PJSC ALROSA

INTERNATIONAL ACCOUNTING STANDARD No. 34

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2017

CONTENTS

(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Notes	30 September 2017	31 December 2016
Assets			
Non-current assets			
Goodwill		1,439	1,439
Property, plant and equipment	7	281,851	288,874
Investments in associates and joint ventures	4	3,971	4,061
Deferred tax asset		3,429	1,967
Available-for-sale investments		2,700	1,424
Long-term accounts receivable	9	1,868	2,093
Total non-current assets		**295,258**	**299,858**
Current assets			
Inventories	8	92,260	98,576
Prepaid income tax		194	121
Current accounts receivable	9	17,950	15,179
Bank deposits	5	10	28,570
Cash and cash equivalents	6	24,933	30,410
Total current assets		**135,347**	**172,856**
Total assets		**430,605**	**472,714**
Equity			
Share capital	10	12,473	12,473
Share premium		10,431	10,431
Retained earnings and other reserves	10	228,419	234,298
Equity attributable to owners of PJSC ALROSA		**251,323**	**257,202**
Non-Controlling Interest		**311**	**(232)**
Total equity		**251,634**	**256,970**
Liabilities			
Non-current liabilities			
Long-term debt	11	100,722	141,669
Provision for pension obligations	15	16,394	19,954
Other provisions		6,736	6,691
Deferred tax liabilities		9,829	11,018
Total non-current liabilities		**133,681**	**179,332**
Current liabilities			
Short-term debt and current portion of long-term debt	12	12,850	666
Trade and other payables	13	24,398	25,488
Income tax payable		2,275	2,368
Other taxes payable	14	5,648	7,804
Dividends payable	10	119	86
Total current liabilities		**45,290**	**36,412**
Total liabilities		**178,971**	**215,744**
Total equity and liabilities		**430,605**	**472,714**

Signed on 17 November 2017 by the following members of management:

Sergey S. Ivanov
Chief Executive Officer

Alexey N. Filippovsky
Chief Financial Officer

(in millions of Russian roubles, unless otherwise stated)

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

		Three months ended		Nine months ended	
	Notes	**30 September 2017**	**30 September 2016**	**30 September 2017**	**30 September 2016**
Revenue	16	58,927	68,896	214,477	255,563
Cost of sales	17	(27,794)	(27,243)	(105,282)	(96,496)
Royalty	14	(302)	(302)	(907)	(907)
Gross profit		**30,831**	**41,351**	**108,288**	**158,160**
General and administrative expenses	18	(2,459)	(2,799)	(8,986)	(8,833)
Selling and marketing expenses	19	(673)	(774)	(2,261)	(2,506)
Other operating income	20	929	219	5,009	853
Other operating expenses	21	(13,630)	(4,288)	(26,106)	(19,897)
Operating profit		**14,998**	**33,709**	**75,944**	**127,777**
Finance income / (costs), net	22	539	1,169	(139)	19,774
Share of net profit of associates and joint ventures	4	782	864	2,642	2,055
Profit before income tax		**16,319**	**35,742**	**78,447**	**149,606**
Income tax	14	(3,369)	(9,182)	(16,587)	(32,661)
Profit for the period		**12,950**	**26,560**	**61,860**	**116,945**
Other comprehensive (loss)/income					
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations, net of tax	10	(311)	(602)	(952)	(3,822)
Total items that will not be reclassified to profit or loss		**(311)**	**(602)**	**(952)**	**(3,822)**
Items that will be reclassified to profit or loss:					
Currency translation differences, net of tax	10	(135)	(32)	(61)	(86)
Change in fair value of available-for-sale investments		84	412	106	450
Total items that will be reclassified to profit or loss		**(51)**	**380**	**45**	**364**
Total other comprehensive loss for the period		**(362)**	**(222)**	**(907)**	**(3,458)**
Total comprehensive income for the period		**12,588**	**26,338**	**60,953**	**113,487**
Profit attributable to:					
Owners of PJSC ALROSA		12,766	26,226	60,850	115,156
Non-controlling interest		184	334	1,010	1,789
Profit for the period		**12,950**	**26,560**	**61,860**	**116,945**
Total comprehensive income attributable to:					
Owners of PJSC ALROSA		12,384	25,990	59,890	111,522
Non-controlling interest		204	348	1,063	1,965
Total comprehensive income for the period		**12,588**	**26,338**	**60,953**	**113,487**
Basic and diluted earnings per share for profit attributable to the owners of PJSC ALROSA (in Russian Roubles)	10	1.73	3.56	8.26	15.64

(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

	Notes	Nine months ended 30 September 2017	Nine months ended 30 September 2016
Net cash inflow from operating activities	23	**80,267**	**126,027**
Cash flows from investing activities			
Purchase of property, plant and equipment		(18,418)	(21,948)
Proceeds from sales of property, plant and equipment		235	260
Interest received	22	3,281	2,339
Acquisition of available-for-sale investments		(1,323)	(738)
Dividends received from associates and joint ventures		5	4,590
Proceeds from disposal of subsidiaries, net of cash disposed of		499	388
Cash received from/(transfer to) deposit accounts		28,560	(49,585)
Net cash inflow/ (outflow) from investing activities		**12,839**	**(64,694)**
Cash flows from financing activities			
Repayments of loans		(35,183)	(23,175)
Loans received		12,577	45
Sale of treasury shares		-	621
Interest paid		(7,231)	(6,693)
Dividends paid		(66,255)	(15,868)
Net cash outflow from financing activities		**(96,092)**	**(45,070)**
Net increase in cash and cash equivalents		**(2,986)**	**16,263**
Cash and cash equivalents at the beginning of the period	6	30,410	20,503
Effect of exchange rate changes on cash and cash equivalents		(2,491)	(3,817)
Cash and cash equivalents at the end of the period	6	**24,933**	**32,949**

(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

		Attributable to owners of PJSC ALROSA								
	Number of shares outstanding	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves (note 10)**	**Retained earnings**	**Total**	**Non-control-ling interest**	**Total equity**
Balance at 1 January 2016	**7,356,366,330**	**12,473**	**10,431**	**(15)**	**(5,944)**	**134,797**	**151,742**	**(257)**	**151,485**
Comprehensive income/(loss)									
Profit for the period		-	-	-	-	115,156	115,156	1,789	116,945
Other comprehensive (loss)/income		-	-	-	(3,634)	-	(3,634)	176	(3,458)
Total comprehensive income / (loss) for the period		**-**	**-**	**-**	**(3,634)**	**115,156**	**111,522**	**1,965**	**113,487**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(15,393)	(15,393)	(442)	(15,835)
Sale of own shares	8,599,300	-	-	15	-	606	621	-	621
Sale of non-controlling interest		-	-	-	89	-	89	(89)	-
Total transactions with owners		**-**	**-**	**15**	**89**	**(14,787)**	**(14,683)**	**(531)**	**(15,214)**
Balance at 30 September 2016	**7,364,965,630**	**12,473**	**10,431**	**-**	**(9,489)**	**235,166**	**248,581**	**1,177**	**249,758**
Balance at 1 January 2017	**7,364,965,630**	**12,473**	**10,431**	**-**	**(17,104)**	**251,402**	**257,202**	**(232)**	**256,970**
Comprehensive income/(loss)									
Profit for the period		-	-	-	-	60,850	60,850	1,010	61,860
Other comprehensive (loss)/income		-	-	-	(960)	-	(960)	53	(907)
Total comprehensive income / (loss) for the period		**-**	**-**	**-**	**(960)**	**60,850**	**59,890**	**1,063**	**60,953**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(65,769)	(65,769)	-	(65,769)
Dividends of subsidiaries to non-controlling shareholders		-	-	-	-	-	-	(520)	(520)
Total transactions with owners		**-**	**-**	**-**	**-**	**(65,769)**	**(65,679)**	**(520)**	**(66,289)**
Balance at 30 September 2017	**7,364,965,630**	**12,473**	**10,431**	**-**	**(18,064)**	**246,483**	**251,323**	**311**	**251,634**

1. ACTIVITIES

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

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

As at 30 September 2017 and 31 December 2016 the Company's principal shareholders are the Federal Agency for State Property Management on behalf of the government of the Russian Federation (33.0 per cent of shares) and the Ministry of the property and land relations of the Republic of Sakha (Yakutia) on behalf of the Republic of Sakha (Yakutia) (25.0 per cent of shares).

The Company is registered and its principal operating office is situated at 6, Lenin Street, Mirny, 678170, Republic of Sakha (Yakutia), Russia.

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

2. BASIS OF PRESENTATION

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

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

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

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 58.0169 and 60.6569 as at 30 September 2017 and 31 December 2016, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 68.4483 and 63.8111 as at 30 September 2017 and 31 December 2016, respectively.

(in millions of Russian roubles, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

New accounting developments

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

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

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

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

4. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

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

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

4.1. Associates and joint ventures

			Percentage of ownership interest held at		Carrying value of investment at	
Name	**Principal activity**	**Place of business**	**30 September 2017**	**31 December 2016**	**30 September 2017**	**31 December 2016**
Catoca Mining Company Ltd.	Diamonds extraction	Angola	32.8	32.8	3,756	3,847
CJSC MMC Timir	Iron-ore extraction	Russia	49.0	49.0	-	-
Other		Russia	20-50	20-50	215	214
Total					**3,971**	**4,061**

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

(in millions of Russian roubles, unless otherwise stated)

4. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

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

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

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Catoca Mining Company Ltd.	782	930	2,648	2,142
CJSC MMC Timir	-	17	-	(5)
Other	-	(83)	(6)	(82)
Total Group's share of net profit of associates and joint ventures	**782**	**864**	**2,642**	**2,055**

Catoca Mining Company Ltd. ("Catoca") is a diamond-mining venture located in Angola. In May 2017 Catoca declared dividends for the year ended 31 December 2016, the Group's share of these dividends amounted to RR'mln 2,515 before taxation in the amount of RR'mln 252. Currency translation loss recognised in the other comprehensive income for the nine months ended 30 September 2017 in respect of investment in Catoca totalled RR'mln 224.

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 nine months ended 30 September 2016 in respect of investment in Catoca totalled RR'mln 598.

5. BANK DEPOSITS

	30 September 2017	31 December 2016
Deposits placed in PJSC VTB Bank	-	25,570
Deposits placed in AO UniCredit Bank	10	-
Deposits placed in JSC ROSBANK	-	3,000
Total bank deposits	**10**	**28,570**

As at 30 September 2017 the Group placed deposits in Russian Rouble in banks with original maturity dates exceeding three months and interest rates 8.16% (31 December 2016: from 9.30% to 9.81%).

6. CASH AND CASH EQUIVALENTS

	30 September 2017	31 December 2016
Deposit accounts with maturity less than three months	19,327	24,525
Cash in banks and on hand	5,606	5,885
Total cash and cash equivalents	**24,933**	**30,410**

(in millions of Russian roubles, unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	TOTAL
As at 1 January 2016			
Cost	372,165	56,430	428,595
Accumulated depreciation and impairment losses	(143,604)	(1,028)	(144,632)
Net book value as at 1 January 2016	**228,561**	**55,402**	**283,963**
Changes during nine months ended 30 September 2016:			
Foreign exchange differences	(668)	65	(603)
Additions	5,180	17,424	22,604
Transfers	29,264	(29,264)	-
Disposal of subsidiaries – at cost	(191)	-	(191)
Disposal of subsidiaries – accumulated depreciation	102	-	102
Other disposals – at cost	(4,089)	(171)	(4,260)
Other disposals – accumulated depreciation	3,837	-	3,837
Change in estimate of provision for land recultivation	134	-	134
Impairment of property, plant and equipment	(810)	-	(810)
Depreciation charge for the period	(17,415)	-	(17,415)
As at 30 September 2016	**243,905**	**43,456**	**287,361**
Cost	401,795	44,484	446,279
Accumulated depreciation and impairment losses	(157,890)	(1,028)	(158,918)
Net book value at 30 September 2016	**243,905**	**43,456**	**287,361**
As at 1 January 2017			
Cost	410,256	41,277	451,533
Accumulated depreciation and impairment losses	(162,659)	-	(162,659)
Net book value as at 1 January 2017	**247,597**	**41,277**	**288,874**
Changes during nine months ended 30 September 2017:			
Foreign exchange differences	(174)	79	(95)
Additions	4,972	15,381	20,353
Transfers	17,887	(17,887)	-
Disposal of subsidiaries – at cost	(8)	(4)	(12)
Disposal of subsidiaries – accumulated depreciation	8	-	8
Other disposals – at cost	(16,593)	(218)	(16,811)
Other disposals – accumulated depreciation	9,137	-	9,137
Change in estimate of provision for land recultivation	13	-	13
Impairment of property, plant and equipment	(148)	-	(148)
Depreciation charge for the period	(19,468)	-	(19,468)
As at 30 September 2017	**243,223**	**38,628**	**281,851**
Cost	416,353	38,628	454,981
Accumulated depreciation and impairment losses	(173,130)	-	(173,130)
Net book value at 30 September 2017	**243,223**	**38,628**	**281,851**

Borrowing costs capitalized in assets under construction

During nine months ended 30 September 2017 borrowing costs totalling RR'mln 324 (nine months ended 30 September 2016: RR'mln 203) were capitalised in assets under construction. For the nine months ended 30 September 2017 borrowing costs were capitalized at the weighted average rate of its general borrowings of 7.32 per cent per annum (nine months ended 30 September 2016: 6.88 per cent per annum).

8. INVENTORIES

	30 September 2017	31 December 2016
Diamonds	48,787	55,526
Ores and sands mined	12,760	16,566
Mining and repair materials	27,872	23,970
Consumable and other supplies	2,841	2,514
Total inventories	**92,260**	**98,576**

(in millions of Russian roubles, unless otherwise stated)

9. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	30 September 2017	31 December 2016
Loans issued*	867	960
Consideration receivable for disposed interest in CJSC MMC Timir	447	934
Advances to suppliers	188	145
VAT recoverable	12	13
Other receivables	354	41
Total long-term accounts receivable	**1,868**	**2,093**

Current accounts receivable	30 September 2017	31 December 2016
Trade receivables for supplied diamonds	4,957	1,498
VAT recoverable	2,883	2,311
Receivables from associates (note 25)	2,344	84
Advances to suppliers	2,056	1,372
Consideration receivable for disposed interest in CJSC MMC Timir	613	664
Loans issued	321	319
Prepaid taxes, other than income tax	223	5,010
Interest on deposits	45	995
Other receivables	4,508	2,926
Total current accounts receivable	**17,950**	**15,179**

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

Trade and other receivables are presented net of impairment provision of RR'mln 3,142 and RR'mln 2,821 as at 30 September 2017 and 31 December 2016, respectively.

10. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and fully paid in totals RR'mln 12,473 as at 30 September 2017 and 31 December 2016 and consists of 7,364,965,630 ordinary shares at RR 0.5 par value share. In addition as at 30 September 2017 and 31 December 2016 share capital includes hyperinflation adjustment totalling RR'mln 8,790, which was calculated in accordance with requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" and relates to the reporting periods prior to 1 January 2003.

Distributable profits

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

Earnings per share

Earnings per share have been calculated by dividing the profit attributable to owners of the Company by the weighted average number of shares outstanding during the period, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares. There are 7,364,965,630 weighted average shares outstanding for the three and nine months ended 30 September 2017 (for the three and nine months ended 30 September 2016: 7,364,965,630 and 7,361,710,416 shares, respectively). There are no dilutive financial instruments outstanding.

(in millions of Russian roubles, unless otherwise stated)

10. SHAREHOLDERS' EQUITY (CONTINUED)

Other reserves

	Currency translation reserve	Reserve on purchase of non-controlling interest	Available-for-sale investments	Recognition of accumulated actuarial loss	Total other reverves
Balance as at 1 January 2016	**499**	**(16)**	**57**	**(6,484)**	**(5,944)**
Remeasurement on post-employment benefit obligation (note 15)	-	-	-	(3,822)	(3,822)
Sale of non-controlling interest	-	89	-	-	89
Currency translation differences	-	-	450	-	450
Change in fair value of available-for-sale investments	(262)	-	-	-	(262)
Balance as at 30 September 2016	**237**	**73**	**507**	**(10,306)**	**(9,489)**
Balance as at 1 January 2017	**171**	**69**	**238**	**(17,582)**	**(17,104)**
Remeasurement on post-employment benefit obligation (note 15)	-	-	-	(952)	(952)
Currency translation differences	(114)	-	-	-	(114)
Change in fair value of available-for-sale investments	-	-	106	-	106
Balance as at 30 September 2017	**57**	**69**	**344**	**(18,534)**	**(18,064)**

Dividends

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

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

11. LONG-TERM DEBT

	30 September 2017	31 December 2016
Bank loans:		
US$ denominated floating rate	-	36,394
US$ denominated fixed rate	41,772	43,673
RR denominated fixed rate	1,928	1,370
	43,700	**81,437**
US$ denominated Eurobonds	58,017	60,657
Finance lease obligation	114	173
Other RR denominated fixed rate loans	32	16
	101,863	**142,283**
Less: current portion of long-term debt (note 12)	(1,141)	(614)
Total long-term debt	**100,722**	**141,669**

As at 30 September 2017 and 31 December 2016 the fair value of bank loans, finance lease obligation and other loans, excluding Eurobonds, was not materially different from their carrying value.

As at 30 September 2017 the Group pledged real estate with a carrying value of RR'mln 2,162 (31 December 2016: RR'mln 2,223) to secure obligations under a long-term loan received from PJSC "Sberbank" in the amount of RR'mln 1,028 (31 December 2016: RR'mln 1,200). In accordance with maturity, part of this loan in the amount of RR'mln 686 was transferred to short-term debt as at 30 September 2017 (31 December 2016: RR'mln 515).

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

	30 September 2017	31 December 2016
Bank loans:		
US$ denominated floating rate	-	7.2%
US$ denominated fixed rate	4.3%	4.3%
RR denominated fixed rate	12.6%	13.3%
Eurobonds	7.8%	7.8%

(in millions of Russian roubles, unless otherwise stated)

11. LONG-TERM DEBT (CONTINUED)

Bonds

Movements of issued Eurobonds during nine months ended 30 September 2017 and 30 September 2016 were as follows:

	Nine months ended	
	30 September 2017	**30 September 2016**
Balance at the beginning of the period	**60,657**	**72,883**
Amortisation of discount	1	2
Exchange gain	(2,641)	(9,727)
Balance at the end of the period	**58,017**	**63,158**

As at 30 September 2017 the fair value of Eurobonds comprised RR'mln 64,570 (31 December 2016: RR'mln 68,694).

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

	30 September 2017	**31 December 2016**
US$ denominated fixed rate bank loans	11,700	-
Other RR denominated fixed rate loans	9	52
Add: current portion of long-term debt (note 11)	1,141	614
Total short-term debt and current portion of long-term debt	**12,850**	**666**

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

13. TRADE AND OTHER PAYABLES

	30 September 2017	**31 December 2016**
Trade payables	8,172	6,820
Accrual for employee holidays and flights	7,896	7,890
Wages and salaries	3,520	6,666
Interest payable	1,917	1,342
Advances from customers	1,855	1,353
Current portion of provision for social obligation	273	281
Payables to associates	3	11
Other payables	762	1,125
Total trade and other payables	**24,398**	**25,488**

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

14. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

	30 September 2017	**31 December 2016**
Payments to social funds	2,076	2,676
Extraction tax	1,311	1,465
Property tax	1,149	1,067
Value added tax	410	1,364
Personal income tax (employees)	344	946
Other taxes and accruals	358	286
Total taxes payable, other than income tax	**5,648**	**7,804**

(in millions of Russian roubles, unless otherwise stated)

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

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

	Three months ended		Nine months ended	
	30 September 2017	**30 September 2016**	**30 September 2017**	**30 September 2016**
Property tax	1,208	1,249	3,819	3,717
Other taxes and accruals	91	129	381	353
Total taxes and accruals	**1,299**	**1,378**	**4,200**	**4,070**

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

Income tax expense comprises the following:

	Three months ended		Nine months ended	
	30 September 2017	**30 September 2016**	**30 September 2017**	**30 September 2016**
Current tax expense	4,266	7,619	19,079	32,760
Adjustments recognised in the period for current tax of prior periods	-	14	104	124
Deferred tax (benefit)/expense	(897)	1,549	(2,596)	(223)
Total income tax expense	**3,369**	**9,182**	**16,587**	**32,661**

15. PROVISION FOR PENSION OBLIGATION

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

	30 September 2017	**31 December 2016**
Present value of funded obligations	29,456	32,408
Fair value of plan assets	(14,295)	(13,638)
Pension obligations for the funded plan	15,161	18,770
Present value of unfunded obligation	1,233	1,184
Net liability	**16,394**	**19,954**

Starting from July, 1 2017 in accordance with the changes in the pension plan the Group will finance non-state pensions together with the employees on parity terms. The Group recognised income RR’mln 4,150 from reduction of the pension obligations to the employees not reached required length of service under the previous pension plan (note 20).

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

	Present value of obligation	**Fair value of pension plan assets**	**Total obligations/ (assets)**
As at 30 June 2017	**30,774**	**(14,073)**	**16,701**
Current service cost	76	-	76
Past service cost and curtailment	(218)	-	(218)
Interest expense/(income)	599	(289)	310
	457	**(289)**	**168**
Remeasurements:			
Return on pension plan assets, excluding amount included in interest expense/(income)	-	288	288
Loss from change in financial assumptions	26	-	26
	26	**288**	**314**
Contributions paid by employer	-	(733)	(733)
Benefit payments	(568)	512	(56)
	(568)	**(221)**	**(789)**
As at 30 September 2017	**30,689**	**(14,295)**	**16,394**

(in millions of Russian roubles, unless otherwise stated)

15. PROVISION FOR PENSION OBLIGATION (CONTINUED)

	Present value of obligation	Fair value of pension plan assets	Total obligations/ (assets)
As at 30 June 2016	**24,425**	**(10,033)**	**14,392**
Current service cost	87	-	87
Past service cost and curtailment	(25)		(25)
Interest expense/(income)	471	(245)	226
	533	**(245)**	**288**
Remeasurements:			
Return on pension plan assets, excluding amount included in interest expense/(income)	-	245	245
Loss from change in financial assumptions	408	-	408
	408	**245**	**653**
Contributions paid by employer	-	(738)	(738)
Benefit payments	(511)	464	(47)
	(511)	**(274)**	**(785)**
As at 30 September 2016	**24,855**	**(10,307)**	**14,548**

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

	Present value of obligation	Fair value of pension plan assets	Total obligations/ (assets)
As at 1 January 2017	**33,592**	**(13,638)**	**19,954**
Current service cost	231	-	231
Past service cost and curtailment	(3,944)	-	(3,944)
Interest expense/(income)	1,863	(869)	994
	(1,850)	**(869)**	**(2,719)**
Remeasurements:			
Return on pension plan assets, excluding amount included in interest expense/(income)	-	868	868
Loss from change in financial assumptions	95	-	95
	95	**868**	**963**
Contributions paid by employer	-	(1,733)	(1,733)
Benefit payments	(1,148)	1,077	(71)
	(1,148)	**(656)**	**(1,804)**
As at 30 September 2017	**30,689**	**(14,295)**	**16,394**

	Present value of obligation	Fair value of pension plan assets	Total obligations/ (assets)
As at 1 January 2016	**20,868**	**(10,312)**	**10,556**
Current service cost	259	-	259
Past service cost and curtailment	(98)	-	(98)
Interest expense/(income)	1,455	(735)	720
	1,616	**(735)**	**881**
Remeasurements:			
Return on pension plan assets, excluding amount included in interest expense/(income)	-	799	799
Gain from change in financial assumptions	3,404	-	3,404
	3,404	**799**	**4,203**
Contributions paid by employer		(1,033)	(1,033)
Benefit payments	(1,033)	974	(59)
	(1,033)	**(59)**	**(1,092)**
As at 30 September 2016	**24,855**	**(10,307)**	**14,548**

The significant actuarial assumptions are as follows:

	30 September 2017	31 December 2016
Discount rate (nominal)	7.8%	8.5%
Future salary increases (nominal)	6.5%	6.5%
Future pension increases (nominal)	5.0%	5.0%

(in millions of Russian roubles, unless otherwise stated)

16. REVENUE

	Three months ended		Nine months ended	
	30 September 2017	**30 September 2016**	**30 September 2017**	**30 September 2016**
Revenue from diamond sales:				
Export	45,988	54,635	176,898	213,933
Domestic	4,702	8,118	18,168	24,321
Revenue from diamonds for resale	-	266	16	763
Total revenue from diamond sales	**50,690**	**63,019**	**195,082**	**239,017**
Other revenue:				
Transport	2,838	2,534	5,850	5,143
Gas	1,686	1,379	5,011	4,225
Social infrastructure	1,243	725	3,964	3,063
Other	2,470	1,239	4,570	4,115
Total revenue	**58,927**	**68,896**	**214,477**	**255,563**

Export duties totalling RR’mln 1,865 and RR’mln 12,229 for the three and nine months ended 30 September 2016, respectively were netted against revenue from diamond export sales. In accordance with Russian Federation Government Decree №797 dated 15 August 2016, export duties relating to rough diamonds is 0% effective 1 September 2016.

17. COST OF SALES

	Three months ended		Nine months ended	
	30 September 2017	**30 September 2016**	**30 September 2017**	**30 September 2016**
Wages, salaries and other staff costs	10,700	10,397	32,539	32,399
Depreciation	5,497	4,815	18,574	16,508
Extraction tax	5,536	5,739	16,724	17,404
Materials	3,622	3,974	9,500	10,143
Fuel and energy	1,792	2,874	9,269	10,255
Services	2,198	2,234	5,686	5,378
Transport	600	272	1,632	1,607
Cost of diamonds for resale	-	266	16	763
Other	521	678	797	1,258
Movement in inventory of diamonds, ores and sands	(2,672)	(4,006)	10,545	781
Total cost of sales	**27,794**	**27,243**	**105,282**	**96,496**

Wages, salaries and other staff costs include payments to social funds in the amount of RR’mln 1,957 and RR’mln 6,900 for the three and nine months ended 30 September 2017, respectively (for the three and nine months ended 30 September 2016: RR’mln 2,034 and RR’mln 6,947, respectively).

Depreciation totalling RR’mln 410 and RR’mln 773 for the three and nine months ended 30 September 2017, respectively (for the three and nine months ended 30 September 2016: RR’mln 312 and RR’mln 792, respectively) and wages, salaries and other staff costs totalling RR’mln 411 and RR’mln 1,624 for the three and nine months ended 30 September 2017, respectively (for the three and nine months ended 30 September 2016: RR’mln 609 and RR’mln 2,383, respectively) were capitalised in the respective periods.

(in millions of Russian roubles, unless otherwise stated)

18. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Nine months ended	
	30 September 2017	**30 September 2016**	**30 September 2017**	**30 September 2016**
Wages, salaries and other staff costs	1,345	1,513	5,533	5,048
Services and other administrative expenses	894	1,055	3,083	3,010
Impairment of accounts receivable	220	231	370	775
Total general and administrative expenses	**2,459**	**2,799**	**8,986**	**8,833**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 206 and RR'mln 1,143 for the three and nine months ended 30 September 2017, respectively (for the three and nine months ended 30 September 2016: RR'mln 212 and RR'mln 878, respectively).

19. SELLING AND MARKETING EXPENSES

	Three months ended		Nine months ended	
	30 September 2017	**30 September 2016**	**30 September 2017**	**30 September 2016**
Wages, salaries and other staff costs	401	442	1,342	1,308
Services and other selling and marketing expenses	272	332	919	1,198
Total selling and marketing expenses	**673**	**774**	**2,261**	**2,506**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 80 and RR'mln 301 for the three and nine months ended 30 September 2017, respectively (for the three and nine months ended 30 September 2016 in the amount of RR'mln 88 and RR'mln 290, respectively).

20. OTHER OPERATING INCOME

	Three months ended		Nine months ended	
	30 September 2017	**30 September 2016**	**30 September 2017**	**30 September 2016**
Income from changes in terms of defined benefit plan	680	-	4,150	-
Other	249	219	859	853
Total other operating income	**929**	**219**	**5,009**	**853**

21. OTHER OPERATING EXPENSES

	Three months ended		Nine months ended	
	30 September 2017	**30 September 2016**	**30 September 2017**	**30 September 2016**
Impairment loss on property, plant and equipment due to the accident at the Mir underground mine	7,376	-	7,376	-
Exploration expenses	1,979	1,430	6,530	5,578
Taxes other than income tax, extraction tax and payments to social funds (note 14)	1,299	1,378	4,200	4,070
Social costs	1,274	994	3,645	3,673
Loss from exchange differences	199	68	1,912	3,549
Loss/(gain) on disposal and write-off of property, plant and equipment	(239)	55	172	956
Loss on impairment of investment in joint venture	-	-	-	899
Loss on disposal of subsidiaries	-	-	9	175
Other	1,742	363	2,262	997
Total other operating expenses	**13,630**	**4,288**	**26,106**	**19,897**

(in millions of Russian roubles, unless otherwise stated)

21. OTHER OPERATING EXPENSES (CONTINUED)

In August 2017 the Group recognized impairment loss on property, plant and equipment in the amount of RR'mln 7,376 due to the accident at the Mir underground mine which took place on August, 4 2017 and resulted in suspension of underground mine activity. The Group is currently assessing the consequenses of the accident, including estimation of capital construction and repair works and estimation of of possible mining resumption time.

Social costs consist of:

	Three months ended		**Nine months ended**	
	30 September 2017	**30 September 2016**	**30 September 2017**	**30 September 2016**
Charity	788	399	1,881	1,829
Maintenance of local infrastructure	346	401	1,372	1,337
Hospital expenses	48	51	167	151
Education	20	16	71	63
Other	72	127	154	293
Total social costs	**1,274**	**994**	**3,645**	**3,673**

22. FINANCE INCOME AND COSTS

	Three months ended		**Nine months ended**	
	30 September 2017	**30 September 2016**	**30 September 2017**	**30 September 2016**
Interest income	865	1,328	2,528	3,470
Interest expense:				
Bank loans	(561)	(1,389)	(1,789)	(4,690)
Eurobonds	(1,094)	(1,240)	(3,274)	(3,879)
Other	(370)	(267)	(3,472)	(851)
Unwinding of discount of future provisions	(88)	(44)	(216)	1
Exchange gain, net	1,787	2,781	6,084	25,723
Total finance (costs)/income, net	**539**	**1,169**	**(139)**	**19,774**

23. CASH GENERATED FROM OPERATING ACTIVITIES

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

	Nine months ended	
	30 September 2017	**30 September 2016**
Profit before income tax	**78,447**	**149,606**
Adjustments for:		
Share of net profit of associates and joint ventures (note 4)	(2,642)	(2,055)
Interest income (note 22)	(2,528)	(3,470)
Interest expense (note 22)	8,751	9,419
Loss on disposal and write-off of property, plant and equipment (note 21)	7,398	146
Depreciation (notes 7, 17)	18,695	16,655
Loss on disposal of subsidiaries (note 21)	9	175
Loss on impairment of investment in joint venture (note 21)	-	899
Income from changes in terms of defined benefit plan (note 20)	(4,150)	-
Adjustment for non-cash financing activity	(144)	2,470
Impairment of of property, plant and equipment (note 21)	149	810
Unrealised foreign exchange effect on non-operating items	(3,375)	(21,425)
Net operating cash flows before changes in working capital	**100,610**	**153,230**
Net decrease /(increase) in inventories	6,563	(5,691)
Net (increase)/decrease in receivables, excluding dividends receivable and consideration receivable for disposed controlling interest in CJSC MMC Timir	(1,815)	3,119
Net (decrease)/ increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(3,951)	1,688
Net (decrease)/ increase in taxes payable, excluding income tax	(2,149)	1,573
Cash inflows from operating activities	**99,258**	**153,919**
Income tax paid	(18,991)	(27,892)
Net cash inflows from operating activities	**80,267**	**126,027**

24. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment of the Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

(b) Taxes

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

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

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

Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the this transfer pricing legislation.

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

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

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 30 September 2017.

(d) Capital commitments

As at 30 September 2017 the Group has contractual commitments for capital expenditures of RR'mln 9,787 (31 December 2016: RR'mln 5,800).

(e) Operating lease commitments

(in millions of Russian roubles, unless otherwise stated)

24. CONTINGENCIES, COMMITMENTS AND OTHER RISKS (CONTINUED)

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

	30 September 2017	31 December 2016
Not later than 1 year	253	194
Later than 1 year and not later than 5 years	636	523
Later than 5 years	1,288	961
Total operating lease commitments	**2,177**	**1,678**

(f) Restoration, rehabilitation and environmental costs

Under its license agreements, the Group is not responsible for any significant restoration, rehabilitation and environmental expenditures that may be incurred subsequent to the cessation of production at each mine, apart from the obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. As at 30 September 2017 the Group's management recognised a provision for these future expenses in the amount of RR'mln 6,201 (31 December 2016: RR'mln 6,345).

(g) Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as at 30 September 2017 and 31 December 2016.

(h) Guarantees

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

25. RELATED PARTY TRANSACTIONS

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

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

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

Governments of the Russian Federation and the Republic of Sakha (Yakutia) are the major shareholders of the Company. As at 30 September 2017 58.0 per cent of the Company's issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia).

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

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

(in millions of Russian roubles, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS (CONTINUED)

Parties under control or significant influence of the Government

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

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

Condensed Consolidated Interim Statement of Financial Position	**30 September 2017**	**31 December 2016**
Long-term accounts receivable	337	-
Short-term accounts receivable	6,776	3,442
Short-term accounts payable	670	1,758
Bank loans received by the Group	1,830	37,766
Cash and cash equivalents	10,665	27,401
Bank deposits	-	25,570

Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income	**Three months ended**		**Nine months ended**	
	30 September 2017	**30 September 2016**	**30 September 2017**	**30 September 2016**
Sales of diamonds	708	2,209	4, 134	9,641
Other sales	2,319	695	5, 054	4,127
Electricity and heating purchases	991	(1,906)	(2,846)	(4,566)
Other purchases	(2,496)	(382)	(8,319)	(4,793)
Interest income	360	1,125	1,570	2,836
Interest expense	-	(845)	(529)	(2,339)

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. Compensation for serving as members of the Supervisory Council is not paid to the Chairman and members of the Supervisory Council who have the status of government or municipal public employee - according to Russian legislation, as well as to the members of the Supervisory Council who are also the individual executive body or a member of the collegial executive body.

As at 30 September 2017 and 31 December 2016 the Management Board consisted of 8 and 13 members, respectively. As at 30 September 2017 two of the Management Board members were also members of the Supervisory Council. Management Board members are entitled to salary, bonuses, voluntary medical insurance and other short-term employee benefits. Salary and bonus compensation paid to members of the Management Board is determined by the terms of “Remuneration Policy for the members of the Management Board of PJSC ALROSA” approved by the Company’s Supervisory Council on 06 October 2017, amended by the Company’s Supervisory Council on 26 August 2016.

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

Key management received benefits for the three and nine months ended 30 September 2017 totalling RR’mln 159 and RR’ mln 745, respectively (three and nine months ended 30 September 2016: RR’mln 203 and RR’ mln 775, respectively). The Group declared dividendes RR’mln 22 to key management hold the Company’s shares.

Associates and joint ventures

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

Current accounts receivable	**30 September 2017**	**31 December 2016**
Catoca Mining Company Ltd., dividends and other receivable	2,341	84
Other associates	3	-
Total current accounts receivable	**2, 344**	**84**

25. RELATED PARTY TRANSACTIONS (CONTINUED)

Significant transactions with associates are disclosed in note 4.

Other transactions with related parties

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

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

26. SEGMENT INFORMATION

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

The Group's primary activity is the extraction and sales of diamonds. The internal management reporting system is mainly based on the analysis of information relating to production and sales of diamonds, however information relating to other activities (represented by several subdivisions of the Company and separate legal entities of the Group`s all other business) is also regularly reviewed by the CODM. The Management Board regularly evaluates and analyses financial information prepared in accordance with internal policies and applicable legislation.

The Management Board evaluates performance and makes investment and strategic decisions based upon review of operating activity results (i.e. meeting production targets and monitoring of actual expenditures against budget allocated by production and sales of diamonds and other activities) as it believes that such information is the most relevant in evaluating the results. No specific measure of profit or loss is analysed by the CODM by separate subdivisions and entities of the Group. The following items are analysed on the Group level and are not allocated between segments for the purposes of the analysis:

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

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

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

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

(in millions of Russian roubles, unless otherwise stated)

26. SEGMENT INFORMATION (CONTINUED)

Three months ended 30 September 2017	Diamonds segment	Transpor-tation	Social infra-structure	Gas	Other activities	Total
Revenue	50,690	3,256	508	1,773	1,240	57,467
Intersegment revenue	-	(538)	141	(86)	(94)	(577)
Cost of sales, including	20,701	2,319	900	1,172	2,713	27,805
depreciation	3,894	163	73	215	572	4,917
Gross margin	**29,989**	**937**	**(392)**	**601**	**(1,473)**	**29,662**

Three months ended 30 September 2016	Diamonds segment	Transpor-tation	Social infra-structure	Gas	Other activities	Total
Revenue	64,883	3,084	872	1,449	2,553	72,841
Intersegment revenue	-	(668)	(105)	(66)	(1,607)	(2,446)
Cost of sales, including	20,983	2,320	1,922	1,010	2,616	28,851
depreciation	3,964	113	247	219	574	5,117
Gross margin	**43,900**	**764**	**(1,050)**	**439**	**(63)**	**43,990**

Nine months ended 30 September 2017	Diamonds segment	Transpor-tation	Social infra-structure	Gas	Other activities	Total
Revenue	195,082	6,918	3,377	5,663	6,934	217,974
Intersegment revenue	-	(1,312)	(1,174)	(649)	(4,308)	(7,443)
Cost of sales, including	89,635	5,794	5,879	3,420	8,224	112,952
depreciation	12,653	535	209	643	1,666	15,706
Gross margin	**105,447**	**1,124**	**(2,502)**	**2,243**	**(1,290)**	**105,022**

Nine months ended 30 September 2016	Diamonds segment	Transpor-tation	Social infra-structure	Gas	Other activities	Total
Revenue	251,246	6,626	2,484	4,859	8,345	273,560
Intersegment revenue	-	(1,700)	(313)	(621)	(5,117)	(7,751)
Cost of sales, including	74,155	5,744	6,017	3,225	7,775	96,916
depreciation	11,869	333	696	672	1,424	14,994
Gross margin	**177,091**	**882**	**(3,533)**	**1,634**	**570**	**176,644**

Reconciliation of revenue is presented below:

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Segment revenue	**57,467**	**72,841**	**217,974**	**273,560**
Elimination of intersegment revenue	(577)	(2,446)	(7,443)	(7,751)
Reclassification of export duties [1]	-	(1,865)	-	(12,229)
Other adjustments and reclassifications	2,037	366	3,946	1,983
Revenue as per Condensed Consolidated Interim Financial Statement of Profit or Loss and Other Comprehensive Income	**58,927**	**68,896**	**214,477**	**255,563**

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

(in millions of Russian roubles, unless otherwise stated)

26. SEGMENT INFORMATION (CONTINUED)

Reconciliation of cost of sales including depreciation is presented below:

	Three months ended		Nine months ended	
	30 September 2017	**30 September 2016**	**30 September 2017**	**30 September 2016**
Segment cost of sales	**27,805**	**28,851**	**112,952**	**96,916**
Adjustment for depreciation of property, plant and equipment [1]	580	(303)	2,868	1,514
Elimination of intersegment purchases	(114)	(1,294)	(5,885)	(5,054)
Accrued provision for pension obligation [2]	217	(695)	(572)	(940)
Reclassification of extraction tax [3]	-	1,077	-	4,268
Adjustment for inventories [4]	790	1,717	4,162	7,258
Accrual for employee flights and holidays [5]	227	(83)	39	(101)
Accrual for the part of expected annual bonus	3	121	180	410
Other adjustments	447	428	(363)	229
Reclassification of exploration expenses [6]	(721)	(1,168)	(3,625)	(3,588)
Other reclassifications	(1,440)	(1,408)	(4,474)	(4,416)
Cost of sales as per Condensed Consolidated Interim Financial Statement of Profit or Loss and Other Comprehensive Income	**27,794**	**27,243**	**105,282**	**96,496**

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

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

	Three months ended		Nine months ended	
	30 September 2017	**30 September 2016**	**30 September 2017**	**30 September 2016**
Belgium	25,027	29,053	100,517	115,862
Russian Federation	12,775	13,761	36,948	39,881
India	8,225	11,067	31,079	41,404
Israel	6,002	7,325	19,085	25,815
United Arab Emirates	3,461	3,063	14,691	14,666
China	2,086	2,982	8,251	10,762
Republic of Botswana	261	295	838	1,142
Armenia	256	551	752	2,003
Angola	172	211	622	744
Belarus	145	314	618	2,446
USA	162	148	557	512
UK	214	126	377	283
Switzerland	141	-	141	-
Other countries	-	-	1	43
Total revenue	**58,927**	**68,896**	**214,477**	**255,563**

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

	30 September 2017	**31 December 2016**
Russian Federation	282,856	290,636
Angola	3,784	4,068
Other countries	3,521	1,252
Total non-current assets	**290,161**	**295,956**

(in millions of Russian roubles, unless otherwise stated)

27. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

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

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

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

Assets measured at fair value

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

	30 September 2017				**31 December 2016**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale investments	2,220	-	480	**2,700**	950	-	474	**1,424**
Total	**2,220**	**-**	**480**	**2,700**	**950**	**-**	**474**	**1,424**

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

As at 30 September 2017 the Group had the following assets and liabilities not measured at fair value but for which fair value is disclosed, classified by the levels of the fair value hierarchy:

	Quoted price in an active market (Level 1)	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**	**Total**
Current and non-current financial assets				
Bank deposits	-	10	-	10
Current and non-current financial receivable	-	13,268	-	13,268
Loans issued	-	-	1,188	1,188
Cash and cash equivalents	-	24,933	-	24,933
Total financial assets	**-**	**38,211**	**1,188**	**39,399**
Non-current financial liabilities				
Loans from banks and other loans	-	42,591	-	42,591
Eurobonds	58,017	-	-	58,017
Finance lease obligation	-	-	16	16
Total non-current financial liabilities	**58,017**	**42,591**	**16**	**100,624**
Current financial liabilities				
Loans from banks and other loans	-	12,850	-	12,850
Financial accounts payable	-	10,855	-	10,855
Finance lease obligation	-	-	98	98
Dividends payable	-	119	-	119
Total current financial liabilities	**-**	**23,824**	**98**	**23,922**
Total financial liabilities	**58,017**	**66,415**	**114**	**124,546**

(in millions of Russian roubles, unless otherwise stated)

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

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

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

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

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

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

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

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