments recognised in the current period		
Tax effect of:	(213)	189
charity and social program carried out for Republic of Sakha (Yakutia)	1,254	1,297
other expenses not deductible for income tax purposes	975	834
Total income tax expense	**22,174**	**36,268**

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

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

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

(in millions of Russian roubles, unless otherwise stated)

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

	Effect of changes temporary difference on deferred tax				
	31 December 2016	**Charged/ (credited) to profit or loss**	**Charged/ (credited) directly to other comprehensive income**	**Disposal of subsidiaries**	**31 December 2015**
Property, plant and equipment	12,275	(740)	-	27	12,988
Inventories	4,359	(242)	-	-	4,601
Long- term investments	(178)	(385)	(150)	-	357
Accruals and provisions	(2,620)	(75)	-	-	(2,545)
Exploration costs write-off	(1,588)	84	-	-	(1,672)
Provision for pension obligations	(2,673)	(157)	(991)	-	(1,525)
Impairment of receivables	(351)	(254)	-	-	(97)
Other deductible temporary differences	(173)	(113)	-	-	(60)
Net deferred tax liability/(asset)	**9,051**	**(1,882)**	**(1,141)**	**27**	**12,047**
Deferred tax asset	(1,967)	-	-	-	(1,919)
Deferred tax liability	11,018	-	-	-	13,966
Net deferred tax liability/(asset)	**9,051**	**(1,882)**	**(1,141)**	**27**	**12,047**

As at 31 December 2017 and 31 December 2016 the Group had not recorded a deferred tax liability in respect to taxable temporary differences of RR'mln 12,031 and RR'mln 11,993, respectively, associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

18. REVENUE

	Year ended 31 December 2017	**Year ended 31 December 2016**
Revenue from diamond sales:		
Export	225,063	261,721
Domestic	23,235	31,404
Revenue from diamonds for resale	16	763
Total revenue from diamond sales	**248,314**	**293,888**
Other revenue:		
Transport	7,201	6,252
Sales of gas	6,472	5,885
Social infrastructure	2,564	2,631
Other	5,155	5,680
Total revenue	**269,706**	**314,336**

Export duties totalling RR'mln 12,229 for the year ended 31 December 2016 were netted against revenues from export of diamonds. In accordance with Russian Federation Government Decree #797 dated 15 August 2016, export duties relating to rough diamonds is 0% effective 1 September 2016.

In the years ended 31 December 2017 and 31 December 2016 the Group had no customers accounting for more than 10 per cent of the Group's revenue.

(in millions of Russian roubles, unless otherwise stated)

19. COST OF SALES

	Year ended 31 December 2017	Year ended 31 December 2016
Wages, salaries, contributions and other staff costs	43,554	43,686
Depreciation	23,792	24,668
Extraction tax	21,782	22,188
Fuel and energy	12,686	14,493
Materials	13,287	13,592
Services	7,955	7,714
Transport	2,178	2,215
Cost of diamonds for resale	16	763
Other	1,313	588
Movement in inventory of diamonds, ores and sands	7,347	(156)
Total cost of sales	**133,910**	**129,751**

Wages, salaries, contributions and other staff costs include payments to social funds in the amount of RR’mln 8,984 (year ended 31 December 2016: RR’mln 8,707). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR’mln 6,113 (year ended 31 December 2016: RR’mln 6,276).

Depreciation totalling RR’mln 1,228 (year ended 31 December 2016: RR’mln 1,127) and staff costs totalling RR’mln 2,204 (year ended 31 December 2016: RR’mln 3,064) were incurred by the Group’s construction divisions and were capitalised into property, plant and equipment in the year.

20. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2017	Year ended 31 December 2016
Wages, salaries, contributions and other staff costs	6,675	6,654
Services and other administrative expenses	4,445	4,069
Impairment of accounts receivable (note 10)	468	1,713
Total general and administrative expenses	**11,588**	**12,436**

Wages, salaries, contributions and other staff costs include payments to social funds in the amount of RR’mln 1,263 (year ended 31 December 2016: RR’mln 1,039). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR’mln 738 (year ended 31 December 2016: RR’mln 669).

21. SELLING AND MARKETING EXPENSES

	Year ended 31 December 2017	Year ended 31 December 2016
Wages, salaries, contributions and other staff costs	1,901	1,834
Services and other selling and marketing expenses	1,118	1,512
Total selling and marketing expenses	**3,019**	**3,346**

Wages, salaries, contributions and other staff costs include payments to social funds in the amount of RR’mln 391 (year ended 31 December 2016: RR’mln 371). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR’mln 247 (year ended 31 December 2016: RR’mln 303).

(in millions of Russian roubles, unless otherwise stated)

22. OTHER OPERATING INCOME

	Year ended 31 December 2017	Year ended 31 December 2016
Income from insurance settlement (note 2)	10,490	-
Income from changes in terms of defined benefit plan (note 15)	3,470	-
Income on disposal of subsidiaries	14	-
Other	1,405	3,090
Total other operating income	**15,379**	**3,090**

23. OTHER OPERATING EXPENSES

	Year ended 31 December 2017	Year ended 31 December 2016
Exploration expenses	8,761	8,202
Impairment loss on property, plant and equipment due to the accident at the Mir underground mine (note 2)	8,449	-
Social costs	5,973	6,485
Impairment of gas assets (note 5.1)	5,744	-
Taxes other than income tax, extraction tax and payments to social funds (note 17)	5,451	5,718
Foreign exchange loss, net	1,882	5,591
Loss on disposal of property, plant and equipment (note 2)	1,728	554
Impairment of investments in associates and joint ventures	-	2,211
Loss on disposal of subsidiaries	-	195
Other	3,963	1,517
Total other operating expenses	**41,951**	**30,473**

In the years ended 31 December 2017 and 31 December 2016 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 2017	Year ended 31 December 2016
Charity	3,260	3,602
Maintenance of local infrastructure	1,993	2,024
Hospital expenses	289	262
Education	114	99
Other	317	498
Total social costs	**5,973**	**6,485**

(in millions of Russian roubles, unless otherwise stated)

24. FINANCE INCOME AND COSTS

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income	2,957	4,721
Interest expense:		
Eurobonds	(4,347)	(5,093)
Bank loans	(2,314)	(6,214)
Other financial liabilities*	(3,747)	(1,209)
Unwinding of discount of provisions	(359)	(217)
Foreign exchange gain, net	6,490	32,136
Total finance income / (costs), net	**(1,320)**	**24,124**

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

25. CASH GENERATED FROM OPERATING ACTIVITIES

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

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before income tax	**100,790**	**169,739**
Adjustments for:		
Share of net profit of associates and joint ventures (note 5)	(3,027)	(2,650)
Interest income (note 24)	(2,957)	(4,721)
Interest expense and discounting of provisions (note 24)	10,767	12,733
Loss on impairment of investments in joint venture (note 23)	-	2,211
Income from insurance settlement (note 22)	(10,490)	-
Loss / (gain) on disposal and write-off of property, plant and equipment (note 23)	9,224	(97)
(Gain) / loss on disposal of subsidiaries (note 22, 23)	(14)	195
Loss on impairment of gas assets (note 23)	5,744	-
Change in provision for impairment of receivables and obsolete inventories, net	316	1,359
Depreciation of property, plant and equipment (notes 8, 19)	23,962	24,902
Adjustments for non-cash financing activity	(447)	(18)
Impairment of of property, plant and equipment (note 8)	953	651
Income from changes in terms of defined benefit plan (note 22)	(3,470)	-
Unrealised foreign exchange effect on non-operating items	(3, 795)	(25,836)
Net operating cash flows before changes in working capital	**127,556**	**178,468**
Net decrease / (increase) in inventories	6,532	(3,673)
Net increase in trade and other receivables, excluding dividends receivable	(4,634)	(1,320)
Net decrease in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(5,703)	(1,510)
Net (decrease) / increase in taxes payable other than income tax	(792)	1,937
Cash inflows from operating activities	**122,959**	**173,902**
Income tax paid	(22,495)	(30,764)
Net Cash Inflows from Operating Activities	**100,464**	**143,138**

26. 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 Russian economy was growing in 2017, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

(b) Taxes

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

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

Management 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 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 2017.

(d) Capital commitments

As at 31 December 2017 the Group had contractual commitments for capital expenditures of approximately RR'mln 12,370 (31 December 2016: RR'mln 5,800).

(in millions of Russian roubles, unless otherwise stated)

26. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(e) Operating lease commitments

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

	31 December 2017	31 December 2016
Not later than 1 year	324	194
Later than 1 year and not later than 5 years	833	523
Later than 5 years	1,409	961
Total operating lease commitments	**2,566**	**1,678**

(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 2017 the Group recognised a provision for these future expenses in the amount of RR'mln 5,233 (31 December 2016: RR'mln 6,345), see note 14.

(g) Compliance with covenant

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants at 31 December 2017 and 31 December 2016.

(h) Guarantees

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

27. RELATED PARTY TRANSACTIONS

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

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

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

Federal Agency for State Property Management on behalf of the government of the Russian Federation and the Ministry of the property and land relations of the Republic of Sakha (Yakutia) on behalf of the Republic of Sakha (Yakutia) are the major shareholders of the Company. As at 31 December 2017 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 2017 8 per cent. of the Company's shares were owned by administrations of 8 districts of the Republic of Sakha (Yakutia).

(in millions of Russian roubles, unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (CONTINUED)

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

In 2016 year the 15 seats on the Supervisory Board included 13 representatives of the Russian Federation and the Republic of Sakha (Yakutia) (including one – the Chair of the Management Board), 5 independent directors according to the Russian Corporate Law (four of them were nominated by the Government of the Russian Federation, one was nominated by foreign minority shareholders), and one representative of the discricts of the Republic of Sakha (Yakutia).

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

Tax balances are disclosed in the consolidated statement of financial position and in notes 10 and 17. Tax transactions are disclosed in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and in notes 17, 19, 20, 21, 25 and 26.

Parties under control or significant influence of the Government

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

The amounts of balances and transactions with related parties under Governmental control or significant influence are detailed below:

Consolidated Statement of Financial Position	31 December 2017	31 December 2016
Short-term accounts receivable	15,857	3,442
Short-term accounts payable	775	1,758
Loans received by the Group*	987	37,766
Cash and cash equivalents	2,897	27,401
Bank deposits	-	25,570

* The line includes the loans received from banks under the Government control with various due dates and interest rates ranging from 7% to 13,5%.

Consolidated Statement of Profit or Loss and Other Comprehensive Income	Year ended 31 December 2017	Year ended 31 December 2016
Sales of diamonds	6,458	11,153
Other sales	10,644	6,242
Other operating income (note 2, 22)	10,490	-
Electricity and heating expenses	(5,853)	(7,515)
Other purchases	(10,973)	(7,999)
Interest income	1,618	3,713
Interest expense	(580)	(2,904)

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

(in millions of Russian roubles, unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (CONTINUED)

Supervisory Council who are also the individual executive body or a member of the collegial executive body.

As at 31 December 2017 and 31 December 2016 the Management Board consisted of 8 and 13 members, respectively. As at 31 December 2017 two of the Management Board members was also a member of the Supervisory Council. Management Board members are entitled to salary, bonuses, voluntary medical insurance and other short-term employee benefits. Salary and bonus compensation paid to members of the Management Board is determined by the terms of "Remuneration Policy for the members of the Management Board of PJSC ALROSA" approved by the Company's Supervisory Council on 6 October 2015, with the changes incorporated by the decision of the Supervisory Council on 26 August 2016.

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

Key management received short-term benefits for the year ended 31 December 2017 totalling RR'mln 914 (year ended 31 December 2016: RR'mln 889). The portion of provision for pension obligations attributable to key management as at 31 December 2017 equals to RR'mln 22 (31 December 2016: RR'mln 60). 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 2017 equals to RR'mln 38 (year ended 31 December 2016: RR'mln 6). The Group paid dividends RR'mln 22 to key management hold the Company's shares.

Associates and Joint Ventures

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

Current accounts receivable	31 December 2017	31 December 2016
Catoca Mining Company Ltd, dividends and other receivable	1,222	84
Total current accounts receivable	**1,222**	**84**

Transactions with the Group's pension plan are disclosed in note 15, accounts payable to associates are disclosed in note 16.

28. 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		Profit/(loss)		Total comprehensive income/(loss)	
	31.12.2017	31.12.2016	2017	2016	2017	2016	2017	2016	2017	2016
PJSC ALROSA-Nyurba	(97)	11	1,582	2,261	41,113	47,455	12,645	18,072	12,645	18,072
PJSC Severalmaz	88	96	(3)	(4)	7,369	6,206	(1,018)	(1,243)	(1,018)	(1,243)
JSC Viluyskaya GES-3	(59)	(60)	3	2	4,611	4,292	997	909	997	909
Hydroshikapa S.A.R.L.	(233)	(358)	60	(211)	840	988	120	(468)	(14)	37
Total	**(301)**	**(311)**	**1,642**	**2,048**	**53,933**	**58,941**	**12,744**	**17,270**	**12,610**	**17,775**
Other non-material for the Group	(37)	79	(101)	31						
Total per financial statements	**(338)**	**(232)**	**1,541**	**2,079**						

(in millions of Russian roubles, unless otherwise stated)

28. NON-CONTROLLING INTEREST (CONTINUED)

Name	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
PJSC ALROSA-Nyurba	3,092	3,195	15,807	14,084	1,027	754	7,777	5,569
PJSC Severalmaz	20,728	21,173	6,458	6,540	1,522	301	1,296	2,019
JSC Viluyskaya GES-3	10,497	10,633	734	768	2,785	3,725	1,164	941
Hydroshikapa S.A.R.L.	3,699	4,068	502	433	5,292	5,898	1,339	1,287
Total	**38,016**	**39,069**	**23,501**	**21,825**	**10,626**	**10,678**	**11,576**	**9,816**

Name	PJSC ALROSA-Nyurba		PJSC Severalmaz		JSC Viluyskaya GES-3		Hydroshikapa S.A.R.L.	
	2017	2016	2017	2016	2017	2016	2017	2016
Cash Flow from Operating Activity	16,259	18,940	517	583	1,587	1,260	227	194
Income tax paid	(2,811)	(4,812)	(92)	-	(211)	(294)	-	(5)
Net Cash Inflows from Operating Activities	13,448	14,128	425	583	1,376	966	227	189
Net Cash (Outflow) / Inflow from Investing Activities	(301)	(1)	(866)	(688)	(180)	(138)	(13)	2
Net Cash (Outflow) /Inflow from Financing Activities	(13,183)	(14,064)	438	(37)	(1,090)	(1,190)	(154)	(249)
Net Increase/(Decrease) in Cash and Cash Equivalents	**(36)**	**63**	**(3)**	**(142)**	**106**	**(362)**	**60**	**(58)**
Cash and cash equivalents at the beginning of the period	62	21	3	152	4	366	362	205
Foreign exchange gains/(losses) on cash and cash equivalents	-	(22)	1	(7)	(1)	-	(18)	215
Cash and Cash Equivalents at the End of the Period	**26**	**62**	**1**	**3**	**109**	**4**	**404**	**362**

The figures presented above are before inter-company eliminations.

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

Subsidiary	Dividends paid: Year ended 31 December 2017	Dividends paid: Year ended 31 December 2016
PJSC ALROSA-Nyurba	1,690	2,196
JSC Viluyskaya GES-3	1	-
Other	16	-
Total dividends paid by subsidiaries to non-controlling shareholders	**1,707**	**2,196**

Holders of the non-controlling interest have a right to veto any transaction with related parties with a financial effect above: PJSC ALROSA-Nyurba – RR'mln 404; PJSC Severalmaz – RR'mln 743; JSC Viluyskaya GES-3 – RR'mln 265; Hydroshikapa S.A.R.L. – RR'mln 146. These restrictions apply to 2 per cent. of the subsidiaries' total assets as disclosed above.

29. 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.

(in millions of Russian roubles, unless otherwise stated)

29. SEGMENT INFORMATION (CONTINUED)

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:

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

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 2017	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Gas**	**Other activities**	**Total**
Revenue	248,314	8,983	4,821	7,509	9,653	279,280
Intersegment revenue	-	(1,840)	(1,793)	(1,028)	(5,788)	(10,449)
Cost of sales, including	115,435	7,685	8,358	4,678	11,582	147,738
Depreciation	16,769	669	276	869	2,253	20,836
Gross profit / (loss)	**132,879**	**1,298**	**(3,537)**	**2,831**	**(1,929)**	**131,542**

Year ended 31 December 2016	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Gas**	**Other activities**	**Total**
Revenue	306,117	8,560	3,457	6,930	11,787	336,851
Intersegment revenue	-	(2,321)	(428)	(1,034)	(7,353)	(11,136)
Cost of sales, including	100,882	7,627	9,016	4,567	11,410	133,502
depreciation	16,271	504	952	895	1,933	20,555
Gross profit / (loss)	**205,235**	**933**	**(5,559)**	**2,363**	**377**	**203,349**

(in millions of Russian roubles, unless otherwise stated)

29. SEGMENT INFORMATION (CONTINUED)

Reconciliation of revenue is presented below:

	Year ended 31 December 2017	Year ended 31 December 2016
Segment revenue	**279,280**	**336,851**
Elimination of intersegment revenue	(10,449)	(11,136)
Income from grants	5 ,675	2,754
Reclassification of custom duties [1]	-	(12,229)
Other adjustments and reclassifications	875	850
Revenue and Income from grants as per consolidated statement of profit or loss and other comprehensive income	**275,381**	**317,090**

[1] Reclassification of custom duties – export duties netted against revenues from export of diamonds (note 18)

Reconciliation of cost of sales including depreciation is presented below:

	Year ended 31 December 2017	Year ended 31 December 2016
Segment cost of sales	**147,738**	**133,502**
Adjustment for depreciation of property, plant and equipment	2,956	4,113
Elimination of intersegment purchases	(7,906)	(8,270)
Accrued provision for pension obligation [1]	(2,249)	108
Reclassification of extraction tax [2]	-	5,298
Adjustment for inventories [3]	2,249	5,563
Accrual for employee holidays and flights [4]	(458)	(248)
Accrual for annual bonuses	114	35
Other adjustments	42	216
Reclassification of exploration expenses [5]	(3,154)	(4,270)
Other reclassifications	(5,346)	(6,296)
Cost of sales as per consolidated statement of profit or loss and other comprehensive income	**133,910**	**129,751**

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

[2] Reclassification of extraction tax – reclassification from general and administrative expenses. Starting from 2017 year reclassification is not required as no any differences between RSA and IFRS accounting.

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

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

[5] Reclassification of exploration expenses – reclassification to other operating expenses

(in millions of Russian roubles, unless otherwise stated)

29. SEGMENT INFORMATION (CONTINUED)

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

	Year ended 31 December 2017	Year ended 31 December 2016
Belgium	125,886	142,542
Russian Federation (including grants)	49,601	53,414
India	39,774	50,211
Israel	24,863	31,488
United Arab Emirates	19,329	18,032
China	10,713	13,087
Republic of Botswana	1,048	1,142
Armenia	911	2,206
Angola	840	988
Belarus	775	2,686
USA	762	644
United Kingdom	588	368
Other countries	291	282
Total	**275,381**	**317,090**

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

	31 December 2017	31 December 2016
Russian Federation	238,289	290,636
Angola	3,715	4,068
Other countries	3,424	1,252
Total non-current assets	**245,428**	**295,956**

30. 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)

30. 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 2017				31 December 2016			
	Level				Level			
	1	2	3	Total	1	2	3	Total
Available-for-sale investments	2,474	-	433	**2,907**	950	-	474	**1,424**
Total	**2,474**	**-**	**433**	**2,907**	**950**	**-**	**474**	**1,424**

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

As at 31 December 2017 the Group had the following assets and liabilities not measured at fair value but for which fair value is disclosed, classified by the levels of the fair value hierarchy:

	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
Current and non-current financial assets				
Current and non-current financial receivable	-	22,151	-	22,151
Loans issued	-	-	1,151	1,151
Cash and cash equivalents	-	7,381	-	7,381
Total financial assets	**-**	**29,532**	**1,151**	**30,683**
Non-current financial liabilities				
Long-term debt	-	1,087	7	1,094
Eurobonds	57,600	-	-	57,600
Total non-current financial liabilities	**57,600**	**1,087**	**73**	**58,694**
Current financial liabilities				
Short-term debt	-	34,560	83	34,643
Financial accounts payable	-	8,260	-	8,260
Finance lease obligation	-	-	91	91
Dividends payable		149	-	149
Total current financial liabilities	**-**	**42,969**	**173**	**43,143**
Total financial liabilities	**57,600**	**44,056**	**181**	**101,837**

(in millions of Russian roubles, unless otherwise stated)

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2016 the Group had the following assets and liabilities not measured at fair value but for which fair value is disclosed, classified by the levels of the fair value hierarchy:

	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
Current and non-current financial assets				
Bank deposits	-	28,570	-	28,570
Current and non-current financial receivable	-	7,142	-	7,142
Loans issued	-	-	1,279	1,279
Cash and cash equivalents	-	30,410	-	30,410
Total financial assets	**-**	**66,122**	**1,279**	**67,401**
Non-current financial liabilities				
Long-term debt	-	80,924	-	80,924
Eurobonds	60,657	-	-	60,657
Finance lease obligation	-	-	88	88
Total non-current financial liabilities	**60,657**	**80,924**	**88**	**141,669**
Current financial liabilities				
Short-term debt	-	581	-	581
Financial accounts payable	-	9,298	-	9,298
Finance lease obligation	-	-	85	85
Dividends payable	-	86	-	86
Total current financial liabilities	**-**	**9,965**	**85**	**10,050**
Total financial liabilities	**60,657**	**90,889**	**173**	**151,719**

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.

31. EVENTS AFTER THE REPORTING PERIOD

On 19 February 2018 PJSC NOVATEK was declared the winner in an open auction of OJSC ALROSA on sale of 100 per cent share of the gas assets of JSC Geotransgaz and Urengoy Gas Company LLC for approximate consideration of RR’mln 30 300.

On 1 March, 2018 the Group repaid in advance US$’mln 250 bank loans received from PJS Rosbank due in December 2018.

On 1 March and 5 March, 2018 the Group repaid in advance US$’mln 200 bank loans received from JS Raiffeisenbank due in December 2018.