PJSC ALROSA

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016 AND

INDEPENDENT AUDITOR'S REPORT

CONTENTS

Independent Auditor's Report

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Public Joint Stock Company ALROSA (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2016, 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 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

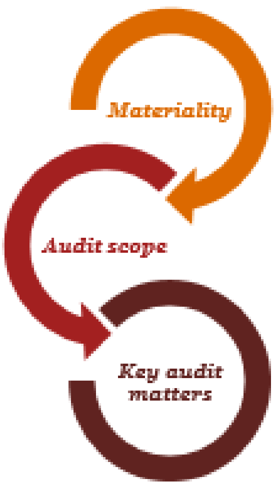
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



- Overall, group materiality: Russian Roubles ("RUB") 8,000 million, which represents 5% of profit before tax.

- We conducted audit work at the parent company – PJSC ALROSA. In respect of other Group companies, we performed procedures over significant financial statements lines and analytical procedures.
- The group engagement team visited the divisions of PJSC ALROSA, located in Udachny and Mirny.
- Our audit scope addressed 93% of the Group's revenues and 83% of the Group's absolute value of underlying profit before tax and before adjustments to eliminate intercompany balances.

Key audit matters:

- Evaluation of property, plant and equipment's impairment of Urengoy Gas Company Ltd.;
- Evaluation of the provision for pension obligations.

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 [ii][ii]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, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	RUB 8,000 million
How we determined it	5% of profit before tax
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.

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
Evaluation of property, plant and equipment's impairment of Urengoy Gas Company Ltd.	
See Note 2, Summary of Significant Accounting Policies And Critical Estimates Based on the Group management's estimates as at 31 December 2016, impairment indicators were identified for the property, plant and equipment (PP&E) of Urengoy Gas Company Ltd., the Group's subsidiary. The calculation of value in use of cash-generating unit ("CGU") to which PP&E belong showed no impairment. We focused on the matter due to the materiality of the carrying amount of property, plant and equipment (RUB 9,104 million at 31 December 2016) and because the management's estimation of the CGU's "value in use" involved significant judgements and estimates about the future results of operations, capital investment, hydrocarbon prices and discount rates.	We tested the future cash flow forecasts developed by management for Urengoy Gas Company Ltd., and we worked with our internal valuation specialists. As part of our audit, the following procedures were performed: • We made sure the source data from the projected future cash flows that were used in impairment tests were consistent with the company's approved budgets, and the total volume of hydrocarbon extraction was in line with the approved inventory data; • We made sure the methodology used for the preparation of future discounted cash flows is consistent with the requirements of IAS 36 "*Impairment Of Assets*"*:* the recoverable amount is based on the value in use, the estimates did not include cash inflows or outflows from financing activities and related to income taxes, the application of the period of more than five years is appropriate, and also other key aspects;

Key audit matter	How our audit addressed the Key audit matter
In the current business environment, we are observing a certain volatility of macroeconomic parameters used in the models, which impedes their projections. Fluctuations in hydrocarbon prices can have a significant influence on the carrying amount of Urengoy Gas Company Ltd. assets. The significant uncertainty is related to the fact that the above company is not engaged in any production activities; its gas fields are being explored and developed, the infrastructure is being constructed for future extraction, which requires considerable capital expenditures.	• We compared the expected oil prices used in developing the future cash flow forecast, with information from third party sources; • We compared some other macroeconomic assumptions, including the expected RUB/US Dollar rate, changes in internal gas prices, producer price index and consumer price index against forecasts by independent recognised analysts and government statistical authorities; • The auditor's specialists analysed the methodology for calculating the discount rate and its components, through comparing the value of debt and equity for comparable peer entities. Based on the above procedures, we obtained appropriate audit evidence that the assumptions used by the Group's management for impairment tests of the CGU are consistent and meet the expectations of independent recognised sources. In addition, based on the sensitivity tests performed for various assumptions used by management in preparing the future cash flows, we assessed the sensitivity of the test results to the projected oil prices, production growth rates and discount rate. The impact of a reasonably acceptable change in the above assumptions on the test results was disclosed in the consolidated financial statements. As a result of our work, we concluded that the key assumptions applied by management for PP&E impairment testing, and the management's opinion that as at the reporting date no impairment was in place, required no adjustments for the consolidated financial statements presentation purposes.

Key audit matter	How our audit addressed the Key audit matter
Evaluation of the provision for pension obligations	
See Note 15, Provision For Pension Obligations Non-government pension scheme for the Group employees is arranged through non-government pension fund JSC NPF Almaznaya osen (hereinafter, "NPF"). The liability calculation implies using significant management judgment and is made using mathematic models developed by actuaries, is technically complicated and requires special knowledge. The assumptions used to measurement the obligation include the projected growth of salaries and pension, expected increase of retirement age, turnover of employees, projected mortality rate and discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. In 2016, PJSC ALROSA signed agreements with NPF for adopting a new pension plan using the tariffs with pension indexation based on actual return on plan assets and updated mortality table, which resulted in a recalculation of liabilities as of the reporting date. In January 2017, management approved amendments to the regulations on non-government pension scheme for PJSC ALROSA employees, which provide for the adoption of a parity pension programme. These factors add to complexities of measuring the liabilities, which are material for the Group's consolidated financial statements.	To estimate the Group's pension obligations at 31 December 2016 under IAS 19 *"Employee Benefits"*, management engaged an independent expert. In order to test the pension obligations, we worked with our internal specialists that have knowledge of actuarial mathematics and techniques. As part of auditing the pension liabilities, we performed the following audit procedures: • We analysed the expert's independence, objectivity and knowledge through interviews, analysis of the terms and conditions of the agreement for conducting the actuarial evaluations and previous experience evaluation; • The internal specialists in actuarial calculations analysed the assumptions and evaluated techniques used by the expert engaged by the Group's management. During the audit, the impact of the following factors on the liabilities' calculation was analysed: o Changes in actuarial assumptions, o Application of the new tariffs of the pension plan, o Deviation of the actual situation from the assumptions used as of the reporting date, o Settlement of liabilities (pension payments), o Changes in the headcount and gender composition of the employees and retired staff. • We tested the following assumptions included in the calculation of pension liabilities:

Key audit matter	How our audit addressed the Key audit matter
	○ We compared the discount rate with the government bonds' profitability with maturities of 9-11 years (estimated period of liabilities under the benefits' plan), ○ We compared the projected inflation rate included in the calculation with data of independent analysts, ○ We compared the projected growth of salaries and pensions with the average actual indexation in the previous years with consideration of the Group's plans, ○ We tested the assumptions of employee turnover and retirement age using the approach based on the actual statistics of dismissals and retirement of the Group's employees over the last five years. • We tested the completeness and accuracy of the source data used by the Group to assess pension obligations (length of service for the Group, salary amount, average monthly salary, age and gender) through comparing them with related documents provided by the Group; • Based on the information received from NPF management, we tested the accuracy of measuring fixed interest assets of the pension plan that have no quotes on the active market. The fair value of the plan's assets that have quotes in the active market was compered to data from public sources. • We assessed the completeness of disclosures in the consolidated financial statements, including the disclosed analysis of sensitivity of the liability to changes in the actuarial assumptions.

Key audit matter	How our audit addressed the Key audit matter
	Based on the procedures performed, we did not identify any material errors that affect our opinion on the consolidated financial statements.

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 identified 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 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 and Issuer's Report for the 1st quarter of 2017, but does not include the consolidated financial statements and our auditor's report thereon. PJSC ALROSA's Annual Report and Issuer's Report for the first quarter of 2017 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.

If, upon reviewing the PJSC ALROSA's Annual Report and Issuer's Report for the 1 quarter of 2017 we conclude that there is a material misstatement, we are required to report that fact to those charged with governance in the Group.

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 2017

Moscow, Russian Federation

Акционерное общество "ПрайсвотерхаусКуперс Аудит" * ОГРН 1027700148431 * PricewaterhouseCoopers Audit * МОСКВА

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

Audited entity: AK ALROSA (PJSC)

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)

Consolidated Statement of Financial Position

	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current Assets			
Goodwill	5.1	1,439	1,439
Property, plant and equipment	8	288,874	283,963
Investments in associates and joint ventures	5.2	4,061	6,891
Deferred tax assets	17	1,967	1,919
Available-for-sale investments		1,424	711
Long-term accounts receivable	10	2,093	3,453
Total Non-current Assets		**299,858**	**298,376**
Current Assets			
Inventories	9	98,576	94,296
Prepaid income tax		121	6,258
Trade and other receivables	10	15,179	15,632
Bank deposits	6	28,570	-
Cash and cash equivalents	7	30,410	20,503
Total Current Assets		**172,856**	**136,689**
Total Assets		**472,714**	**435,065**
EQUITY			
Share capital	11	12,473	12,473
Share premium		10,431	10,431
Treasury shares	11	-	(15)
Retained earnings and other reserves	11	234,298	128,853
Equity attributable to owners of PJSC ALROSA		**257,202**	**151,742**
Non-Controlling Interest in Subsidiaries	28	**(232)**	**(257)**
Total Equity		**256,970**	**151,485**
LIABILITIES			
Non-current Liabilities			
Long-term debt	12	141,669	197,467
Provision for pension obligations	15	19,954	10,556
Other provisions	14	6,691	5,841
Deferred tax liabilities	17	11,018	13,966
Total Non-current Liabilities		**179,332**	**227,830**
Current Liabilities			
Short-term loans and current portion of long-term debt	13	666	25,692
Trade and other payables	16	25,488	23,047
Income tax payable		2,368	921
Other taxes payable	17	7,804	6,001
Dividends payable		86	89
Total Current Liabilities		**36,412**	**55,750**
Total Liabilities		**215,744**	**283,580**
Total Equity and Liabilities		**472,714**	**435,065**

Approved for issue and signed on 15 March 2017 by the following members of management:

Sergey S. Ivanov
President

Svetlana V. Linnik
Chief accountant

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Revenue	18	317,090	224,524
Cost of sales	19	(129,751)	(93,240)
Royalty	17	(1,209)	(1,209)
Gross profit		**186,130**	**130,075**
General and administrative expenses	20	(12,436)	(10,243)
Selling and marketing expenses	21	(3,346)	(2,768)
Other operating income	22	3,090	3,101
Other operating expenses	23	(30,473)	(22,996)
Operating profit		**142,965**	**97,169**
Finance income / (costs), net	24	24,124	(58,481)
Share of net profit of associates and joint ventures	5.2	2,650	2,628
Profit before income tax		**169,739**	**41,316**
Income tax	17	(36,268)	(9,124)
Profit for the year		**133,471**	**32,192**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations, net of tax	15,17	(11,098)	(4,716)
Total items that will not be reclassified to profit or loss		**(11,098)**	**(4,716)**
Items that will be reclassified to profit or loss:			
Currency translation differences, net of tax		(101)	(159)
Change in fair value of available for sale investments		181	16
Total items that will be reclassified to profit or loss		**80**	**(143)**
Other comprehensive loss for the year		**(11,018)**	**(4,859)**
Total comprehensive income for the year		**122,453**	**27,333**
Profit attributable to:			
Owners of PJSC ALROSA		131,392	30,674
Non-controlling interest	28	2,079	1,518
Profit for the year		**133,471**	**32,192**
Total comprehensive income attributable to:			
Owners of PJSC ALROSA		120,147	26,078
Non-controlling interest		2,306	1,255
Total comprehensive income for the year		**122,453**	**27,333**

Basic and diluted earnings per share for profit attributable to the owners of PJSC ALROSA (in Roubles)	11	17.85	4.17

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Net Cash Inflow from Operating Activities	25	**143,138**	**75,541**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(31,752)	(34,241)
Proceeds from sales of property, plant and equipment		1,231	304
(Acquisition) / sales of available-for-sale investments		(522)	122
Proceeds / (losses) from disposal of subsidiaries, net of cash disposed of		388	(425)
Interest received		3,526	3,616
Cash transfer to deposit accounts		(30,825)	-
Dividends received from associates		4,591	1,664
Net Cash Outflow from Investing Activities		**(53,363)**	**(28,960)**
Cash Flows from Financing Activities			
Repayments of loans		(45,830)	(44,279)
Loans received		217	21,491
Interest paid		(11,368)	(12,083)
Sale / (purchase) of treasury shares		621	(642)
Dividends paid		(17,578)	(12,789)
Net Cash Outflow from Financing Activities		**(73,938)**	**(48,302)**
Net Increase / (Decrease) in Cash and Cash Equivalents		**15,837**	**(1,721)**
Cash and cash equivalents at the beginning of the year		20,503	21,693
Effect of exchange rate changes on cash and cash equivalents		(5,930)	531
Cash and Cash Equivalents at the End of the Year	7	**30,410**	**20,503**

(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 31 December 2014	**7,364,965,630**	**12,473**	**10,431**	**-**	**(1,419)**	**115,566**	**137,051**	**123**	**137,174**
Comprehensive income / (loss)									
Profit for the year	-	-	-	-	-	30,674	30,674	1,518	32,192
Other comprehensive loss	-	-	-	-	(4,596)	-	(4,596)	(263)	(4,859)
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**-**	**(4,596)**	**30,674**	**26,078**	**1,255**	**27,333**
Transactions with owners									
Dividends (note 11)	-	-	-	-	-	(10,816)	(10,816)	-	(10,816)
Purchase of treasury shares	(8,599,300)	-	-	(15)	-	(627)	(642)	-	(642)
Sale of non-controlling interest	-	-	-	-	71	-	71	(71)	-
Dividends of subsidiaries to non-controlling shareholders	-	-	-	-	-	-	-	(1,564)	(1,564)
Total transactions with owners	**(8,599,300)**	**-**	**-**	**(15)**	**71**	**(11,443)**	**(11,387)**	**(1,635)**	**(13,022)**
Balance at 31 December 2015	**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 income / (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	-	-	-	-	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**

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 2015 the Company's principal shareholders are the Federal Agency for State Property Management on behalf of the government of the Russian Federation (43.9 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).

On 8 July 2016 the Federal Agency for State Property Management on behalf of the government of the Russian Federation made a decision of equity carve-out of 802,781,254 shares on the basis of directive of the government of the Russian Federation, totaling approximately 10.9% of the Company share capital, resulting in change in the ownership of interest of the Federal Agency for State Property Management on behalf of the government of the Russian Federation in the sum of 33% as at 31 December 2016, the ownership of interest of the Ministry of the property and land relations of the Republic of Sakha (Yakutia) did not change.

The Company is registered and its principal operating office is situated at 6, Lenin Street, Mirny, 678170, 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 Regulations on Accounting and Reporting of the Russian Federation ("RAR") 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 60.6569 and 72.8827 as at 31 December 2016 and 31 December 2015, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 63.8111 and 79.6972 as at 31 December 2016 and 31 December 2015, respectively.

(b) Recent accounting pronouncements

In 2016 the Group has adopted all IFRS, amendments and interpretations which were effective as at 1 January 2016 and which are relevant to its operations.

The following new standards and interpretations became effective for the Group from 1 January 2016, but did not have any material impact on the Group:

- IFRS 14 Regulatory Deferral accounts (issued in January 2014 and effective for the periods beginning on or after 1 January 2016.

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

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016);
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016);
- Amendments to IAS 27: Equity Method in Separate Financial Statements (issued on 12 August 2014 and effective for annual periods beginning on or after 1 January 2016);
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016);
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016);
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016);

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 2017 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.

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

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.

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.

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 income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 financial statements.

The Group is currently assessing the impact of the new standards 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 the date set by IFRS Council).
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- 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).
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
- 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).
- 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).

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

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 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. 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 statement of changes in equity.

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.

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

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.

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

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

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

(e) Property, plant and equipment

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

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

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 arising from the disposal of property, plant and equipment are included in the profit or loss as incurred.

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.

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 2016 the net book value of production licenses included in property, plant and equipment is RR'mln 31,652 (31 December 2015: RR'mln 33,644).

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

(in millions of Russian roubles, unless otherwise stated)

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

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 in accordance with JORC code on the basis of independent resource engineer's report. In situations where it is known that future development costs will be needed to extract all resource base of the mine, they are included in depreciable amount. Depreciation of production licenses is calculated on a units of production basis. Depreciation of other assets is calculated on a straight-line basis over their estimated useful life.

Summary of useful lives and alternative basis for depreciation:

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

The average depreciation rate for the property, plant and equipment depreciated on a units of production basis was 7.29 per cent in the year ended 31 December 2016 (year ended 31 December 2015: 5.75 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.

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

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

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

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

(g) Inventories

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

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.

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.

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

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 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:

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

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

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

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

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

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.

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

Impairment of loans and receivables. Impairment losses are recognised in profit or loss when incurred as a result of one or more 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. 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:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- 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.

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.

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.

(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.

The Group also operates a defined benefit pension plan. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is charged to the relevant category in the consolidated statement of profit and loss and other comprehensive income so as to spread the regular cost over the service lives of employees (the cost of providing pensions to employees involved in production process is apportioned between cost of production and work-in-progress). 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.

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

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 preceding the year of retirement. The liability recognised in the 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. The Group contributes funds to the JSC "NPF "Almaznaya osen", which invests them in various financial instruments. These investments are considered the pension fund plan assets, as these assets are available to be used only to pay or fund employee benefits, are not available to the Group's own creditors (even in bankruptcy), and cannot be returned to the Group, unless either the remaining assets of the non-state pension fund are sufficient to meet all the related employee benefit obligations of the pension plan, or the assets are returned to the Group to reimburse it for employee benefits already paid.

(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.

(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 equity.

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

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 accrual basis that takes into account the effective yield on the asset.

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.

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

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

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

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

(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.

(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.

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

(u) Social costs

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

(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 are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable within twelve months after the reporting period. They are stated at the lower of carrying amount and fair value less costs to sell. Assets and liabilities directly associated with the disposed assets are reclassified and presented separately in the Consolidated Statement of Financial Position.

Critical accounting estimates and judgements in applying accounting policies

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements preparation and the reported amounts of revenues and expenses during the reporting year. Actual results may differ from such estimates. Significant areas of estimation and critical judgments in applying accounting policies made by management in preparing these consolidated financial statements 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.

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. Management believes that as at 31 December 2016 and 31 December 2015 there were no such indicators, except for indicators of impairment of property, plant and equipment of the Group's subsidiary Urengoy Gas Company Ltd., which arose as at 31 December 2016, and the Group has tested for impairment of property, plant and equipment of this company as of that date.

Property, plant and equipment of Urengoy Gas Company Ltd. Urengoy Gas Company Ltd. owns a license for exploration and production of hydrocarbon in the West Siberian region with total gas reserves of 68,470 mln m^3 and gas condensate 6,217 mln m^3 (category B1). At present, the company is exploring gas fields and preparing for the construction of mining infrastructure with an expected production commencement in 2020.

(in millions of Russian roubles, unless otherwise stated)

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

During 2016 the economy was negatively impacted by the numbers of the factors, with a certain volatility of macroeconomic parameters affecting the company. Taken into account these factors, as well as the fact that production activities are not being conducted, the gas fields are in the process of exploration and development, infrastructure construction requires significant capital expenditures, the management has tested the company's fixed assets for impairment.

The recoverable amount has been assessed by reference to value in use. In arriving at value in use, discount rate of 15.4 per cent has been applied to the post-tax cash flows expressed in nominal terms. The value in use was determined by estimating cash flows for a period up to 2025 with the following calculation of the terminal value according to Gordon's formula. As a long-term growth rate, a decreasing coefficient (2%) was used, in line with the specifics of the extractive industry and the finite amount of reserves.

The cash flow projections are based on the milestones specified in the license agreement, capital investment projection, mine-plan, prices forecasts for Brent oil and the cost of gas transportation.

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

- future prices for Brent oil;
- the exchange rate of the ruble to the dollar;
- the projected volume of extraction of this company;
- a discount rate (based on WACC).

Based on the evaluation of the value of use, the recoverable amount of fixed assets of Urengoy Gas Company Ltd. approximates the book value of RR’mln 9,104. The calculations are 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 Brent oil, %	(1.5%)	(1%)	(0.5%)	-	0.5%	1%	1.5%
Recoverable amount, RR’mln	8,849	8,941	9,034	9,126	9,129	9,311	9,404
Change in assumption: the exchange rate RR/USD , %	(15%)	(10%)	(5%)	-	5%	10%	1.5%
Recoverable amount, RR’mln	5,937	7,000	8,063	9,126	10,189	11,252	12,315
Change in assumption: the projected volume of extraction, %	(7.5%)	(5%)	(2.5%)	-	2.5%	5%	7.5%
Recoverable amount, RR’mln	6,335	7,266	8,196	9,126	10,057	10,987	11,918
Change in assumption: discount rate, p.p.	(1.5 п.п)	(1 п.п.)	(0.5 п.п.)	-	0.5 п.п.	1 п.п.	1.5 п.п.
Recoverable amount, RR’mln	11,800	10,842	9,953	9,126	8,356	7,637	6,966

The management believes that all assumptions used to determine the value in use of Urengoy Gas Company Ltd.'s fixed assets for testing for impairment are reasonable and represent the best estimate of the management as at 31 December 2016.

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 5.1.

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.

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

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 2016, 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 1,487 (year ended 31 December 2015– RR'mln 1,435) 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. Other key assumptions for pension obligations are based on current market conditions. In 2016, the non-state pension fund of the Group, Almaznaya osen, switched to a pension scheme with the new tariffs. The change in tariffs is used for calculations of pension obligation for 2016. In the opinion of the Group's management, this change is a change in actuarial assumptions, recorded in other comprehensive income, as it is caused by a change in assumptions regarding the future mortality of participants of non-state pension scheme and indexation of pensions. Other key assumptions regarding pension liabilities are based in part on current market conditions (note 15).

Long-term asset retirement obligations. Based on legal requirements, 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).

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 has no significant interest-bearing assets. The Group's principal interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2016 and 2015, 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, profit for the year would have been RR'mln 335 lower / higher (31 December 2015: income for the year would have been RR'mln 637 lower / higher), mainly as result of higher / lower interest expense on floating rate borrowings. Other components of equity would have not been significantly affected.

(in millions of Russian roubles, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

	31 December 2016			**31 December 2015**		
	Monetary financial assets	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
US Dollar	25,570	142,292	(116,722)	9,257	223,262	(214,005)
Euro	92	306	(214)	141	408	(267)
Other currency	291	19	272	282	28	254
Total	**25,953**	**142,617**	**(116,664)**	**9,680**	**223,698**	**(214,018)**

At 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 (31 December 2015: 34,241 lower / higher), mainly as a result of foreign exchange losses / gains on translation of US dollar-denominated borrowings and accounts trade payable partially offset by foreign exchange gains/losses on translation of US dollar-denominated cash and accounts trade receivable. Impact on other components of capital would be insignificant.

Credit risk. 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. 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.

(in millions of Russian roubles, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below analyses the Group's liabilities for financial instruments into relevant maturity grouping based on the remaining period at the consolidated statement of financial position 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 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 and accruals	1,125	-	-	-	-	1,125
Guarantees issued*	1,500	-	-	-	-	1,500
	8,268	**706**	**10,376**	**95,986**	**64,802**	**180,138**
31 December 2015						
Borrowings and finance lease obligations	18	26	25,648	124,584	72,883	223,159
Trade payables	4,385	862	1,307	-	-	6,554
Interest payable	357	746	11,238	18,188	16,509	47,038
Payables to associates	10	-	-	-	-	10
Other payables and accruals	647	-	-	-	-	647
Guarantees issued*	1,500	-	-	-	-	1,500
	6,917	**1,634**	**38,193**	**142,772**	**89,392**	**278,908**

*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 June 26, 2020.

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

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

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

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 2016 and 2015.

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 cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt. Management assess relevancy of gearing ratio depend on current economic situation. After completion of that analysis management will develop action plan for improvement of gearing ration if deemed to be necessary.

(in millions of Russian roubles, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

The gearing ratios at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	**31 December 2015**
Total borrowings	142,335	223,159
Less: cash and cash equivalents	(30,410)	(20,503)
bank deposits	(28,570)	-
Net debt	83,355	202,656
Total equity	256,970	151,485
Total capital	**340,325**	**354,141**
Gearing ratio	0.24	0.57

4. FINANCIAL INSTRUMENTS BY CATEGORY

FINANCIAL ASSETS	**Loans and receivables**		**Available for sale**		**Total**	
	31 December		**31 December**		**31 December**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Non-current financial assets						
Available-for-sale investments	-	-	1,424	711	1,424	711
Loans issued	960	930	-	-	960	930
Consideration receivable for disposed interest in CJSC MMC Timir	934	1,381	-	-	934	1,381
Receivables from associates	-	727	-	-	-	727
Other long-term receivables	41	184	-	-	41	184
Total non-current financial assets	**1,935**	**3,222**	**1,424**	**711**	**3,359**	**3,933**
Current financial assets						
Loans issued	319	277	-	-	319	277
Trade receivables for supplied diamonds	1,498	350	-	-	1,498	350
Receivables from associates	84	2,993	-	-	84	2,993
Consideration receivable for disposed interest in CJSC MMC Timir	664	519	-	-	664	519
Other trade receivables	3,921	3,002	-	-	3,921	3,002
Bank deposits	28,570	-	-	-	28,570	-
Cash and cash equivalents	30,410	20,503	-	-	30,410	20,503
Total current financial assets	**65,466**	**27,644**	**-**	**-**	**65,466**	**27,644**
Total financial assets	**67,401**	**30,866**	**1,424**	**711**	**68,825**	**31,577**

(in millions of Russian roubles, unless otherwise stated)

4 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

FINANCIAL LIABILITIES	Liabilities at amortised cost	
	31 December	
	2016	**2015**
Non-current financial liabilities		
Long-term debt	141,669	197,467
Total non-current financial liabilities	**141,669**	**197,467**
Current financial liabilities		
Short-term loans and current portion of long-term debt	666	25,692
Trade payables	6,820	6,554
Interest payable	1,342	1,547
Payables to associates	11	10
Other payables	1,125	647
Total current financial liabilities	**9,964**	**34,450**
Total financial liabilities	**151,633**	**231,917**

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 2016	**31 December 2015**
ALROSA Finance S.A.	Financial services	Luxembourg		100.0	100.0
OJSC 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 2016 and 31 December 2015 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

5.1. Goodwill

The amount of goodwill totalling RR’mln 1,439 relates to acquisition of a 49.0 per cent. shares in JSC Almazy Anabara in December 2007. The goodwill is attributable to the operational synergies expected to arise after this acquisition as a result of more effective integration of operational activity of this subsidiary into the Group’s one. As of the date of acquisition goodwill was attributed to the diamond mining businesses of JSC Almazy Anabara. As at 31 December 2016 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 2017-2027 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 2016 and 31 December 2015.

(in millions of Russian roubles, unless otherwise stated)

5. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

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

	31 December 2016	31 December 2015
Pre-tax discount rate	14.4%	15.0%
Producer price index for 2017-2027	2.5% - 7.7%	3.2% - 10.9%
Average diamond price, RR / carat	5,596	6,833
EBITDA margin	23%-44%	36% - 52%

Management believes that their judgments are reasonable and supportable in the current economic environment. However, reasonable changes of key assumptions as at 31 December 2016 and 31 December 2015 will not lead to an excess of carrying value of assets over their value-in-use allocated to the respective cash generating unit.

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	
		2016	2015	2016	2015	2016	2015
Catoca Mining Company Ltd.	Angola	32.8	32.8	3,847	4,429	2,726	2,550
CJSC MMC Timir	Russia	49.0	49.0	-	2,207	-	(37)
Other	Russia	20-50	20-50	214	255	(76)	115
				4,061	**6,891**	**2,650**	**2,628**

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

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

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

In April 2016 Catoca declared dividends for the year ended 31 December 2015; the Group's share of these dividends amounted to RR'mln 2,560 before taxation in the amount of RR'mln 256. Currency translation loss recognised in the other comprehensive income for the year ended 31 December 2016 in respect of investment in Catoca totalled RR'mln 748.

In May 2015 Catoca declared dividends for the year ended 31 December 2014, the Group's share of these dividends amounted to RR'mln 2,068 before taxation in the amount of RR'mln 207. Currency translation gain recognised in the consolidated other comprehensive income for the year ended 31 December 2015 in respect of investment in Catoca totalled RR'mln 534.

As at 31 December 2016 the Group performed an assessment of investment in CJSC MMC Timir for impairment. The recoverable amount has been assessed by reference to value in use. In arriving at value in use, discount rate of 15.5 per cent has been applied to the post-tax cash flows expressed in nominal terms. The value in use was determined by estimating cash flows for a period of 25 years. As a result of the assessment the Group recognised an impairment of the investment in Timir in the amount of RR'mln 2,211. The key assumptions used to determine value in use included forecasted reduction in prices on iron-ore concentrate in the long-term perspective, increase in the amount of capital expenditure and deferral of the project launch by 2 years.

(in millions of Russian roubles, unless otherwise stated)

5. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

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

	Catoca Mining Company Ltd		CJSC MMC Timir		Other		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Non-current assets	13,930	16,270	5,665	6,040	416	474	20,011	22,784
Current assets	13,960	18,896	7	48	66	96	14,033	19,040
Total assets	27,890	35,166	5,672	6,088	482	570	34,044	41,824
Non-current liabilities	915	2,949	109	114	21	23	1,045	3,086
Current liabilities	15,247	18,714	1,532	1,470	23	61	16,802	20,245
Total liabilities	16,162	21,663	1,641	1,584	44	84	17,847	23,331
Net assets	11,728	13,503	4,031	4,504	438	486	16,197	18,493

	Catoca Mining Company Ltd		CJSC MMC Timir		Other		Total	
2015	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Group's share in net assets	3,847	4,429	1,975	2,207	214	255	6,036	6,891
Revenue	36,857	36,435	-	-	192	2,460	37,049	38,895
Profit/(loss) for the year	8,993	7,775	(78)	(75)	10	174	8,925	7,874
Dividends declared	(8,913)	(6,306)	-	-	-	-	(8,913)	(6,306)

6. BANK DEPOSITS

	31 December 2016	31 December 2015
Deposits in PJSC VTB Bank	25,570	-
Deposits in JSC ROSBANK	3,000	-
Total bank deposits	**28,570**	**-**

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%.

7. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Deposit accounts	24,525	12,011
Cash in banks and on hand	5,885	8,492
Total cash and cash equivalents	**30,410**	**20,503**

Deposit accounts at 31 December 2016 and 31 December 2015 are mainly held to meet short-term cash needs and have various original maturities but can be withdrawn on request without restrictions.

(in millions of Russian roubles, unless otherwise stated)

7. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	Credit rating at 31 December 2016	Rating agency	31 December 2016	31 December 2015
PJSC VTB Bank	BB+	Standard & Poor's	24,089	12,012
JSC Alfa-Bank	BB	Standard & Poor's	1,461	3,129
Gazprombank (JSC)	Ba2	Moody's	1,131	1,207
VTB 24 (PJSC)	Ba2	Moody's	998	838
PJSC Sberbank	Ba2	Moody's	707	356
Gazprombank (Switzerland), Ltd.	BB+	Fitch	476	813
National Bank of Abu Dhabi	Aa3	Moody's	421	105
HSBC Bank LLC	BBB-	Moody's	245	113
The Bank of New York Mellon S.A.	Aa1	Moody's	132	352
ABN AMRO Bank N.V.	A1	Moody's	65	58
JSC UniCredit Bank	BBB-	Fitch	35	178
Lloyds Bank Plc	A1	Moody's	-	457
Other banks and cash on hand	n/a	n/a	650	885
Total cash and cash equivalents			**30,410**	**20,503**

(in millions of Russian roubles, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Land and Improvements	Plant and Equipment	Transport	Production Licenses	Assets under Construction	Other	TOTAL
Cost at 31.12.2014	**69,501**	**137,715**	**81,107**	**24,160**	**39,354**	**51,545**	**3,263**	**406,645**
Additions	889	1,137	7,764	1,861	52	23,757	234	35,694
Transfers	2,650	11,532	1,831	225	-	(16,261)	23	-
Disposal of subsidiaries – at cost	(726)	(20)	(228)	(103)	-	(5)	(80)	(1,162)
Other disposals – at cost	(2,807)	(2,316)	(4,233)	(2,559)	(345)	(2,723)	(173)	(15,156)
Effect of translation to presentation currency	-	1,155	6	9	-	117	1	1,288
Change in estimate of provision for land recultivation (note 14)	-	1,286	-	-	-	-	-	1,286
Cost at 31.12.2015	**69,507**	**150,489**	**86,247**	**23,593**	**39,061**	**56,430**	**3,268**	**428,595**
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)
Effect of translation to presentation currency	-	(824)	(4)	(6)	-	93	(1)	(742)
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**	**3,984**	**451,533**
Accumulated depreciation and impairment losses at 31.12.2014	**(25,921)**	**(41,684)**	**(47,458)**	**(14,494)**	**(2,956)**	**(1,028)**	**(1,486)**	**(135,027)**
Depreciation charge	(2,064)	(4,884)	(8,548)	(2,279)	(2,461)	-	(191)	(20,427)
Disposal of subsidiaries – accumulated depreciation	66	7	189	78	-	-	28	368
Other disposals – accumulated depreciation	1,672	2,023	4,225	2,429	-	-	105	10,454
Accumulated depreciation and impairment losses at 31.12.2015	**(26,247)**	**(44,538)**	**(51,592)**	**(14,266)**	**(5,417)**	**(1,028)**	**(1,544)**	**(144,632)**
Depreciation charge	(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
Impairment of property, plant and equipment	(562)	(19)	(47)	(18)	-	-	(5)	(651)
Accumulated depreciation and impairment losses at 31.12.2016	**(28,391)**	**(53,699)**	**(57,121)**	**(14,118)**	**(7,644)**	**-**	**(1,686)**	**(162,659)**
Net book value at 31.12.2015	**43,260**	**105,951**	**34,655**	**9,327**	**33,644**	**55,402**	**1,724**	**283,963**
Net book value at 31.12.2016	**50,823**	**115,241**	**39,434**	**8,149**	**31,652**	**41,277**	**2,298**	**288,874**

Capitalised borrowing costs

During the year the Group has capitalised borrowing costs amounting to RR'mln 221 (2015: RR'mln 255) on qualifying asset totalling RR'mln 4,806 (2015: RR'mln 4,283). For the year ended 31 December 2016 borrowing costs were capitalized at the weighted average rate of its general borrowing of 4.62 per cent (31 December 2015: 5.95 per cent).

Finance leases

Property, plant and equipment include the mining equipment and transport which the Group received under finance lease agreements. As at 31 December 2016 the carrying value of this equipment is RR'mln 209 (31 December 2015: RR'mln 293).

(in millions of Russian roubles, unless otherwise stated)

9. INVENTORIES

	31 December 2016	31 December 2015
Diamonds	55,526	57,376
Ores and sands mined	16,566	14,560
Mining and repair materials	23,970	19,654
Consumable and other supplies	2,514	2,706
Total inventories	**98,576**	**94,296**

10. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 December 2016	31 December 2015
Loans issued*	960	930
Consideration receivable for disposed interest in CJSC MMC Timir**	934	1,381
Advances to suppliers	145	220
Long-term VAT recoverable	13	11
Receivables from associates (note 27)	-	727
Other long-term receivables	41	184
Total long-term accounts receivable	**2,093**	**3,453**

*The several loans issued of RR'mln 1,000 nominal value as at 31 December 2016 (31 December 2015: RR'mln 1,200) 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.

Short-term accounts receivable	31 December 2016	31 December 2015
Prepaid taxes, other than income tax	5,010	4,881
VAT recoverable	2,311	2,867
Trade receivables for supplied diamonds	1,498	350
Advances to suppliers	1,372	743
Interest on deposits	995	33
Consideration receivable for disposed interest in CJSC MMC Timir**	664	519
Loans issued	319	277
Receivables from associates (note 27)	84	2,993
Other trade receivables	2,926	2,969
Total short-term accounts receivable	**15,179**	**15,632**

**The consideration is receivable from Evraz plc, which credit rating as at 31 December 2016 is BB- (Negative) assessed by Fitch.

The fair value of each class of short-term trade and other accounts receivable at 31 December 2016 and 31 December 2015 approximates their carrying value.

(in millions of Russian roubles, unless otherwise stated)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

The fair value of long-term accounts receivable is estimated by discounting the future contractual cash inflows at the market interest rates available to the recipients of funds at the end of the reporting period. The carrying amounts and fair values of long-term accounts receivable are as follows:

	31 December 2016		**31 December 2015**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Consideration receivable for disposed interest in CJSC MMC Timir	934	934	1,381	1,381
Loans issued	960	751	930	706
Receivables from associates	-	-	727	727
Other long-term receivables	41	41	184	139

Trade and other accounts receivables relate to Level 3 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 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**

Long-term accounts receivable	**31 December 2015**	**Bad debt write-off**	**Bad debt expense**	**31 December 2014**
Receivables from associates	35	-	-	35
Other long term receivables	78	-	18	60
	113	**-**	**18**	**95**
Short-term accounts receivable				
Receivables from associates	-	(26)	-	26
Loans issued	-	(542)	-	542
Other trade receivables	1,016	(76)	642	450
	1,016	**(644)**	**642**	**1,018**

(in millions of Russian roubles, unless otherwise stated)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

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 2016				31 December 2015			
	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	838	-	35	873	-	-	35	35
Other long term receivables	-	29	-	29	-	78	-	78
Total long-term accounts receivable	**838**	**29**	**35**	**902**	**-**	**78**	**35**	**113**
Short-term accounts receivable								
Loans issued	4	33	91	128	-	-	-	-
Receivables from associates	9	-	90	99	-	-	-	-
Other trade receivables	411	755	526	1,692	106	643	267	1,016
Total short-term accounts receivable	**424**	**788**	**707**	**1,919**	**106**	**643**	**267**	**1,016**

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 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**

31 December 2015	Large customers	Medium and small customers	Entities controlled by the Government	Individuals	Total
Long-term accounts receivable					
Loans issued	-	537	-	393	930
Receivables from associates	727	-	-	-	727
Other long-term receivables	-	184	-	-	184
Total long-term financial receivable	**727**	**721**	**-**	**393**	**1,841**
Short-term accounts receivable					
Loans issued	-	277	-	-	277
Receivables from associates	2,688	305	-	-	2,993
Trade receivables for supplied diamonds	-	350	-	-	350
Other trade receivables	-	2,015	697	290	3,002
Total short-term financial receivable	**2,688**	**2,947**	**697**	**290**	**6,622**

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.

(in millions of Russian roubles, unless otherwise stated)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 31 December 2016 trade and other receivables in the amount of RR'mln 5,457 (31 December 2015: RR'mln 8,806) were neither past due nor impaired and have no history of overdue payments. Most of these debtors have no individual external credit rating.

As at 31 December 2016 accounts receivable in the amount of RR'mln 1,376 (as at 31 December 2015: RR'mln 1,557) were past due but were not considered impaired. They include only other trade 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 2016 and 31 December 2015 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 2016	31 December 2015
Up to 3 months	1,320	1,125
3 to 6 months	9	53
6 to 12 months	2	34
More than 1 year	45	345
Total past due but not impaired	**1,376**	**1,557**

As at 31 December 2016 16 individual debtors of the Group (31 December 2015: 11 individual debtors) had the outstanding balance with the Group exceeding RR'mln 100. As at 31 December 2016 total amount of such accounts receivable was RR'mln 11,237 (31 December 2015: RR'mln 6,286).

11. SHAREHOLDERS' EQUITY

Share capital

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

Distributable profits

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. In accordance with the dividend policy approved by the Supervisory Council of the Company at least 35% of the net profit as reported in the IFRS consolidated financial statement of the Group is distributed for dividends payment. 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 2016 subsidiaries of the Group held no ordinary shares of the Company (31 December 2015: 8,599,300 shares). The Group management effectively controlled the voting rights of shares held by subsidiaries.

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 7,362,530,908 and 7,359,179,168 weighted average shares outstanding for the years ended 31 December 2016 and 31 December 2015, respectively.

There are no dilutive financial instruments outstanding.

(in millions of Russian roubles, unless otherwise stated)

11. SHAREHOLDERS' EQUITY (CONTINUED)

Other reserves

	Currency translation	Purchase of non-controlling interest	Available-for-sale investments	Recognition of accumulated actuarial (loss)/gain	Total other reserves
Balance at 31 December 2014	**395**	**(87)**	**41**	**(1,768)**	**(1,419)**
Currency translation differences	104	-	-	-	104
Purchase of non-controlling interest	-	71	-	-	71
Actuarial remeasurement on post employment benefit obligation	-	-	-	(4,716)	(4,716)
Change in fair value of available for sale investments	-	-	16	-	16
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 (прим. 15)	-	-	-	(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)**

Dividends

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

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

12. LONG-TERM DEBT

	31 December 2016	31 December 2015
Debt to banks:		
US$ denominated floating rate	36,394	43,730
US$ denominated fixed rate	43,673	104,951
RR denominated fixed rate	1,370	1,204
	81,437	**149,885**
Eurobonds US$ denominated	60,657	72,883
Finance lease obligation	173	341
Other RR denominated fixed rate loans	16	13
	142,283	**223,122**
Less: current portion of long-term debt (note 13)	(614)	(25,655)
Total long-term debt	**141,669**	**197,467**

(in millions of Russian roubles, unless otherwise stated)

12. LONG-TERM DEBT (CONTINUED)

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 2016		**31 December 2015**	
	Effective interest rates	**Market interest rates**	**Effective interest rates**	**Market interest rates**
Debt to banks:				
US$ denominated floating rate	7.2%	7.1%	6.6%	6.6%
US$ denominated fixed rate	4.3%	5.4%	4.1%	6.3%
RR denominated fixed rate	13.3%	11.7%	13.5%	13.7%
Eurobonds US$ denominated	7.8%	5.8%	7.8%	6.4%

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 2016		**31 December 2015**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Debt to banks:				
US$ denominated floating rate	36,394	36,408	43,730	43,742
US$ denominated fixed rate	43,673	43,502	104,951	102,757
RR denominated fixed rate	1,370	1,400	1,204	1,190
Eurobonds US$ denominated	60,657	68,694	72,883	76,982
Finance lease obligation	173	173	341	341
Other RR denominated fixed rate loans	16	14	13	11

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.

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 accordance with maturity, part of the loan in the amount of RR'mln 515 was transferred to short-term debt as at 31 December 2016. As at 31 December 2015 there were no long-term loans secured with the assets of the Group.

Eurobonds

	Year ended 31 December 2016	**Year ended 31 December 2015**
Balance at the beginning of the reporting period	**72,883**	**56,258**
Amortisation of discount	3	4
Repayment	-	-
Foreign exchange (gains) / losses	(12,229)	16,621
Balance at the end of the reporting period	**60,657**	**72,883**

(in millions of Russian roubles, unless otherwise stated)

12. LONG-TERM DEBT (CONTINUED)

Finance lease obligation

	Minimum lease payments 31 December 2016	Discounted value of minimum lease payments 31 December 2016	Minimum lease payments 31 December 2015	Discounted value of minimum lease payments 31 December 2015
Within 1 year	96	85	150	146
After 1 year	87	88	227	195
Total finance lease obligation	**183**	**173**	**377**	**341**

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.

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

	31 December 2016	31 December 2015
Other RR denominated fixed rate loans	52	37
Add: current portion of long-term debt (note 12)	614	25,655
Total short-term debt and current portion of long-term debt	**666**	**25,692**

Information on pledged assets as at 31 December 2016 to secure a short-term portion of the debt is disclosed in note 12. As at 31 December 2015 there were no short-term loans secured with the assets of the Group.

As at 31 December 2016 and 31 December 2015 the fair value of short-term loans is approximately equal the carrying value.

14. OTHER PROVISIONS

	31 December 2016	31 December 2015
Provision for land recultivation	6,345	5,350
Provision for social obligations	346	491
Other provisions	**6,691**	**5,841**

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 2015 the Group has partially fulfilled these obligations in the amount of RR’mln 755. The current portion of provision for social obligation as at 31 December 2016 in the amount of RR’mln 281 (31 December 2015: RR’mln 296) was included in trade and other payables within the Group’s current liabilities (note 16).

(in millions of Russian roubles, unless otherwise stated)

14 OTHER PROVISIONS (CONTINUED)

Provision for land recultivation

	Year ended 31 December 2016	Year ended 31 December 2015
At the beginning of the year	**5,350**	**3,722**
Accrual of provision	562	153
Unwinding of the present value discount	641	389
Utilisation of provision	(340)	(199)
Reversal of the provision	(59)	-
Change in estimate of provision (note 8)	191	1,285
At the end of the year	**6,345**	**5,350**

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). During 2016 and 2015 the Group assumed additional obligations of recultivation which resulted in the respective increase of the provision.

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 2016 was 8.15 per cent. (31 December 2015: 9.95 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.

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 2016	31 December 2015
Present value of obligations	32,408	19,710
Fair value of pension plan assets	(13,638)	(10,312)
Pension obligations for the funded plan	18,770	9,398
Present value of unfunded obligation	1,184	1,158
Net liability	**19,954**	**10,556**

(in millions of Russian roubles, unless otherwise stated)

15. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

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 2015	**14,547**	**(9,510)**	**756**	**5,793**
Current service cost	186	-	18	204
Past service cost and curtailment	(20)	-	(17)	(37)
Interest expense / (income)	1,837	(1,230)	94	701
	2,003	**(1,230)**	**95**	**868**
Remeasurements:				
Return on plan assets, excluding amounts included in interest expense / (income)	-	559	-	559
(Gain)/loss from changes in demographic actuarial assumptions	(194)	-	3	(191)
Loss from changes in financial actuarial assumptions	5,211	-	323	5,534
(Gain)/loss from experience adjustments	(835)	-	36	(799)
	4,182	**559**	**362**	**5,103**
Contributions to plan:				
Employer contributions	-	(1,153)	-	(1,153)
Benefits paid	(1,022)	1,022	(55)	(55)
	(1,022)	**(131)**	**(55)**	**(1,208)**
At 31 December 2015	**19,710**	**(10,312)**	**1,158**	**10,556**

	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)

Net expense 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 96 (year ended 31 December 2015: RR'mln 132), RR'mln 12 (year ended 31 December 2015: RR'mln 18) and RR'mln 10 (year ended 31 December 2015: RR'mln 17), respectively.

Expense recognised through profit or loss	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Current service cost	345	204
Past service cost and curtailment	(227)	(37)
Interest expense	960	701
Total expense recognised through profit or loss	**1,078**	**868**

Expense / (income) recognised through other comprehensive income	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Loss / (gain) from changes in demographic actuarial assumptions	10,179	(191)
(Gain) / loss from changes in financial actuarial assumptions	(464)	5,534
Loss / (gain) from experience adjustments	2,374	(240)
Total (gain)/loss recognised through other comprehensive income	**12,089**	**5,103**

Change in amount of remeasurements of employee benefit obligations charged to other comprehensive income	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Remeasurement amount at 1 January	6,982	1,879
Change in remeasurement amount	12,089	5,103
Remeasurement amount at 31 December	**19,071**	**6,982**

Estimation of financial actuarial assumptions was based on market forecasts at the end of the reporting period in relation to period, during which the obligation should be settled. Average estimated term of settlement of Group obligations at the reporting date totals 10.04 years (at 31 December 2015– 10.04 years).

	Year ended 31 December 2016	**Year ended 31 December 2015**
Discount rate (nominal)	8.5%	9.5%
Future salary increases (nominal)	6.5%	8.0%
Future pension increases (nominal)	5.0%	6.1%

In the year ended 31 December 2016 the actual income on plan assets was RR'mln 797 (year ended 31 December 2015: RR'mln 708). The Group expects to contribute RR'mln 4,439 to the defined benefit plans during the year beginning 1 January 2017.

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 2016	**Year ended 31 December 2015**
Expected age of retirement		
Male	58	58
Female	57	56
Source - table of mortality dated:	1998 – adjusted	1998 – adjusted
The life expectancy in the expected retirement age		
Male	19.84	17.57
Female	24.96	24.54

(in millions of Russian roubles, unless otherwise stated)

15. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

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 – 10.5% per year, with a seniority of 10 to 20 years – 4.1% per year, with a seniority of 20 to 30 years – 2.1% per year, with a seniority of more than 30 – 0.7% 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**
Discount rate	Increase / decrease by 0.5%	Decrease / increase by 5,70%
Future salary increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 0,07%
Future pension increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 5,59%
Expected age of retirement	Increase / decrease by 1 year	Decrease / increase by 2,10%
Employee turnover	Increase / decrease by 10%	Decrease / increase by 0,16%
Mortality level	Increase / decrease by 10%	Decrease / increase by 3,39%

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

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

	Year ended 31 December 2016	**Year ended 31 December 2015**
Russian corporate bonds	27.3%	23.2%
Bank deposits	58.9%	60.7%
Russian Government and municipal bonds	3.1%	1.1%
Equity securities of Russian issuers	6.2%	9.5%
Debt securities of Russian issuers	4.6%	5.5%
Total plan assets	**100.0%**	**100.0%**

All categories of plan assets are measured at fair value.

As at 31 December 2016 4,518 shares of the Company’s subsidiary – PJSC ALROSA-Nyurba with the fair value of RR’mln 838 were held by JSC NPF Almaznaya osen (as at 31 December 2015 5,176 shares with the fair value of RR’mln 533).

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.

(in millions of Russian roubles, unless otherwise stated)

15. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

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 maturites 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 assets in 2016 and 2015 consisted bank deposits.

16. TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Accrual for employee holidays and flights	7,890	8,150
Trade payables	6,820	6,554
Wages and salaries	6,666	4,801
Advances from customers	1,353	1,042
Interest payable	1,342	1,547
Current portion of provision for social obligation (note 14)	281	296
Payables to associates	11	10
Other payables	1,125	647
Total trade and other payables	**25,488**	**23,047**

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 2016 and 31 December 2015 approximates their carrying value.

17. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

	31 December 2016	31 December 2015
Payments to social funds	2,676	2,315
Extraction tax	1,465	1,090
Value added tax	1,364	496
Property tax	1,067	1,091
Personal income tax (employees)	946	652
Other taxes and accruals	286	357
Total taxes payable, other than income tax	**7,804**	**6,001**

(in millions of Russian roubles, unless otherwise stated)

17. 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:

	Year ended 31 December 2016	**Year ended 31 December 2015**
Property tax	4,791	3,497
Other taxes and accruals	927	802
Total taxes and payments other than income tax expense	**5,718**	**4,299**

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.

Income tax comprise the following:

	Year ended 31 December 2016	**Year ended 31 December 2015**
Current tax expense	37,961	7,417
Deferred tax (benefit) / expense	(1,882)	2,948
Adjustments recognised in the period for current tax of prior periods	189	(1,241)
Total income tax expense	**36,268**	**9,124**

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

	Year ended 31 December 2016	**Year ended 31 December 2015**
Profit before income tax	169,739	41,316
Theoretical tax charge at rate of 20 per cent. thereon	33,948	8,263
Prior periods adjustments recognised in the current period	189	(1,241)
Tax effect of:		
foreign exchange gain recognised from intergroup settlements	-	(1,610)
charity and social program carried out for Republic of Sakha (Yakutia)	1,297	1,063
other expenses and losses not deductible for income tax purposes	834	2,649
Total income tax expense	**36,268**	**9,124**

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.

(in millions of Russian roubles, unless otherwise stated)

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

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 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 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**

	Effect of changes temporary difference on deferred tax				
	31 December 2015	**Charged/ (credited) to profit or loss**	**Charged/ (credited) directly to other comprehensive income**	**Disposal of subsidiaries**	**31 December 2014**
Property, plant and equipment	12,988	1,307	(47)	(4)	11,732
Inventories	4,601	2,181	-	41	2,379
Long- term investments	357	103	107	-	147
Accruals and provisions	(2,545)	(375)	-	-	(2,170)
Exploration costs write-off	(1,672)	(43)	-	-	(1,629)
Provision for pension obligations	(1,525)	(153)	(387)	-	(985)
Impairment of receivables	(97)	(69)	-	-	(28)
Other deductible temporary differences	(60)	(3)	-	-	(57)
Net deferred tax liability/(asset)	**12,047**	**2,948**	**(327)**	**37**	**9,389**
Deferred tax asset	(1,919)	-	-	-	(1,912)
Deferred tax liability	13,966	-	-	-	11,301
Net deferred tax liability/(asset)	**12,047**	**2,948**	**(327)**	**37**	**9,389**

As at 31 December 2016 and 31 December 2015 the Group had not recorded a deferred tax liability in respect to taxable temporary differences of RR’mln 11,993 and RR’mln 10,241, 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.

(in millions of Russian roubles, unless otherwise stated)

18. REVENUE

	Year ended 31 December 2016	Year ended 31 December 2015
Revenue from diamond sales:		
Export	261,721	179,500
Domestic	31,404	20,477
Revenue from diamonds for resale	763	1,265
Total revenue from diamond sales	**293,888**	**201,242**
Other revenue:		
Transport	6,604	5,671
Sales of gas	5,885	6,343
Social infrastructure	5,033	4,014
Other	5,680	7,254
Total revenue	**317,090**	**224,524**

Export duties totalling RR’mln 12,229 for the year ended 31 December 2016 (year ended 31 December 2015: RR’mln 12,188) 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 2016 and 31 December 2015 the Group had no customers accounting for more than 10 per cent of the Group’s revenue.

19. COST OF SALES

	Year ended 31 December 2016	Year ended 31 December 2015
Wages, salaries contibutions and other staff costs	43,686	40,253
Depreciation	24,668	19,096
Extraction tax	22,188	23,323
Fuel and energy	14,493	17,610
Materials	13,592	12,098
Services	7,714	5,748
Transport	2,215	2,118
Cost of diamonds for resale	763	1,258
Other	588	1,568
Movement in inventory of diamonds, ores and sands	(156)	(29,832)
Total cost of sales	**129,751**	**93,240**

Wages, salaries contibutions and other staff costs include payments to social funds in the amount of RR’mln 8,707 (year ended 31 December 2015: RR’mln 8,230). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR’mln 6,276 (year ended 31 December 2015: RR’mln 5,223).

Depreciation totalling RR’mln 1,127 (year ended 31 December 2015: RR’mln 1,159) and staff costs totalling RR’mln 3,064 (year ended 31 December 2015: RR’mln 3,745) were incurred by the Group’s construction divisions and were capitalised into property, plant and equipment in the year.

(in millions of Russian roubles, unless otherwise stated)

20. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2016	Year ended 31 December 2015
Wages, salaries contibutions and other staff costs	6,654	5,918
Services and other administrative expenses	4,069	3,665
Impairment of accounts receivable (note 10)	1,713	660
Total general and administrative expenses	**12,436**	**10,243**

Wages, salaries contibutions and other staff costs include payments to social funds in the amount of RR’mln 1,039 (year ended 31 December 2015: RR’mln 848). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR’mln 669 (year ended 31 December 2015: RR’mln 510).

21. SELLING AND MARKETING EXPENSES

	Year ended 31 December 2016	Year ended 31 December 2015
Wages, salaries contibutions and other staff costs	1,834	1,502
Services and other selling and marketing expenses	1,512	1,266
Total selling and marketing expenses	**3,346**	**2,768**

Wages, salaries contibutions and other staff costs include payments to social funds in the amount of RR’mln 371 (year ended 31 December 2015: RR’mln 307). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR’mln 303 (year ended 31 December 2015: RR’mln 198).

22. OTHER OPERATING INCOME

	Year ended 31 December 2016	Year ended 31 December 2015
Foreign exchange gain, net	-	2,007
Other	3,090	1,094
Total other operating income	**3,090**	**3,101**

23. OTHER OPERATING EXPENSES

	Year ended 31 December 2016	Year ended 31 December 2015
Exploration expenses	8,202	8,206
Social costs	6,485	5,410
Taxes other than income tax, extraction tax and payments to social funds (note 17)	5,718	4,299
Foreign exchange loss, net	5,591	-
Impairment of investments in associates and joint ventures	2,211	-
Loss on disposal of property, plant and equipment	554	3,848
Loss on disposal of subsidiaries	195	220
Other	1,517	1,013
Total other operating expenses	**30,473**	**22,996**

In the years ended 31 December 2016 and 31 December 2015 the amounts of operating cash outflows associated with exploration expenses were approximately equal to the respective amounts recognised within other operating expenses.

(in millions of Russian roubles, unless otherwise stated)

23 OTHER OPERATING EXPENSES (CONTINUED)

Social costs consist of:

	Year ended 31 December 2016	**Year ended 31 December 2015**
Charity	3,602	2,879
Maintenance of local infrastructure	2,024	1,749
Hospital expenses	262	270
Education	99	140
Other	498	372
Total social costs	**6,485**	**5,410**

24. FINANCE INCOME AND COSTS

	Year ended 31 December 2016	**Year ended 31 December 2015**
Interest income	4,721	3,912
Interest expense:		
Bank loans	(6,214)	(6,313)
Eurobonds	(5,093)	(4,713)
RR denominated non-convertible bonds	-	(1,131)
Other financial liabilities	(1,209)	(903)
Unwinding of discount of provisions	(217)	(474)
Foreign exchange gain / (loss), net	32,136	(48,859)
Total finance income / (costs), net	**24,124**	**(58,481)**

(in millions of Russian roubles, unless otherwise stated)

25. CASH GENERATED FROM OPERATING ACTIVITIES

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

	Year ended 31 December 2016	Year ended 31 December 2015
Profit before income tax	**169,739**	**41,316**
Adjustments for:		
Share of net profit of associates and joint ventures (note 5)	(2,650)	(2,628)
Interest income (note 24)	(4,721)	(3,912)
Interest expense and discounting of provisions (note 24)	12,733	13,534
Loss on impairment of investments in associates and joint ventures	2,211	-
(Gain) / loss on disposal of property, plant and equipment (note 23)	(97)	3,848
Loss on disposal of subsidiaries (note 23)	195	220
(Recovery) / creation provision for social obligation	-	(285)
Change in provision for impairment of receivables and obsolete inventories, net	1,359	1,539
Depreciation (notes 8, 19)	24,902	19,268
Adjustments for non-cash financing activity	(18)	19
Impairment of of property, plant and equipment (note 8)	651	-
Unrealised foreign exchange effect on non-operating items	(25,836)	47,061
Net operating cash flows before changes in working capital	**178,468**	**119,980**
Net increase in inventories	(3,673)	(31,308)
Net increase in trade and other receivables, excluding dividends receivable	(1,320)	(1,757)
Net decrease in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(1,510)	(1,717)
Net increase in taxes payable other than income tax	1,937	688
Cash inflows from operating activities	**173,902**	**85,886**
Income tax paid	(30,764)	(10,345)
Net Cash Inflows from Operating Activities	**143,138**	**75,541**

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. During 2016 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country’s economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating is below investment grade. This operating environment has a significant impact on the Group’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Group’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

(in millions of Russian roubles, unless otherwise stated)

26. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(b) Taxes

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

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

The Russian transfer pricing legislation is 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 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 31 December 2016.

(d) Capital commitments

As at 31 December 2016 the Group had contractual commitments for capital expenditures of approximately RR’mln 5,800 (31 December 2015: RR’mln 6,181).

(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 2016	**31 December 2015**
Not later than 1 year	194	185
Later than 1 year and not later than 5 years	523	545
Later than 5 years	961	745
Total operating lease commitments	**1,678**	**1,475**

26. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(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 2016 the Group recognised a provision for these future expenses in the amount of RR'mln 6,345 (31 December 2015: RR'mln 5,350), 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 2016 and 31 December 2015.

(h) Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. The Group has guaranteed the obligations of 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 2016 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 2016 8 per cent. of the Company's shares were owned by administrations of 8 districts of the Republic of Sakha (Yakutia). Following the General Meeting of Shareholders in June 2016, the 15 seats on the Supervisory Board include 13 representatives of the Russian Federation and the Republic of Sakha (Yakutia) (including one – the Chair of the Management Board), 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, 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 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 18, 19, 20, 21 and 26.

Parties under control of the Government

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

(in millions of Russian roubles, unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Consolidated Statement of Financial Position	**31 December 2016**	**31 December 2015**
Short-term accounts receivable	3,442	1,053
Short-term accounts payable	1,758	1,464
Loans received by the Group*	37,766	44,947
Loans issued by the Group	-	2
Cash and cash equivalents	27,401	15,227
Bank deposits	25,570	-

* The line includes the loans received from banks with governmental ownership with various due dates and interest rates ranging from 7% to 15%.

Consolidated Statement of Profit or Loss and Other Comprehensive Income	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Sales of diamonds	11,153	5,947
Other sales	6,242	7,480
Electricity and heating expenses	(7,515)	(9,809)
Other purchases	(7,999)	(8,150)
Interest income	3,713	1,767
Interest expense	(2,904)	(2,492)

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 31 December 2016 and 31 December 2015 the Management Board consisted of 13 members. As at 31 December 2016 one of the Management Board members was also a member of the Supervisory Council. Management Board members are entitled to salary, bonuses, voluntary medical insurance and other short-term employee benefits. Salary and bonus compensation paid to members of the Management Board is determined by the terms of “Remuneration Policy for the members of the Management Board of PJSC ALROSA” approved by the Company’s Supervisory Council on 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 2016 totalling RR’mln 889 (year ended 31 December 2015: RR’mln 770). The portion of provision for pension obligations attributable to key management as at 31 December 2016 equals to RR’mln 60 (31 December 2015: RR’mln 37). The amount of expenses 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 2016 equals to RR’mln 6 (year ended 31 December 2015: RR’mln 6).

(in millions of Russian roubles, unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (CONTINUED)

Associates and Joint Ventures

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

Long-term accounts receivable	**31 December 2016**	**31 December 2015**
CJSC MMC Timir, loans issued*	-	727
Total long-term accounts receivable	**-**	**727**

Current accounts receivable	**31 December 2016**	**31 December 2015**
Catoca, dividends and other receivable	84	2,937
CJSC MMC Timir, loans issued*	-	9
Other	-	47
Total current accounts receivable	**84**	**2,993**

*In current year the loans were impaired in full amounts (note 5).

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

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)**	
	31.12.2016	**31.12.2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
PJSC ALROSA-Nyurba	11	(55)	2,261	1,677	47,455	35,778	18,072	13,403	18,072	13,403
PJSC Severalmaz	96	101	(4)	(3)	6,206	5,080	(1,243)	(798)	(1,243)	(798)
JSC Viluyskaya GES-3	(60)	(63)	2	2	4,292	2,377	909	841	909	841
Hydroshikapa S.A.R.L.	(358)	(375)	(211)	(187)	988	933	(468)	(416)	37	(1,001)
Total	**(311)**	**(392)**	**2,048**	**1,489**	**58,941**	**44,168**	**17,270**	**13,030**	**17,775**	**12,445**
Other non-material subsidiaries	79	135	31	29						
Total per financial statements	**(232)**	**(257)**	**2,079**	**1,518**						

Name	**Non-current assets**		**Current assets**		**Non-current liabilities**		**Current liabilities**	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
PJSC ALROSA-Nyurba	3,195	3,439	14,084	12,274	754	1,093	5,569	4,187
PJSC Severalmaz	21,173	22,110	6,540	6,842	301	1,373	2,019	944
JSC Viluyskaya GES-3	10,633	10,893	768	521	3,725	4,925	941	663
Hydroshikapa S.A.R.L.	4,068	5,613	433	353	5,898	7,477	1,287	1,203
Total	**39,069**	**42,055**	**21,825**	**19,990**	**10,678**	**14,868**	**9,816**	**6,997**

(in millions of Russian roubles, unless otherwise stated)

28. NON-CONTROLLING INTEREST (CONTINUED)

Name	PJSC ALROSA-Nyurba		MAK Bank LLC		PJSC Severalmaz		JSC Viluyskaya GES-3		Hydroshikapa S.A.R.L.	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Cash Flow from Operating Activity	18,940	13,548	-	-	583	(151)	1,260	1,586	194	307
Income tax paid	(4,812)	(2,645)	-	-	-	-	(294)	(262)	(5)	(84)
Net Cash Inflows / (Outflows) from Operating Activities	14,128	10,903	-	-	583	(151)	966	1,324	189	223
Net Cash (Outflow) / Inflow from Investing Activities	(1)	2	-	-	(688)	(969)	(138)	(363)	2	-
Net Cash (Outflow) /Inflow from Financing Activities	(14,064)	(11,378)	-	(1,201)	(37)	1,168	(1,190)	(910)	(249)	(249)
Net Increase/(Decrease) in Cash and Cash Equivalents	63	(473)	-	(1,201)	(142)	48	(362)	51	(58)	(26)
Cash and eash equivalents at the beginning of the period	21	522	-	1,201	152	105	366	315	205	168
Foreign exchange gains/(losses) on cash and cash equivalents	(22)	(28)	-	-	(7)	(1)	-	-	215	63
Cash and Cash Equivalents at the End of the Period	**62**	**21**	**-**	**-**	**3**	**152**	**4**	**366**	**362**	**205**

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:

	Dividends paid	
Subsidiary	**Year ended 31 December 2016**	**Year ended 31 December 2015**
PJSC ALROSA-Nyurba	2,196	1,564
Total dividends paid by subsidiaries to non-controlling shareholders	**2,196**	**1,564**

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 357; PJSC Severalmaz – RR'mln 716; JSC Viluyskaya GES-3 – RR'mln 270; Hydroshikapa S.A.R.L. – RR'mln 156. 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 derived from statutory accounting data net of intersegment operations between subdivisions of the Company, but including intercompany transactions between the legal entities included in the Group.

The Management Board evaluates performance and makes investment and strategic decisions based upon review of operating activity results (i.e. meeting production targets and monitoring of actual expenditures against budget allocated by production and sales of diamonds and other activities) as it believes that such information is the most relevant in evaluating the results. No specific measure of profit or loss is analysed by the CODM on entity by entity basis.

(in millions of Russian roubles, unless otherwise stated)

29. SEGMENT INFORMATION (CONTINUED)

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 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 margin	**205,235**	**933**	**(5,559)**	**2,363**	**377**	**203,349**

Year ended 31 December 2015	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Gas**	**Other activities**	**Total**
Revenue	213,430	7,384	3,406	7,326	9,484	241,030
Intersegment revenue	-	(1,722)	(392)	(936)	(3,426)	(6,476)
Cost of sales, including	53,149	7,360	8,595	4,791	8,284	82,179
depreciation	12,609	504	668	923	1,617	16,321
Gross margin	**160,281**	**24**	**(5,189)**	**2,535**	**1,200**	**158,851**

(in millions of Russian roubles, unless otherwise stated)

29. SEGMENT INFORMATION (CONTINUED)

Reconciliation of revenue is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Segment revenue	**336,851**	**241,030**
Elimination of intersegment revenue	(11,136)	(6,476)
Reclassification of custom duties [1]	(12,229)	(12,188)
Other adjustments and reclassifications	3,604	2,158
Revenue as per consolidated statement of profit or loss and other comprehensive income	**317,090**	**224,524**

[1] Reclassification of custom duties – export duties netted against revenues from export of diamonds

Reconciliation of cost of sales including depreciation is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Segment cost of sales	**133,502**	**82,179**
Adjustment for depreciation of property, plant and equipment	4,113	2,775
Elimination of intersegment purchases	(8,270)	(4,083)
Accrued provision for pension obligation [1]	108	(1,100)
Reclassification of extraction tax [2]	5,298	19,405
Adjustment for inventories [3]	5,563	(1,573)
Accrual for employee flights and holidays [4]	(248)	352
Accrual for bonuses	35	(120)
Other adjustments	216	112
Reclassification of exploration expenses [5]	(4,270)	(3,389)
Other reclassifications	(6,296)	(1,318)
Cost of sales as per consolidated statement of profit or loss and other comprehensive income	**129,751**	**93,240**

[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
[3] Adjustment for inventories – treatment of extraction tax as direct expenses for financial statements, with acorresponding entry in inventory figure and other adjustments
[4] Accrual for employee flights and holidays – recognition of employee flights and holidays reserve
[5] Reclassification of exploration expenses – reclassification to other operating expenses

(in millions of Russian roubles, unless otherwise stated)

29. SEGMENT INFORMATION (CONTINUED)

Reconciliation of revenue is presented below:

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

	Year ended 31 December 2016	Year ended 31 December 2015
Belgium	142,542	98,101
Russian Federation	53,414	42,828
India	50,211	33,929
Israel	31,488	24,480
United Arab Emirates	18,032	8,358
China	13,087	10,292
Belarus	2,686	1,172
Armenia	2,206	554
Republic of Botswana	1,142	-
Angola	988	933
USA	644	1,770
United Kingdom	368	1,837
Other countries	282	270
Total	**317,090**	**224,524**

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

	31 December 2016	31 December 2015
Russian Federation	292,603	288,879
Angola	4,068	5,178
Other countries	1,252	1,097
Total non-current assets other than financial instruments	**297,923**	**295,154**

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 2016				31 December 2015			
	Level				Level			
	1	2	3	Total	1	2	3	Total
Available-for-sale investments	950	-	474	**1,424**	120	-	591	**711**
Total	**950**	**-**	**474**	**1,424**	**120**	**-**	**591**	**711**

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

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	-	81,437	-	81,437
Eurobonds	60,657	-	-	60,657
Finance lease obligation	-	-	88	88
Total non-current financial liabilities	**60,657**	**81,437**	**88**	**142,182**
Current financial liabilities				
Financial accounts payable	-	9,298	-	9,298
Finance lease obligation	-	-	85	85
Dividends payable	-	86	-	86
Total current financial liabilities	**-**	**9,384**	**85**	**9,469**
Total financial liabilities	**60,657**	**90,821**	**173**	**151,651**

(in millions of Russian roubles, unless otherwise stated)

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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 27 January 2017 the Management Board approved new policy on Non-state pension parity scheme of the employees of PJSC ALROSA effective 01 July 2017. Provision for pension obligations is expected to decrease in the amount of 4,000 RR’mln due to changes in pension plan.

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