PJSC ALROSA

INTERNATIONAL ACCOUNTING STANDARD No. 34

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS
ENDED 30 JUNE 2017 AND
REVIEW REPORT**

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Report on Review of Condensed Consolidated Interim Financial Statements

To the Shareholders and Supervisory Council of PJSC ALROSA:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of PJSC ALROSA and its subsidiaries (the "Group") as of 30 June 2017 and the related condensed consolidated statements of profit or loss and other comprehensive income for the three-month and six-month periods then ended, and cash flows and changes in equity for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

AO PricewaterhouseCoopers Audit

28 August 2017

Moscow, Russian Federation

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

Audited entity: PJSC ALROSA

State registration certificate series 14 № 000724010, 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)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Notes	30 June 2017	31 December 2016
Assets			
Non-current assets			
Goodwill		1,439	1,439
Property, plant and equipment	7	287,033	288,874
Investments in associates and joint ventures	4	3,260	4,061
Deferred tax asset		3,265	1,967
Available-for-sale investments		1,635	1,424
Long-term accounts receivable	9	2,137	2,093
Total non-current assets		**298,769**	**299,858**
Current assets			
Inventories	8	85,883	98,576
Prepaid income tax		167	121
Current accounts receivable	9	22,622	15,179
Bank deposits	5	5,470	28,570
Cash and cash equivalents	6	61,995	30,410
Total current assets		**176,137**	**172,856**
Total assets		**474,906**	**472,714**
Equity			
Share capital	10	12,473	12,473
Share premium		10,431	10,431
Retained earnings and other reserves	10	216,035	234,298
Equity attributable to owners of PJSC ALROSA		**238,939**	**257,202**
Non-Controlling Interest		**109**	**(232)**
Total equity		**239,048**	**256,970**
Liabilities			
Non-current liabilities			
Long-term debt	11	102,354	141,669
Provision for pension obligations	15	16,701	19,954
Other provisions		6,732	6,691
Deferred tax liabilities		10,456	11,018
Total non-current liabilities		**136,243**	**179,332**
Current liabilities			
Short-term debt and current portion of long-term debt	12	848	666
Trade and other payables	13	24,279	25,488
Income tax payable		2,096	2,368
Other taxes payable	14	6,544	7,804
Dividends payable	10	65,848	86
Total current liabilities		**99,615**	**36,412**
Total liabilities		**235,858**	**215,744**
Total equity and liabilities		**474,906**	**472,714**

Signed on 28 August 2017 by the following members of management:

Sergey S. Ivanov
President

Svetlana V. Linnik
Chief accountant

(in millions of Russian roubles, unless otherwise stated)

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

		Three months ended		Six months ended	
	Notes	**30 June 2017**	**30 June 2016**	**30 June 2017**	**30 June 2016**
Revenue	16	70,737	84,328	155,550	186,667
Cost of sales	17	(30,468)	(30,196)	(77,488)	(69,253)
Royalty	14	(303)	(303)	(605)	(605)
Gross profit		**39,966**	**53,829**	**77,457**	**116,809**
General and administrative expenses	18	(3,436)	(2,864)	(6,527)	(6,034)
Selling and marketing expenses	19	(759)	(816)	(1,588)	(1,732)
Other operating income	20	3,807	322	4,080	634
Other operating expenses	21	(4,311)	(7,842)	(12,476)	(15,609)
Operating profit		**35,267**	**42,629**	**60,946**	**94,068**
Finance income / (costs), net	22	(5,391)	7,383	(678)	18,605
Share of net profit of associates and joint ventures	4	1,041	636	1,860	1,191
Profit before income tax		**30,917**	**50,648**	**62,128**	**113,864**
Income tax	14	(5,749)	(10,152)	(13,218)	(23,479)
Profit for the period		**25,168**	**40,496**	**48,910**	**90,385**
Other comprehensive (loss)/income					
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations, net of tax	10	(291)	(2,039)	(641)	(3,220)
Total items that will not be reclassified to profit or loss		**(291)**	**(2,039)**	**(641)**	**(3,220)**
Items that will be reclassified to profit or loss:					
Currency translation differences, net of tax	10	129	11	74	(54)
Change in fair value of available-for-sale investments		79	36	22	38
Total items that will be reclassified to profit or loss		**208**	**47**	**96**	**(16)**
Total other comprehensive loss for the period		**(83)**	**(1,992)**	**(545)**	**(3,236)**
Total comprehensive income for the period		**25,085**	**38,504**	**48,365**	**87,149**
Profit attributable to:					
Owners of PJSC ALROSA		24,644	39,758	48,084	88,930
Non-controlling interest		524	738	826	1,455
Profit for the period		**25,168**	**40,496**	**48,910**	**90,385**
Total comprehensive income attributable to:					
Owners of PJSC ALROSA		24,612	37,710	47,506	85,532
Non-controlling interest		473	794	859	1,617
Total comprehensive income for the period		**25,085**	**38,504**	**48,365**	**87,149**
Basic and diluted earnings per share for profit attributable to the owners of PJSC ALROSA (in Russian Roubles)	10	3.35	5.40	6.53	12.08

(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

		Six months ended	
	Notes	**30 June 2017**	**30 June 2016**
Net cash inflow from operating activities	23	**61,777**	**93,379**
Cash flows from investing activities			
Purchase of property, plant and equipment		(11,432)	(14,689)
Proceeds from sales of property, plant and equipment		63	174
Interest received	22	2,089	1,200
Acquisition of available-for-sale investments		(211)	(281)
Dividends received from associates and joint ventures		2	1
Proceeds from disposal of subsidiaries, net of cash disposed of		499	388
Cash received from/(transfer to) deposit accounts		23,100	(47,600)
Net cash inflow/ (outflow) from investing activities		**14,110**	**(60,807)**
Cash flows from financing activities			
Repayments of loans		(34,986)	(23,161)
Loans received		177	40
Sale of treasury shares		-	621
Interest paid		(6,593)	(5,917)
Dividends paid		(526)	(460)
Net cash outflow from financing activities		**(41,928)**	**(28,877)**
Net increase in cash and cash equivalents		**33,959**	**3,695**
Cash and cash equivalents at the beginning of the period	6	30,410	20,503
Effect of exchange rate changes on cash and cash equivalents		(2,374)	(3,369)
Cash and cash equivalents at the end of the period	6	**61,995**	**20,829**

(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

		Attributable to owners of PJSC ALROSA							
	Number of shares outstanding	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves (note 10)**	**Retained earnings**	**Total**	**Non-control-ling 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 period		-	-	-	-	88,930	88,930	1,455	90,385
Other comprehensive (loss)/income		-	-	-	(3,398)	-	(3,398)	162	(3,236)
Total comprehensive income / (loss) for the period		**-**	**-**	**-**	**(3,398)**	**88,930**	**85,532**	**1,617**	**87,149**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(15,393)	(15,393)	-	(15,393)
Sale of own shares	8,599,300	-	-	15	-	606	621	-	621
Sale of non-controlling interest		-	-	-	89	-	89	(89)	-
Dividends of subsidiaries to non-controlling shareholders		-	-	-	-	-	-	(444)	(444)
Total transactions with owners	**8,599,300**	**-**	**-**	**15**	**89**	**(14,787)**	**(14,683)**	**(533)**	**(15,216)**
Balance at 30 June 2016	**7,364,965,630**	**12,473**	**10,431**	**-**	**(9,253)**	**208,940**	**222,591**	**827**	**223,418**
Balance at 1 January 2017	**7,364,965,630**	**12,473**	**10,431**	**-**	**(17,104)**	**251,402**	**257,202**	**(232)**	**256,970**
Comprehensive income/(loss)									
Profit for the period		-	-	-	-	48,084	48,084	826	48,910
Other comprehensive (loss)/income			-	-	(578)	-	(578)	33	(545)
Total comprehensive income / (loss) for the period		**-**	**-**	**-**	**(578)**	**48,084**	**47,506**	**859**	**48,365**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(65,769)	(65,769)	-	(65,769)
Dividends of subsidiaries to non-controlling shareholders		-	-	-	-	-	-	(518)	(518)
Total transactions with owners		**-**	**-**	**-**	**-**	**(65,769)**	**(65,769)**	**(518)**	**(66,287)**
Balance at 30 June 2017	**7,364,965,630**	**12,473**	**10,431**	**-**	**(17,682)**	**233,717**	**238,939**	**109**	**239,048**

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

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 30 June 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, 678170, Republic of Sakha (Yakutia), Russia.

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

2. BASIS OF PRESENTATION

The condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). These condensed consolidated interim financial statements should be read together with the consolidated financial statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards ("IFRS").

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

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

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 59.0855 and 60.6569 as at 30 June 2017 and 31 December 2016, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 67.4993 and 63.8111 as at 30 June 2017 and 31 December 2016, respectively.

(in millions of Russian roubles, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2016 with the exception of income tax expense, which is recognised based on the annual effective income tax rate expected for the full financial year.

New accounting developments

The following amendments and improvements to standards became effective for the Group from 1 January 2017:

- Amendments to IAS 7, Disclosure Initiative;
- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses;
- Annual Improvements to IFRSs 2014-2016 cycle (for amendments to IFRS 12).

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

Certain new standards, interpretations and amendments to standards, as disclosed in the consolidated financial statements for the year ended 31 December 2016, have been issued but are not yet effective and have not been early adopted by the Group. The Group is currently considering the implications of these new accounting pronouncements, their impact on its consolidated financial statements and the timing of their adoption.

4. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

Name	Principal activity	Place of business	Notes	Percentage of ownership interest held: 30 June 2017	Percentage of ownership interest held: 31 December 2016
ALROSA Finance S.A.	Financial services	Luxembourg		100.0	100.0
OJSC ALROSA-Gaz	Gas extraction	Russia		100.0	100.0
JSC Almazy Anabara	Diamonds extraction	Russia		100.0	100.0
JSC Geotransgaz	Gas extraction	Russia		100.0	100.0
Urengoy Gaz Company Ltd.	Gas extraction	Russia		100.0	100.0
JSC Nizhne-Lenskoe	Diamonds extraction	Russia		100.0	100.0
JSC Viluyskaya GES-3	Electricity production	Russia		99.7	99.7
PJSC Severalmaz	Diamonds extraction	Russia		99.6	99.6
ALROSA Belgium N.V.	Diamonds trading	Belgium		99.6	99.6
PJSC ALROSA-Nyurba	Diamonds extraction	Russia		87.5	87.5
Hydroshikapa S.A.R.L	Electricity production	Angola		55.0	55.0

As at 30 June 2017 and 31 December 2016 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

4.1. Associates and joint ventures

Name	Principal activity	Place of business	Percentage of ownership interest held at: 30 June 2017	Percentage of ownership interest held at: 31 December 2016	Carrying value of investment at: 30 June 2017	Carrying value of investment at: 31 December 2016
Catoca Mining Company Ltd.	Diamonds extraction	Angola	32.8	32.8	3,045	3,847
CJSC MMC Timir	Iron-ore extraction	Russia	49.0	49.0	-	-
Other		Russia	20-50	20-50	215	214
Total					**3,260**	**4,061**

All of the above entities are associates except for CJSC MMC Timir which is a joint venture. As at 31 December 2016 the Group recognised an impairment of the investment in Timir in the full amount.

(in millions of Russian roubles, unless otherwise stated)

4. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

As at 30 June 2017 and 31 December 2016 the percentage of ownership interest of the Group in its associates and joint venture is equal to the percentage of voting interest.

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

	Three months ended		Six months ended	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Catoca Mining Company Ltd.	1,048	648	1,866	1,212
CJSC MMC Timir	-	(14)	-	(22)
Other	(7)	2	(6)	1
Total Group’s share of net profit of associates and joint ventures	**1,041**	**636**	**1,860**	**1,191**

Catoca Mining Company Ltd. (“Catoca”) is a diamond-mining venture located in Angola. In May 2017 Catoca 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. Currency translation loss recognised in the other comprehensive income for the six months ended 30 June 2017 in respect of investment in Catoca totalled RR’mln 153. In April 2016 Catoca declared dividends for the year ended 31 December 2015, the Group’s share of these dividends amounted to RR’mln 2,560 before taxation in the amount of RR’mln 256. Currency translation loss recognised in the other comprehensive income for the six months ended 30 June 2016 in respect of investment in Catoca totalled RR’mln 518.

5. BANK DEPOSITS

	30 June 2017	**31 December 2016**
Deposits placed in PJSC VTB Bank	5,470	25,570
Deposits placed in JSC ROSBANK	-	3,000
Total bank deposits	**5,470**	**28,570**

As at 30 June 2017 the Group placed deposits in Russian Rouble in banks with original maturity dates exceeding three months and interest rates ranging from 9.3% to 9.4% (31 December 2016: from 9.3% to 9.81%).

6. CASH AND CASH EQUIVALENTS

	30 June 2017	**31 December 2016**
Deposit accounts with maturity less than three months	53,992	24,525
Cash in banks and on hand	8,003	5,885
Total cash and cash equivalents	**61,995**	**30,410**

(in millions of Russian roubles, unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	TOTAL
As at 1 January 2016			
Cost	372,165	56,430	428,595
Accumulated depreciation and impairment losses	(143,604)	(1,028)	(144,632)
Net book value as at 1 January 2016	**228,561**	**55,402**	**283,963**
Changes during six months ended 30 June 2016:			
Foreign exchange differences	(593)	42	(551)
Additions	2,822	12,107	14,929
Transfers	9,804	(9,804)	-
Disposal of subsidiaries – at cost	(191)	-	(191)
Disposal of subsidiaries – accumulated depreciation	102	-	102
Other disposals – at cost	(2,840)	(70)	(2,910)
Other disposals – accumulated depreciation	2,670	-	2,670
Change in estimate of provision for land recultivation	134	-	134
Impairment of property, plant and equipment	(810)	-	(810)
Depreciation charge for the period	(12,260)	-	(12,260)
As at 30 June 2016			
Cost	381,301	58,705	440,006
Accumulated depreciation and impairment losses	(153,902)	(1,028)	(154,930)
Net book value at 30 June 2016	**227,399**	**57,677**	**285,076**

	Operating assets	Assets under construction	TOTAL
As at 1 January 2017			
Cost	410,256	41,277	451,533
Accumulated depreciation and impairment losses	(162,659)	-	(162,659)
Net book value as at 1 January 2017	**247,597**	**41,277**	**288,874**
Changes during six months ended 30 June 2017:			
Foreign exchange differences	(105)	51	(54)
Additions	2,307	9,952	12,259
Transfers	6,763	(6,763)	-
Disposal of subsidiaries – at cost	(8)	(4)	(12)
Disposal of subsidiaries – accumulated depreciation	8	-	8
Other disposals – at cost	(2,404)	(187)	(2,591)
Other disposals – accumulated depreciation	2,191	-	2,191
Change in estimate of provision for land recultivation	14	-	14
Impairment of property, plant and equipment	(149)	-	(149)
Depreciation charge for the period	(13,507)	-	(13,507)
As at 30 June 2017	**242,707**	**44,326**	**287,033**
Cost	416,823	44,326	461,149
Accumulated depreciation and impairment losses	(174,116)	-	(174,116)
Net book value at 30 June 2017	**242,707**	**44,326**	**287,033**

Borrowing costs capitalized in assets under construction

During six months ended 30 June 2017 borrowing costs totalling RR’mln 193 (six months ended 30 June 2016: RR’mln 122) were capitalised in assets under construction. For the six months ended 30 June 2017 borrowing costs were capitalized at the weighted average rate of its general borrowings of 5.20 per cent per annum (six months ended 30 June 2016: 4.77 per cent per annum).

8. INVENTORIES

	30 June 2017	31 December 2016
Diamonds	38,905	55,526
Ores and sands mined	19,970	16,566
Mining and repair materials	24,256	23,970
Consumable and other supplies	2,752	2,514
Total inventories	**85,883**	**98,576**

(in millions of Russian roubles, unless otherwise stated)

9. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	**30 June 2017**	**31 December 2016**
Loans issued*	855	960
Consideration receivable for disposed interest in CJSC MMC Timir	432	934
Advances to suppliers	198	145
VAT recoverable	12	13
Other receivables	640	41
Total long-term accounts receivable	**2,137**	**2,093**

Current accounts receivable	**30 June 2017**	**31 December 2016**
Prepaid taxes, other than income tax	4,779	5,010
Trade receivables for supplied diamonds	4,610	1,498
Advances to suppliers	3,051	1,372
Receivables from associates (note 25)	2,395	84
VAT recoverable	2,123	2,311
Consideration receivable for disposed interest in CJSC MMC Timir	613	664
Interest on deposits	450	995
Loans issued	323	319
Other receivables	4,278	2,926
Total current accounts receivable	**22,622**	**15,179**

**The several loans issued of RR'mln 1,000 nominal value as at 30 June 2017 (31 December 2016: RR'mln 1,000) are collateralised by shares of OAO Pur-Navolok Otel and real estate. The management estimates that collateral taken exceeds the current value of the loans issued.*

Trade and other receivables are presented net of impairment provision of RR'mln 2,942 and RR'mln 2,821 as at 30 June 2017 and 31 December 2016, respectively.

10. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and fully paid in totals RR'mln 12,473 as at 30 June 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 30 June 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.

Distributable profits

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

Earnings per share

Earnings per share have been calculated by dividing the profit attributable to owners of the Company by the weighted average number of shares outstanding during the period, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares. There are 7,364,965,630 weighted average shares outstanding for the three and six months ended 30 June 2017 (for the three and six months ended 30 June 2016: 7,363,704,790 and 7,360,055,832 shares, respectively). There are no dilutive financial instruments outstanding.

(in millions of Russian roubles, unless otherwise stated)

10. SHAREHOLDERS' EQUITY (CONTINUED)

Other reserves

	Currency translation reserve	Reserve on purchase of non-controlling interest	Available-for-sale investments	Recognition of accumulated actuarial loss	Total other reverves
Balance as at 1 January 2016	**499**	**(16)**	**57**	**(6,484)**	**(5,944)**
Remeasurement on post-employment benefit obligation (note 15)	-	-	-	(3,220)	(3,220)
Sale of non-controlling interest	-	89	-	-	89
Currency translation differences	(216)	-	-	-	(216)
Change in fair value of available-for-sale investments	-	-	38	-	38
Balance as at 30 June 2016	**283**	**73**	**95**	**(9,704)**	**(9,253)**
Balance as at 1 January 2017	**171**	**69**	**238**	**(17,582)**	**(17,104)**
Remeasurement on post-employment benefit obligation (note 15)	-	-	-	(641)	(641)
Currency translation differences	41	-	-	-	41
Change in fair value of available-for-sale investments	-	-	22	-	22
Balance as at 30 June 2017	**212**	**69**	**260**	**(18,223)**	**(17,682)**

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.

11. LONG-TERM DEBT

	30 June 2017	31 December 2016
Bank loans:		
US$ denominated floating rate	-	36,394
US$ denominated fixed rate	42,542	43,673
RR denominated fixed rate	1,375	1,370
	43,917	**81,437**
US$ denominated Eurobonds	59,086	60,657
Finance lease obligation	136	173
Other RR denominated fixed rate loans	13	16
	103,152	**142,283**
Less: current portion of long-term debt (note 12)	(798)	(614)
Total long-term debt	**102,354**	**141,669**

As at 30 June 2017 the fair value of long-term bank loans, finance lease obligation and other loans, excluding Eurobonds, comprised RR'mln 44,015 (31 December 2016: RR'mln 81,497).

As at 30 June 2017 the Group pledged real estate with a carrying value of RR'mln 2,182 (31 December 2016: RR'mln 2,223) to secure obligations under a long-term loan received from PJSC "Sberbank" in the amount of RR'mln 1,028 (31 December 2016: RR'mln 1,200). In accordance with maturity, part of this loan in the amount of RR'mln 686 was transferred to short-term debt as at 30 June 2017 (31 December 2016: RR'mln 515).

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

	30 June 2017	31 December 2016
Bank loans:		
US$ denominated floating rate	-	7.2%
US$ denominated fixed rate	4.3%	4.3%
RR denominated fixed rate	13.0%	13.3%
US$ denominated Eurobonds	7.8%	7.8%

(in millions of Russian roubles, unless otherwise stated)

11. LONG-TERM DEBT (CONTINUED)

Bonds

Movements of issued Eurobonds during six months ended 30 June 2017 and 30 June 2016 were as follows:

	Six months ended	
	30 June 2017	**30 June 2016**
Balance at the beginning of the period	**60,657**	**72,883**
Amortisation of discount	1	2
Exchange gain	(1,572)	(8,627)
Balance at the end of the period	**59,086**	**64,258**

As at 30 June 2017 the fair value of Eurobonds comprised RR’mln 66,969 (31 December 2016: RR’mln 68,694).

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

	30 June 2017	**31 December 2016**
Other RR denominated fixed rate loans	50	52
Add: current portion of long-term debt (note 11)	798	614
Total short-term debt and current portion of long-term debt	**848**	**666**

Information on pledged assets as at 30 June 2017 and 31 December 2016 to secure a short-term portion of the debt is disclosed in note 11.

13. TRADE AND OTHER PAYABLES

	30 June 2017	**31 December 2016**
Accrual for employee holidays and flights	8,454	7,890
Trade payables	7,641	6,820
Wages and salaries	3,409	6,666
Advances from customers	2,819	1,353
Interest payable	766	1,342
Current portion of provision for social obligation	246	281
Payables to associates	5	11
Other payables	939	1,125
Total trade and other payables	**24,279**	**25,488**

In accordance with Russian legislation, the most Group’s 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.

14. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

	30 June 2017	**31 December 2016**
Payments to social funds	2,505	2,676
Extraction tax	1,427	1,465
Property tax	1,257	1,067
Value added tax	548	1,364
Personal income tax (employees)	401	946
Other taxes and accruals	406	286
Total taxes payable, other than income tax	**6,544**	**7,804**

(in millions of Russian roubles, unless otherwise stated)

14. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES (CONTINUED)

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

	Three months ended		Six months ended	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Property tax	1,277	1,232	2,611	2,468
Other taxes and accruals	136	99	290	224
Total taxes and accruals	**1,413**	**1,331**	**2,901**	**2,692**

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

Income tax expense comprises the following:

	Three months ended		Six months ended	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Current tax expense	6,416	11,226	14,813	25,141
Adjustments recognised in the period for current tax of prior periods	(56)	110	104	110
Deferred tax benefit	(611)	(1,184)	(1,699)	(1,772)
Total income tax expense	**5,749**	**10,152**	**13,218**	**23,479**

15. PROVISION FOR PENSION OBLIGATION

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

	30 June 2017	**31 December 2016**
Present value of funded obligations	29,528	32,408
Fair value of plan assets	(14,073)	(13,638)
Pension obligations for the funded plan	15,455	18,770
Present value of unfunded obligation	1,246	1,184
Net liability	**16,701**	**19,954**

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. The Group recognised 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 20).

Changes in the present value of funded and unfunded pension obligations and pension plan assets for the three months ended 30 June 2017 and three months ended 30 June 2016 are as follows:

	Present value of obligation	**Fair value of pension plan assets**	**Total obligations/ (assets)**
As at 31 March 2017	**33,814**	**(13,597)**	**20,217**
Current service cost	48	-	48
Past service cost and curtailment	(3,508)	-	(3,508)
Interest expense/(income)	556	(290)	266
	(2,904)	**(290)**	**(3,194)**
Remeasurements:			
Return on pension plan assets, excluding amount included in interest expense/(income)	-	290	290
Loss from change in financial assumptions	1	-	1
	1	**290**	**291**
Contributions paid by employer	-	(605)	(605)
Benefit payments	(137)	129	(8)
	(137)	**(476)**	**(613)**
As at 30 June 2017	**30,774**	**(14,073)**	**16,701**

(in millions of Russian roubles, unless otherwise stated)

15. PROVISION FOR PENSION OBLIGATION (CONTINUED)

	Present value of obligation	Fair value of pension plan assets	Total obligations/ (assets)
As at 31 March 2016	**22,092**	**(10,100)**	**11,992**
Current service cost	85	-	85
Past service cost and curtailment	(23)	-	(23)
Interest expense/(income)	489	(245)	244
	551	**(245)**	**306**
Remeasurements:			
Return on pension plan assets, excluding amount included in interest expense/(income)	-	245	245
Loss from change in financial assumptions	2,017	-	2,017
	2,017	**245**	**2,262**
Contributions paid by employer	-	(163)	(163)
Benefit payments	(235)	230	(5)
	(235)	**67**	**(168)**
As at 30 June 2016	**24,425**	**(10,033)**	**14,392**

Changes in the present value of funded and unfunded pension obligations and pension plan assets for the six months ended 30 June 2017 and six months ended 30 June 2016 are as follows:

	Present value of obligation	Fair value of pension plan assets	Total obligations/ (assets)
As at 1 January 2017	**33,592**	**(13,638)**	**19,954**
Current service cost	155	-	155
Past service cost and curtailment	(3,726)	-	(3,726)
Interest expense/(income)	1,264	(580)	684
	(2,307)	**(580)**	**(2,887)**
Remeasurements:			
Return on pension plan assets, excluding amount included in interest expense/(income)	-	580	580
Loss from change in financial assumptions	69	-	69
	69	**580**	**649**
Contributions paid by employer	-	(1,000)	(1,000)
Benefit payments	(580)	565	(15)
	(580)	**(435)**	**(1,015)**
As at 30 June 2017	**30,774**	**(14,073)**	**16,701**

	Present value of obligation	Fair value of pension plan assets	Total obligations/ (assets)
As at 1 January 2016	**20,868**	**(10,312)**	**10,556**
Current service cost	172	-	172
Past service cost and curtailment	(73)	-	(73)
Interest expense/(income)	984	(490)	494
	1,083	**(490)**	**593**
Remeasurements:			
Return on pension plan assets, excluding amount included in interest expense/(income)	-	554	554
Loss from change in financial assumptions	2,996	-	2,996
	2,996	**554**	**3,550**
Contributions paid by employer	-	(295)	(295)
Benefit payments	(522)	510	(12)
	(522)	**215**	**(307)**
As at 30 June 2016	**24,425**	**(10,033)**	**14,392**

The significant actuarial assumptions are as follows:

	30 June 2017	31 December 2016
Discount rate (nominal)	8.0%	8.5%
Future salary increases (nominal)	6.5%	6.5%
Future pension increases (nominal)	5.0%	5.0%

(in millions of Russian roubles, unless otherwise stated)

16. REVENUE

	Three months ended		Six months ended	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Revenue from diamond sales:				
Export	58,379	69,323	130,910	159,298
Domestic	7,372	8,863	13,466	16,203
Revenue from diamonds for resale	-	245	16	497
Total revenue from diamond sales	**65,751**	**78,431**	**144,392**	**175,998**
Other revenue:				
Gas	1,508	1,366	3,325	2,846
Transport	1,854	1,629	3,012	2,609
Social infrastructure	596	1,503	2,721	2,338
Other	1,028	1,399	2,100	2,876
Total revenue	**70,737**	**84,328**	**155,550**	**186,667**

Export duties totalling RR’mln 4,539 and RR’mln 10,365 for the three and six months ended 30 June 2016, respectively were netted against revenue from diamond export sales. In accordance with Russian Federation Government Decree #797 dated 15 August 2016, export duties relating to rough diamonds is 0% effective 1 September 2016.

17. COST OF SALES

	Three months ended		Six months ended	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Wages, salaries and other staff costs	10,647	10,783	21,839	22,002
Depreciation	6,499	6,081	13,077	11,693
Extraction tax	5,245	4,983	11,188	11,665
Fuel and energy	3,471	3,383	7,477	7,381
Materials	3,010	3,378	5,878	6,169
Services	1,765	1,675	3,488	3,144
Transport	426	644	1,032	1,335
Cost of diamonds for resale	-	245	16	497
Other	37	266	276	580
Movement in inventory of diamonds, ores and sands	(632)	(1,242)	13,217	4,787
Total cost of sales	**30,468**	**30,196**	**77,488**	**69,253**

Wages, salaries and other staff costs include payments to social funds in the amount of RR’mln 2,406 and RR’mln 4,927 for the three and six months ended 30 June 2017, respectively (for the three and six months ended 30 June 2016: RR’mln 2,456 and RR’mln 4,913, respectively).

Depreciation totalling RR’mln 262 and RR’mln 363 for the three and six months ended 30 June 2017, respectively (for the three and six months ended 30 June 2016: RR’mln 274 and RR’mln 480, respectively) and wages, salaries and other staff costs totalling RR’mln 633 and RR’mln 1,213 for the three and six months ended 30 June 2017, respectively (for the three and six months ended 30 June 2016: RR’mln 891 and RR’mln 1,774, respectively) were capitalised in the respective periods.

18. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Wages, salaries and other staff costs	2,104	1,778	4,188	3,535
Services and other administrative expenses	1,274	1,107	2,189	1,955
Impairment/(reversal of impairment) of accounts receivable	58	(21)	150	544
Total general and administrative expenses	**3,436**	**2,864**	**6,527**	**6,034**

Wages, salaries and other staff costs include payments to social funds in the amount of RR’mln 416 and RR’mln 935 for the three and six months ended 30 June 2017, respectively (for the three and six months ended 30 June 2016: RR’mln 263 and RR’mln 666, respectively).

(in millions of Russian roubles, unless otherwise stated)

19. SELLING AND MARKETING EXPENSES

	Three months ended		Six months ended	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Wages, salaries and other staff costs	449	414	941	866
Services and other selling and marketing expenses	310	402	647	866
Total selling and marketing expenses	**759**	**816**	**1,588**	**1,732**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 102 and RR'mln 221 for the three and six months ended 30 June 2017, respectively (for the three and six months ended 30 June 2016 in the amount of RR'mln 97 and RR'mln 202, respectively).

20. OTHER OPERATING INCOME

	Three months ended		Six months ended	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Income from changes in terms of defined benefit plan	3,470	-	3,470	-
Other	337	322	610	634
Total other operating income	**3,807**	**322**	**4,080**	**634**

21. OTHER OPERATING EXPENSES

	Three months ended		Six months ended	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Exploration expenses	2,272	1,767	4,551	4,148
Taxes other than income tax, extraction tax and payments to social funds (note 14)	1,413	1,331	2,901	2,692
Social costs	1,114	1,469	2,371	2,679
Loss/(income) from exchange differences	(1,028)	1,351	1,713	3,481
Loss on disposal and write-off of property, plant and equipment	329	790	411	901
Loss on impairment of investment in joint venture	-	899	-	899
Loss on disposal of subsidiaries	-	-	9	175
Other	211	235	520	634
Total other operating expenses	**4,311**	**7,842**	**12,476**	**15,609**

Social costs consist of:

	Three months ended		Six months ended	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Charity	434	783	1,093	1,430
Maintenance of local infrastructure	515	474	1,026	936
Hospital expenses	83	65	119	100
Education	27	26	51	47
Other	55	121	82	166
Total social costs	**1,114**	**1,469**	**2,371**	**2,679**

22. FINANCE INCOME AND COSTS

	Three months ended		Six months ended	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Interest income	923	1,368	1,663	2,142
Interest expense:				
Bank loans	(319)	(1,527)	(1,228)	(3,301)
Eurobonds	(1,033)	(1,251)	(2,180)	(2,639)
Other	(291)	(285)	(3,102)	(584)
Unwinding of discount of future provisions	(339)	(16)	(128)	45
Exchange gain/(loss), net	(4,332)	9,094	4,297	22,942
Total finance (costs)/income, net	**(5,391)**	**7,383**	**(678)**	**18,605**

(in millions of Russian roubles, unless otherwise stated)

23. CASH GENERATED FROM OPERATING ACTIVITIES

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

	Six months ended	
	30 June 2017	**30 June 2016**
Profit before income tax	**62,128**	**113,864**
Adjustments for:		
Share of net profit of associates and joint ventures (note 4)	(1,860)	(1,191)
Interest income (note 22)	(1,663)	(2,142)
Interest expense (note 22)	6,639	6,479
Loss on disposal and write-off of property, plant and equipment (note 21)	262	91
Depreciation (notes 7, 17)	13,191	11,780
Loss on disposal of subsidiaries (note 21)	9	175
Loss on impairment of investment in joint venture (note 21)	-	899
Income from changes in terms of defined benefit plan (note 20)	(3,470)	-
Adjustment for non-cash financing activity	(894)	1,756
Impairment of of property, plant and equipment (note 21)	149	810
Unrealised foreign exchange effect on non-operating items	(1,980)	(21,059)
Net operating cash flows before changes in working capital	**72,511**	**111,461**
Net decrease in inventories	13,643	2,318
Net (increase) in receivables, excluding dividends receivable and consideration receivable for disposed controlling interest in CJSC MMC Timir	(6,171)	(1,761)
Net (decrease)/ increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(2,071)	2,060
Net (decrease)/ increase in taxes payable, excluding income tax	(1,257)	559
Cash inflows from operating activities	**76,655**	**114,637**
Income tax paid	(14,878)	(21,258)
Net cash inflows from operating activities	**61,777**	**93,379**

24. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment of the Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. 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.

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.

(in millions of Russian roubles, unless otherwise stated)

24. CONTINGENCIES, COMMITMENTS AND OTHER RISKS (CONTINUED)

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 this transfer pricing legislation.

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

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 30 June 2017.

(d) Capital commitments

As at 30 June 2017 the Group has contractual commitments for capital expenditures of RR'mln 7,068 (31 December 2016: RR'mln 5,800).

(e) Operating lease commitments

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

	30 June 2017	**31 December 2016**
Not later than 1 year	231	194
Later than 1 year and not later than 5 years	628	523
Later than 5 years	1,129	961
Total operating lease commitments	**1,988**	**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. As at 30 June 2017 the Group's management recognised a provision for these future expenses in the amount of RR'mln 6,163 (31 December 2016: RR'mln 6,345).

(g) Compliance with covenants

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

(in millions of Russian roubles, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS

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

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

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

Governments of the Russian Federation and the Republic of Sakha (Yakutia) are the major shareholders of the Company. As at 30 June 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 30 June 2017 8.0 per cent of the Company's shares were owned by administrations or 8 districts of the Republic of Sakha (Yakutia). Following the General Meeting of Shareholders in June 2017, the 15 seats on the Supervisory Board include 10 representatives of the Russian Federation and the Republic of Sakha (Yakutia) (including one – the Chair of the Management Board), 4 independent directors according to the Russian Corporate Law (one of them was nominated by the Government of the Russian Federation, one was nominated by the Government of the Republic of Sakha (Yakutia) and two were nominated by foreign minority shareholders), and one representative of the districts of the Republic of Sakha (Yakutia). Governmental, federal and local economic and social policies affect the Group's financial position, results of operations and cash flows.

Tax balances are disclosed in the condensed consolidated interim statement of financial position and in notes 9 and 14. Tax transactions are disclosed in the condensed consolidated interim statement of profit or loss and other comprehensive income, the condensed consolidated interim statement of cash flows and in notes 16, 17, 18, 19 and 24.

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 control or significant influence of the Government are detailed below:

Condensed Consolidated Interim Statement of Financial Position	**30 June 2017**	**31 December 2016**
Long-term accounts receivable	599	-
Short-term accounts receivable	5,728	3,442
Short-term accounts payable	1,837	1,758
Loans received by the Group	1,375	37,766
Cash and cash equivalents	45,137	27,401
Bank deposits	5,470	25,570

Condensed Consolidated Interim	**Three months ended**		**Six months ended**	
Statement of Profit or Loss and Other Comprehensive Income	**30 June 2017**	**30 June 2016**	**30 June 2017**	**30 June 2016**
Sales of diamonds	2,142	5,365	3,426	7,432
Other sales	837	2,257	2,735	3,432
Electricity and heating purchases	(1,542)	(963)	(3,837)	(2,660)
Other purchases	(5,045)	(3,638)	(5,823)	(4,411)
Interest income	603	1,152	1,210	1,711
Interest expense	(33)	(804)	(592)	(1,494)

(in millions of Russian roubles, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS (CONTINUED)

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

As at 30 June 2017 and 31 December 2016 the Management Board consisted of 10 and 13 members, respectively. As at 30 June 2017 one of the Management Board members was also a member of the Supervisory Council. Management Board members are entitled to salary, bonuses, voluntary medical insurance and other short-term employee benefits. Salary and bonus compensation paid to members of the Management Board is determined by the terms of "Remuneration Policy for the members of the Management Board of PJSC ALROSA" approved by the Company's Supervisory Council on 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 benefits for the three and six months ended 30 June 2017 totalling RR'mln 525 and RR' mln 586, respectively (three and six months ended 30 June 2016: RR'mln 167 and RR' mln 572, respectively). The Group declared dividendes RR'mln 22 to key management hold the Company's shares.

Associates and joint ventures

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

Current accounts receivable	**30 June 2017**	**31 December 2016**
Catoca Mining Company Ltd., dividends and other receivable	2,391	84
Other associates	4	-
Total current accounts receivable	**2,395**	**84**

Significant transactions with associates are disclosed in note 4.

Other transactions with related parties

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

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

26. SEGMENT INFORMATION

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

The Group's primary activity is the extraction and sales of diamonds. The internal management reporting system is mainly based on the analysis of information relating to production and sales of diamonds, 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.

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 by separate subdivisions and entities of the Group. The following items are analysed on the Group level and are not allocated between segments for the purposes of the analysis:

(in millions of Russian roubles, unless otherwise stated)

26. SEGMENT INFORMATION (CONTINUED)

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

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

- Diamonds segment - extraction and sales of diamonds, production and sale of microgrits and cut 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 – production and sale of natural gas;
- Other activities.

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

Three months ended 30 June 2017	**Diamonds segment**	**Transpor-tation**	**Social infra-structure**	**Gas**	**Other activities**	**Total**
Revenue	65,751	2,204	1,364	1,678	2,724	73,721
Intersegment revenue	-	(443)	(393)	(469)	(2,011)	(3,316)
Cost of sales, including	29,035	1,964	2,481	1,049	2,766	37,295
depreciation	4,379	199	70	214	545	5,407
Gross margin	**36,716**	**240**	**(1,117)**	**629**	**(42)**	**36,426**

Three months ended 30 June 2016	**Diamonds segment**	**Transpor-tation**	**Social infra-structure**	**Gas**	**Other activities**	**Total**
Revenue	82,970	2,170	710	1,533	2,903	90,286
Intersegment revenue	-	(615)	(78)	(166)	(1,768)	(2,627)
Cost of sales, including	24,483	1,848	1,777	1,064	2,657	31,829
depreciation	3,983	105	228	224	430	4,970
Gross margin	**58,487**	**322**	**(1,067)**	**469**	**246**	**58,457**

Six months ended 30 June 2017	**Diamonds segment**	**Transpor-tation**	**Social infra-structure**	**Gas**	**Other activities**	**Total**
Revenue	144,392	3,662	2,869	3,890	5,693	160,506
Intersegment revenue	-	(774)	(1,315)	(563)	(4,214)	(6,866)
Cost of sales, including	68,934	3,475	4,978	2,248	5,512	85,147
depreciation	8,759	372	136	428	1,093	10,788
Gross margin	**75,458**	**187**	**(2,109)**	**1,642**	**181**	**75,359**

(in millions of Russian roubles, unless otherwise stated)

26. SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2016	**Diamonds segment**	**Transpor-tation**	**Social infra-structure**	**Gas**	**Other activities**	**Total**
Revenue	186,363	3,542	1,612	3,410	5,793	200,720
Intersegment revenue	-	(1,032)	(208)	(555)	(3,510)	(5,305)
Cost of sales, including	53,172	3,424	4,095	2,215	5,159	68,065
depreciation	7,905	220	449	453	850	9,877
Gross margin	**133,191**	**118**	**(2,483)**	**1,195**	**634**	**132,655**

Reconciliation of revenue is presented below:

	Three months ended		**Six months ended**	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Segment revenue	**73,720**	**90,286**	**160,506**	**200,720**
Elimination of intersegment revenue	(3,316)	(2,627)	(6,866)	(5,305)
Reclassification of export duties [1]	-	(4,539)	-	(10,365)
Other adjustments and reclassifications	333	1,208	1,910	1,617
Revenue as per Condensed Consolidated Interim Financial Statement of Profit or Loss and Other Comprehensive Income	**70,737**	**84,328**	**155,550**	**186,667**

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

Reconciliation of cost of sales including depreciation is presented below:

	Three months ended		**Six months ended**	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Segment cost of sales	**37,294**	**31,829**	**85,147**	**68,065**
Adjustment for depreciation of property, plant and equipment [1]	1,091	1,111	2,289	1,816
Elimination of intersegment purchases	(2,853)	(1,712)	(5,771)	(3,760)
Accrued provision for pension obligation [2]	(678)	(137)	(789)	(245)
Reclassification of extraction tax [3]	-	1,227	-	3,191
Adjustment for inventories [4]	(524)	839	3,372	5,541
Accrual for employee flights and holidays [5]	(252)	(232)	(188)	(18)
Accrual for the part of expected annual bonus	43	156	177	290
Other adjustments	(470)	66	(809)	(199)
Reclassification of exploration expenses [6]	(1,793)	(1,280)	(2,904)	(2,419)
Other reclassifications	(1,390)	(1,671)	(3,036)	(3,009)
Cost of sales as per Condensed Consolidated Interim Financial Statement of Profit or Loss and Other Comprehensive Income	**30,468**	**30,196**	**77,488**	**69,253**

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

(in millions of Russian roubles, unless otherwise stated)

26. SEGMENT INFORMATION (CONTINUED)

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

	Three months ended		Six months ended	
	30 June 2017	**30 June 2016**	**30 June 2017**	**30 June 2016**
Belgium	32,302	35,924	75,490	86,809
Russian Federation	12,150	14,416	24,174	26,117
India	9,961	13,571	22,853	30,337
Israel	6,207	9,257	13,083	18,491
United Arab Emirates	6,152	4,577	11,230	11,603
China	2,683	3,998	6,165	7,781
Republic of Botswana	258	381	576	847
Armenia	261	628	496	1,452
Belarus	235	1,096	473	2,133
Angola	208	236	451	533
USA	248	122	396	364
UK	72	102	163	157
Other countries	-	20	-	43
Total revenue	**70,737**	**84,328**	**155,550**	**186,667**

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:

	30 June 2017	**31 December 2016**
Russian Federation	288,196	290,636
Angola	3,892	4,068
Other countries	1,489	1,252
Total non-current assets	**293,577**	**295,956**

27. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

The condensed consolidated interim financial statements do not include detailed financial risk management information and disclosures required in the annual consolidated financial statements; they should be read in conjunction with the group’s annual financial statements as at 31 December 2016. There have been no changes in any risk management policies during the reporting period.

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

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

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

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

Assets measured at fair value

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

	30 June 2017				31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale investments	1,161	-	474	**1,635**	950	-	474	**1,424**
Total	**1,161**	**-**	**474**	**1,635**	**950**	**-**	**474**	**1,424**

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

As at 30 June 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				
Bank deposits	-	5,470	-	5,470
Current and non-current financial receivable	-	13,418	-	13,418
Loans issued	-	-	1,178	1,178
Cash and cash equivalents	-	61,995	-	61,995
Total financial assets	**-**	**80,883**	**1,178**	**82,061**
Non-current financial liabilities				
Loans from banks and other loans	-	43,230	-	43,230
Eurobonds	59,086	-	-	59,086
Finance lease obligation	-	-	38	38
Total non-current financial liabilities	**59,086**	**43,230**	**38**	**102,354**
Current financial liabilities				
Loans from banks and other loans	-	750	-	750
Financial accounts payable	-	9,352	-	9,352
Finance lease obligation	-	-	98	98
Dividends payable	-	65,848	-	65,848
Total current financial liabilities	**-**	**75,950**	**98**	**76,048**
Total financial liabilities	**59,086**	**119,180**	**136**	**178,402**

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				
Loans from banks and other loans	-	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				
Loans from banks and other loans	-	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**

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

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

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

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

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

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

28. EVENTS AFTER THE REPORTING PERIOD

On 4 August 2017 in the underground mine Mir an accident occurred, in connection with which the activities of the ore mine were suspended. The Group is currently assessing the impact of the accident on mine operations, including the assessment of damage to underground constructions and communications of the mine, assessment of capital and repair work to restore production activities, and the expected time for restoration.

In July and August 2017 the Group received short-term bank loans in the amount of RR'mln 11,700 with an interest rate of 7.89% per annum due December 2017.