PJSC ALROSA

INTERNATIONAL ACCOUNTING STANDARD No. 34

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2019

CONTENTS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED).................... 1
CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED) 2
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED) 3
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED) 4

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. ACTIVITIES 5
2. BASIS OF PRESENTATION 5
3. CHANGES IN ACCOUNTING POLICIES 5
4. GROUP STRUCTURE AND INVESTMENTS 8
5. BANK DEPOSITS 8
6. CASH AND CASH EQUIVALENTS 9
7. PROPERTY, PLANT AND EQUIPMENT 9
8. INVENTORIES 10
9. TRADE AND OTHER RECEIVABLES 10
10. SHAREHOLDERS’ EQUITY 11
11. LONG-TERM DEBT AND OTHER FINANCIAL LIABILITIES 12
12. SHORT-TERM DEBT AND OTHER FINANCIAL LIABILITIES 12
13. TRADE AND OTHER PAYABLES 13
14. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES 13
15. GOVERNMENT GRANTS 14
16. PROVISION FOR PENSION OBLIGATION 14
17. REVENUE 16
18. COST OF SALES 16
19. GENERAL AND ADMINISTRATIVE EXPENSES 16
20. SELLING AND MARKETING EXPENSES 17
21. OTHER OPERATING INCOME 17
22. OTHER OPERATING EXPENSES 17
23. FINANCE INCOME AND COSTS 17
24. CASH GENERATED FROM OPERATING ACTIVITIES 18
25. CONTINGENCIES AND COMMITMENTS 19
26. RELATED PARTY TRANSACTIONS 20
27. SEGMENT INFORMATION 22
28. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT 25
29. EVENTS AFTER THE REPORTING PERIOD 27

(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Notes	31 March 2019	31 December 2018
ASSETS			
Non-current Assets			
Goodwill		1,439	1,439
Property, plant and equipment	7	231,849	234,873
Right-of-use asset	3	5,272	-
Investments in associates and joint ventures	4.1	6,468	5,191
Deferred tax assets	14	4,786	4,785
Financial assets at fair value through profit or loss	28	292	838
Long-term accounts receivable	9	9,318	9,316
Total Non-current Assets		**259,424**	**256,442**
Current Assets			
Inventories	8	86,439	92,619
Prepaid income tax		733	639
Trade and other receivables	9	21,580	22,271
Bank deposits	5	51,590	11,784
Cash and cash equivalents	6	16,230	27,437
Total Current Assets		**176,572**	**154,750**
Total Assets		**435,996**	**411,192**
EQUITY			
Share capital	10	12,473	12,473
Share premium		10,431	10,431
Treasury shares	10	(264)	(264)
Retained earnings and other reserves	10	248,136	224,976
Equity attributable to owners of PJSC ALROSA		**270,776**	**247,616**
Non-Controlling Interest		**239**	**(39)**
Total Equity		**271,015**	**247,577**
LIABILITIES			
Non-current Liabilities			
Long-term debt and other financial liabilities	3, 11	63,784	64,974
Provision for pension obligations	16	12,061	11,638
Other provisions		5,745	5,586
Deferred tax liabilities	14	2,895	3,245
Government grants	15	2,741	2,873
Other liabilities	26	817	718
Total Non-current Liabilities		**88,043**	**89,034**
Current Liabilities			
Short-term loans and other financial liabilities	3, 12	42,782	41,687
Trade and other payables	13	22,471	21,835
Income tax payable		2,616	828
Other taxes payable	14	7,385	8,585
Dividends payable		184	146
Guarantees issued	25	1,500	1,500
Total Current Liabilities		**76,938**	**74,581**
Total Liabilities		**164,981**	**163,615**
Total Equity and Liabilities		**435,996**	**411,192**

Signed on 17 May 2019 by the following members of management:

Alexey N. Philippovsky
Deputy Chief Executive Officer

Elena I. Glazunova
Financial Controller

(in millions of Russian roubles, unless otherwise stated)

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

	Notes	Three months ended 31 March 2019	Three months ended 31 March 2018
Revenue	17	69,541	94,894
Income from grants		953	1,075
Cost of sales	18	(37,885)	(45,675)
Royalty	14	(302)	(302)
Gross profit		**32,307**	**49,992**
General and administrative expenses	19	(2,466)	(2,477)
Selling and marketing expenses	20	(631)	(750)
Other operating income	21	2,014	329
Other operating expenses	22	(7,626)	(5,703)
Operating profit		**23,598**	**41,391**
Finance income / (costs), net	23	5,284	(251)
Share of net profit of associates and joint ventures	4	1,642	746
Profit before income tax		**30,524**	**41,886**
Income tax	14	(6,459)	(9,002)
Profit for the year		**24,065**	**32,884**
Other comprehensive (loss) / income			
Items that will not be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations, net of tax		(526)	(356)
Total items that will not be reclassified to profit or loss		**(526)**	**(356)**
Items that will be reclassified to profit or loss:			
Currency translation differences, net of tax		(101)	1
Total items that will be reclassified to profit or loss		**(101)**	**1**
Other comprehensive loss for the year		**(627)**	**(355)**
Total comprehensive income for the year		**23,438**	**32,529**
Profit attributable to:			
Owners of PJSC ALROSA		23,873	32,529
Non-controlling interest		192	355
Profit for the year		**24,065**	**32,884**
Total comprehensive income attributable to:			
Owners of PJSC ALROSA		23,160	32,168
Non-controlling interest		278	361
Total comprehensive income for the year		**23,438**	**32,529**

Basic and diluted earnings per share for profit attributable to the owners of PJSC ALROSA (in Russian roubles)	10	3.31	4.43

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

(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

	Notes	Three months ended 31 March 2019	Three months ended 31 March 2018
Net Cash Inflow from Operating Activities	24	**29,737**	**45,952**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(3,876)	(4,844)
Proceeds from sales of property, plant and equipment		1,581	241
Interest received	23	376	494
Sale of financial assets at fair value through profit or loss		263	347
Proceeds from disposal of subsidiaries, net of cash disposed of		1,570	30,601
Cash transferred to deposits		(52,731)	(15)
Cash transferred from deposits		12,047	-
Dividends received from associates		-	1,125
Net Cash Inflow from Investing Activities		**(40,770)**	**27,949**
Cash Flows from Financing Activities			
Repayments of loans		(1,114)	(34,108)
Loans received		3,084	349
Interest paid		(426)	(260)
Dividends paid		(9)	(24)
Repayment of lease obligation	3	(273)	-
Purchases of treasury shares		-	(7,142)
Net Cash Outflow from Financing Activities		**1,262**	**(41,185)**
Net (Decrease) / Increase in Cash and Cash Equivalents	6	**(9,771)**	**32,716**
Cash and cash equivalents at the beginning of the year		27,437	7,381
Cash of assets held for sale		-	226
Effect of exchange rate changes on cash and cash equivalents		(1,436)	(102)
Cash and Cash Equivalents at the End of the Year	6	**16,230**	**40,221**

(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 reserve (note 10)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2018	**7,364,965,630**	**12,473**	**10,431**	**-**	**(18,787)**	**262,708**	**266,825**	**(338)**	**266,487**
Effect of Adoption of IFRS 9	-	-	-	-	(561)	(1,045)	(1,606)	-	(1,606)
Balance at 1 January 2018 adjusted	**7,364,965,630**	**12,473**	**10,431**	**-**	**(19,348)**	**261,663**	**265,219**	**(338)**	**264,881**
Comprehensive income / (loss)									
Profit for the year	-	-	-	-	-	32,529	32,529	355	32,884
Other comprehensive (loss) / income	-	-	-	-	(361)	-	(361)	6	(355)
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**-**	**(361)**	**32,529**	**32,168**	**361**	**32,529**
Transactions with owners									
Purchase of treasury shares	(80,559,800)	-	-	(136)	-	(7,006)	(7,142)	-	(7,142)
Total transaction with owners	**(80,559,800)**	**-**	**-**	**(136)**	**-**	**(7,006)**	**(7,142)**	**-**	**(7,142)**
Balance at 31 March 2018	**7,284,405,830**	**12,473**	**10,431**	**(136)**	**(19,709)**	**287,186**	**290,245**	**23**	**290,268**

Balance at 1 January 2019	**7,208,905,830**	**12,473**	**10,431**	**(264)**	**(31,355)**	**256,331**	**247,616**	**(39)**	**247,577**
Comprehensive income / (loss)									
Profit for the year	-	-	-	-	-	23,873	23,873	192	24,065
Other comprehensive (loss) / income	-	-	-	-	(713)	-	(713)	86	(627)
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**-**	**(713)**	**23,873**	**23,160**	**278**	**23,438**
Balance at 31 March 2019	**7,208,905,830**	**12,473**	**10,431**	**(264)**	**(32,068)**	**280,204**	**270,776**	**239**	**271,015**

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 of Republic of Sakha (Yakutia) (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 March 2019 and 31 December 2018 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 has its principal operating office is situated at 6, Lenin Street, Mirny, Mirninsky ulus, 678175, Republic of Sakha (Yakutia), Russia.

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 2018 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 64.7347 and 69.4706 as at 31 March 2019 and 31 December 2018, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 72.7230 and 79.4605 as at 31 March 2019 and 31 December 2018, respectively.

3. CHANGES IN 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 2018 with the exception of income tax expense, which is recognised based on the annual effective income tax rate expected for the full financial year.

Changes in International Financial Reporting Standards

IFRS 16 "Leases"

The Group adopted ***IFRS 16 "Leases"*** from 1 January 2019 ***(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.

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Right-of-use assets are represented in “Right-of-use assets” in the Consolidated Statement of Financial Position, long-term lease liabilities and current portion of lease liabilities are represented in “Long-term debt and other financial liabilities” as a part of non-current liabilities and “Short-term debt and other financial liabilities” as a part of current liabilities in the Consolidated Statement of Financial Position. Financial expenses are represented in “Financial expenses” in the Consolidated Statement of Profit or Loss, depreciation of right-of-use assets is represented in “Cost of sales” in the Consolidated Statement of Profit or Loss. Total cash outflow of lease liability is represented in “Net cash flow from financing activities” in the Consolidated Statement of Cash Flows.

In accordance with IFRS 16 the Group doesn’t apply IFRS 16 accounting principles for short-term lease contracts.

As at 1 January 2019 the Group recognised:

— The right-of-use assets:

Transport	4,457
Buildings	984
Plant and equipment	18
Total:	**5,459**

(in millions of Russian roubles, unless otherwise stated)

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Reconciliation of future minimum operating lease payments to recognized lease liabilities is as follows:

Total future minimum lease payments for operating leases as at 31 December 2018	**5,565**
Less future lease payments for leases with a term of less than 12 months and leases with low-value	(16)
Effect of discounting using incremental borrowing rate as of the date of initial recognition	(1,241)
Present value of future minimum lease payments	**4,308**
Change in future lease payments according to changes in contracts starting from 1 January 2019 and according to revision of the lease terms	2,518
Less present value of lease payments on land lease contracts, where land value is based on cadastral cost or depends on rate of forest unit area set by the Government order and regional authorities	(1,367)
Total lease liabilities recognized as at 1 January 2019	**5,459**
-non-current portion	4,220
-current portion	1,239

Discount rate applied to the lease liabilities on 1 January 2019 is 9.00% for the contracts with lease payments in Russian roubles, 5.55% for the contracts with lease payments in US dollars.

New or Revised Standards and Interpretations:

The following new standards and interpretations are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

New or Revised Standards and Interpretations, which were not effective as at 31 March 2019 and were not adopted early:

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

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

(in millions of Russian roubles, unless otherwise stated)

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**	**31 March 2019**	**31 December 2018**
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
PJSC Severalmaz	Diamonds extraction	Russia		99.9	99.9
JSC Viluyskaya GES-3	Electricity production	Russia		99.7	99.7
ALROSA Belgium N.V.	Diamonds trading	Belgium		99.6	99.6
PJSC ALROSA-Nyurba	Diamonds extraction	Russia		97.5	97.5
Hydroshikapa S.A.R.L	Electricity production	Angola		55.0	55.0

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

4.1. Investments in Associates and Joint Ventures

		Percentage of ownership interest held at		Carrying value of investment at		Group's share of net profit/(loss) for the three months ended	
Name	**Place of business**	**31 March 2019**	**31 December 2018**	**31 March 2019**	**31 December 2018**	**31 March 2019**	**31 March 2018**
Catoca Mining Company Ltd (associate).	Angola	32.8	32.8	6,267	4,993	1,640	747
Other (associates and joint ventures)	Russia	20-50	20-50	201	198	2	(1)
Total				**6,468**	**5,191**	**1,642**	**746**

As at 31 March 2019 and 31 December 2018 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. Currency translation loss recognised in the condensed consolidated other comprehensive income for the three months ended 31 March 2019 in respect of investment in Catoca totalled RR'mln 292. Currency translation loss recognised in the condensed consolidated other comprehensive income for the three months ended 31 March 2018 in respect of investment in Catoca totalled RR'mln 18.

5. BANK DEPOSITS

	31 March 2019	**31 December 2018**
Deposits in PJSC VTB Bank	20,680	5,935
Deposits in PJSC Sovcombank	10,445	1,042
Deposits in PJSC CREDIT BANK OF MOSCOW	6,951	-
Deposits in PJSC Promsvyazbank	5,700	-
Deposits in PJSC Sberbank	3,228	3,167
Deposits in PJSC Bank ZENIT	2,900	-
Deposits in Bank GPB (JSC)	969	936
Deposits in JSC Alfa-Bank	717	704
Total bank deposits	**51,590**	**11,784**

As at 31 March 2019 the Group placed in banks deposits in roubles with maturity dates exceeding three months and interest rates ranging from 2.6% to 8.3% per annum. As at 31 December 2018 the Group placed in banks deposits in roubles with maturity dates exceeding three months and interest rates ranging from 3.7% to 8.1% per annum.

(in millions of Russian roubles, unless otherwise stated)

6. CASH AND CASH EQUIVALENTS

	31 March 2019	31 December 2018
Deposit accounts with maturity less than three months	13,524	25,292
Cash in banks and on hand	2,706	2,145
Total cash and cash equivalents	**16,230**	**27,437**

Deposit accounts at 31 March 2019 and 31 December 2018 are mainly held to meet short-term cash needs and have various original maturities but can be withdrawn on request without restrictions.

7. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	TOTAL
As at 31 December 2017			
Cost	379,382	31,279	410,661
Accumulated depreciation and impairment losses	(173,497)	(575)	(174,072)
Net book value as at 31 December 2017	**205,885**	**30,704**	**236,589**
Three months ended 31 March 2018			
Net book value as at 31 December 2017	205,885	30,704	236,589
Foreign exchange differences – at cost	(34)	32	(2)
Foreign exchange differences – accumulated depreciation	13	-	13
Additions	1,351	4,586	5,937
Transfers	914	(914)	-
Disposal of subsidiaries – at cost	(119)	(575)	(694)
Disposal of subsidiaries - accumulated depreciation	119	575	694
Other disposals – at cost	(1,252)	(5)	(1,257)
Other disposals – accumulated depreciation	1,217	-	1,217
Change in estimate of provision for land recultivation	528	-	528
Impairment of property, plant and equipment	24	-	24
Depreciation charge for the period	(6,280)	-	(6,280)
As at 31 March 2018	**202,366**	**34,403**	**236,769**
Cost	380,770	34,403	415,173
Accumulated depreciation and impairment losses	(178,404)	-	(178,404)
Net book value as at 31 March 2018	**202,366**	**34,403**	**236,769**
As at 31 December 2018			
Cost	408,075	23,826	431,901
Accumulated depreciation and impairment losses	(196,964)	(64)	(197,028)
Net book value as at 31 December 2018	**211,111**	**23,762**	**234,873**
Three months ended 31 March 2019			
Net book value as at 31 December 2018	211,111	23,762	234,873
Foreign exchange differences – at cost	(493)	-	(493)
Foreign exchange differences – accumulated depreciation	202	-	202
Additions	1,765	3,275	5,040
Transfers	971	(971)	-
Disposal of subsidiaries – at cost	(1,397)	(26)	(1,423)
Disposal of subsidiaries - accumulated depreciation	430	-	430
Other disposals – at cost	(685)	(1)	(686)
Other disposals – accumulated depreciation	528	-	528
Change in estimate of provision for land recultivation	(10)	-	(10)
Impairment of property, plant and equipment	(125)	35	(90)
Depreciation charge for the period	(6,522)	-	(6,522)
As at 31 March 2019	**205,775**	**26,074**	**231,849**
Cost	408,226	26,103	434,329
Accumulated depreciation and impairment losses	(202,451)	(29)	(202,480)
Net book value as at 31 March 2019	**205,775**	**26,074**	**231,849**

(in millions of Russian roubles, unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Capitalised borrowing costs

During three months ended 31 March 2019 has capitalised borrowing costs amounting to RR'mln 75 (three months ended 31 March 2018: RR'mln 162) in construction of qualifying asset totalling RR'mln 5,122 (31 March 2018: RR'mln 10,882). In the consolidated statement of cash flow the capitalized borrowing costs were included into financing activity as part of interest paid. For three months ended 31 March 2019 borrowing costs were capitalized at the weighted average rate of its general borrowing of 5.86 per cent per annum (three months ended 31 March 2018: 2.87 per cent per annum).

8. INVENTORIES

	31 March 2019	31 December 2018
Diamonds*	42,472	49,587
Ores and sands mined	16,806	14,032
Mining and repair materials	25,146	27,164
Consumable and other supplies	2,015	1,836
Total inventories	**86,439**	**92,619**

*As at 31 March 2019 and 31 December 2018 diamonds include diamonds purchased from other producers in the amount of RR'mln 1,323 and RR'mln 2,032 respectively.

9. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	**31 March 2019**	**31 December 2018**
Prepayment for share in Catoca Mining Company Ltd.*	8,350	8,350
Loans issued**	615	602
Advances to suppliers	90	90
Long-term VAT recoverable	11	11
Other long-term receivables	252	263
Total long-term accounts receivable	**9,318**	**9,316**

*In November 2017 based on the assignment agreement between the Group and Odebrecht Mining Services for the purchase of the 16.4% share in Catoca Mining Company Ltd, the Group made a prepayment amounting to 140 mln USD. The completion of the transaction is expected by the end of 2019.

******The several loans issued of RR'mln 600 nominal value as at 31 March 2019 (31 December 2018: RR'mln 622) 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 and the allowance roe expected credit losses was not created.

Short-term accounts receivable	**31 March 2019**	**31 December 2018**
Financial accounts receivable	***17,511***	***18,131***
Trade receivables for supplied diamonds	11,179	12,080
Receivables from associates (note 26)	3,214	3,461
Loans issued	368	383
Interest on deposits	243	64
Consideration receivable for disposed interest in CJSC MMC Timir	-	535
Other short-term receivables	2,507	1,608
Non-financial accounts receivable	***4,069***	***4,140***
VAT recoverable	2,364	2,827
Advances to suppliers	1,476	1,013
Prepaid taxes, other than income tax	229	300
Total short-term accounts receivable	**21,580**	**22,271**

The fair value of long-term accounts receivable is estimated by discounting the future contractual cash inflows at the market interest rates available to the recipients of funds at the end of the reporting period.

The fair value of each class of long-term and short-term trade and other accounts receivable at 31 March 2019 and 31 December 2018 approximates their carrying value.

The credit loss allowance for trade and other receivables is presented in the amount of RR'mln 2,737 and RR'mln 2,837 as at 31 March 2019 and 31 December 2018, respectively.

(in millions of Russian roubles, unless otherwise stated)

10. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and fully paid in totals RR'mln 12,473 as at 31 March 2019 and 31 December 2018 and consists of 7,364,965,630 ordinary shares at RR 0.5 par value share, respectively. In addition as at 31 March 2019 and 31 December 2018 share capital includes hyperinflation adjustment totalling RR'mln 8,790, which was calculated in accordance with requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" and relates to the reporting periods prior to 1 January 2003.

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 and retained earnings. In accordance with the dividend policy which was approved by the Supervisory Board on 6 August 2018, at least 50% of the net profit as reported in the IFRS consolidated financial statement of the Group is distributed for dividends payment. The new basis for calculating dividend payment is free cash flow also determined based on IFRS consolidated financial statements. The debt ratio is taken into account when calculating the amount of dividend payment. The legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation, and accordingly, management of the Company believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

Treasury shares

As at 31 March 2019 subsidiaries of the Group held 156,059,800 ordinary shares of the Company (31 December 2018: 156,059,800 shares).

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 7,208,905,830 weighted average shares outstanding for the three months ended 31 March 2019 (for the three months ended 31 March 2018: 7,340,711,663 shares). There are no dilutive financial instruments outstanding.

Other reserves

	Currency translation reserve	Reserve on purchase of non-controlling interest	Available-for-sale investments	Recognition of accumulated actuarial loss	Total other reserves
Balance as at 1 January 2018	**39**	**69**	**561**	**(19,456)**	**(18,787)**
Effect of IFRS 9 adoption	-	-	(561)	-	(561)
Balance as at 1 January 2018 adjusted	**39**	**69**	**-**	**(19,456)**	**(19,348)**
Remeasurement on post-employment benefit obligation (note 16)	-	-	-	(356)	(356)
Currency translation differences	(5)	-	-	-	(5)
Balance as at 31 March 2018	**34**	**69**	**-**	**(19,812)**	**(19,709)**

	Currency translation reserve	Reserve on purchase of non-controlling interest	Recognition of accumulated actuarial loss	Total other reserves
Balance as at 1 January 2019	**436**	**(11,220)**	**(20,571)**	**(31,355)**
Remeasurement on post-employment benefit obligation (note 16)	-	-	(526)	**(526)**
Currency translation differences	(187)	-	-	**(187)**
Balance as at 31 March 2019	**249**	**(11,220)**	**(21,097)**	**(32,068)**

(in millions of Russian roubles, unless otherwise stated)

11. LONG-TERM DEBT AND OTHER FINANCIAL LIABILITIES

	31 March 2019	31 December 2018
RR denominated fixed rate bank loans	1,790	2,841
US$ denominated Eurobonds	57,898	62,133
Total long-term debt	**59,688**	**64,974**
Lease liabilities	4,977	-
Less current portion of lease liabilities	(881)	-
Total long-term debt and other financial liabilities	**63,784**	**64,974**

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

	31 March 2019		31 December 2018	
	Effective interest rates	Market interest rates	Effective interest rates	Market interest rates
Debt to banks RR denominated fixed rate	8.1%	8.6%	9.4%	9.0%
Eurobonds US$ denominated	7.8%	5.0%	7.8%	6.1%

As at 31 March 2019 and 31 December 2018 the fair value of bank loans, excluding Eurobonds, was not materially different from their carrying value.

Bonds

	Three months ended 31 March 2019	Three months ended 31 March 2018
Balance at the beginning of the reporting period	**62,133**	**57,600**
Foreign exchange gain	(4,235)	(335)
Balance at the end of the reporting period	**57,898**	**57,265**

As at 31 March 2019 the fair value of Eurobonds comprised RR'mln 61,706 (31 December 2018: RR'mln 65,689).

12. SHORT-TERM DEBT AND OTHER FINANCIAL LIABILITIES

	31 March 2019	31 December 2018
US$ denominated fixed rate bank loans	38,840	41,682
Other RR denominated fixed rate loans	3,061	5
Total short-term debt	**41,901**	**41,687**
Current portion of lease obligation	881	-
Total short-term debt and other financial liabilities	**42,782**	**41,687**

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

(in millions of Russian roubles, unless otherwise stated)

13. TRADE AND OTHER PAYABLES

	31 March 2019	31 December 2018
Accrual for employee holidays and flights	8,568	7,000
Trade payables	6,110	6,380
Wages and salaries	3,630	5,591
Interest payable	1,852	811
Advances from customers	1,748	1,140
Current portion of provision for social obligation	108	306
Payables to associates	55	12
Other payables	400	595
Total trade and other payables	**22,471**	**21,835**

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.

As at 31 March 2019 and 31 December 2018 the fair value of trade and other payables is, approximately, equal the carrying value.

14. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

	31 March 2019	31 December 2018
Payments to social funds	2,998	2,977
Extraction tax	1,418	1,924
Property tax	1,289	1,308
Value added tax	895	1,216
Personal income tax (employees)	403	797
Other taxes and accruals	382	363
Total taxes payable, other than income tax	**7,385**	**8,585**

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

	Three months ended 31 March 2019	Three months ended 31 March 2018
Property tax	1,129	1,281
Other taxes and accruals	95	82
Total taxes other than income tax expense	**1,224**	**1,363**

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 since 1st of January 2012.

Income tax expense comprises the following:

	Three months ended 31 March 2019	Three months ended 31 March 2018
Current tax expense	6,860	11,242
Deferred tax benefits	(295)	(2,115)
Adjustments recognized in the period for current tax of prior periods	(106)	(125)
Total income tax expense	**6,459**	**9,002**

(in millions of Russian roubles, unless otherwise stated)

15. GOVERNMENT GRANTS

Government subsidies for construction of infrastructural facilities

The Company is engaged in development of Verkhne-Munskoye deposit with the support from Government stated in the Federal program for the development of the Far East and Baikal region. Government support is provided in the form of grants to reimburse expenses related to construction of the infrastructure object – temporary technological road from Udachny to Verchne-Munskoe deposit – in the amount of up to RR'mln 8,500 in accordance with the Order of the Government of Russian Federation dated from 13 July 2015 №1339-r.

In the fourth quarter of 2018 the Company started ore mining activity on Verkhne-Munskoe deposit, a temporary technological road from Udachny to Verkhne-Munskoe deposit was put into operation.

As at 31 March 2019 the grant in the amount of RR'mln 2,741 is recognized within non-current liabilities of the Consolidated Statement of Financial Position in the amount of actual cash received during 2018 less the amount recognized as income in the Consolidated Statement of Profit or Loss since the date when the temporary technological road from Udachny to Verkhne-Munskoe deposit was put into operation.

According to IAS 20 the Group recognizes grants related to depreciable assets in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognized.

Government grants on lost earnings, compensation of the effect of tariff regulations and other purposes

During first quarter of 2019 the Group received government grants in the amount of RR'mln 953 (3 months ended 31 March 2018: RR'mln 1,075) from federal and local authorities as a compensation for lost earnings due to price reduction for electric power to planned base levels in the Far East region, as a compensation for lost earnings due to supply of utilities to subsidized categories of consumers, as a compensation for lost earnings due to air transportation services for passengers.

16. 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:

	31 March 2019	**31 December 2018**
Present value of funded obligations	33,715	33,475
Fair value of plan assets	(22,655)	(22,790)
Pension obligations for the funded plan	11,060	10,685
Present value of unfunded obligation	1,001	953
Net liability	**12,061**	**11,638**

(in millions of Russian roubles, unless otherwise stated)

16. PROVISION FOR PENSION OBLIGATION (CONTINUED)

Changes in the present value of funded and unfunded pension obligations and pension plan assets for the three months ended 31 March 2019 and three months ended 31 March 2018 are as follows:

	Present value of obligations on funded plans	**Fair value of plan assets**	**Present value of obligations on unfunded plans**	**Total**
At 1 January 2018	**31,624**	**(16,771)**	**1,164**	**16,017**
Current service cost	62	-	8	70
Past service cost and curtailment	(3)	-	(9)	(12)
Interest expense / (income)	607	(323)	22	306
	666	**(323)**	**21**	**364**
Remeasurements:				
Return on plan assets, excluding amounts included in interest expense / (income)	-	324	-	324
Loss from changes in financial actuarial assumptions	2	-	57	59
	2	**324**	**57**	**383**
Contributions to plan:				
Employer contributions	-	(2,696)	-	(2,696)
Benefits paid	(476)	476	(8)	(8)
	(476)	**(2,220)**	**(8)**	**(2,704)**
At 31 March 2018	**31,816**	**(18,990)**	**1,234**	**14,060**

	Present value of obligations on funded plans	**Fair value of plan assets**	**Present value of obligations on unfunded plans**	**Total**
At 1 January 2019	**33,475**	**(22,790)**	**953**	**11,638**
Current service cost	53	-	6	59
Past service cost and curtailment	(1)	-	(8)	(9)
Interest expense / (income)	725	(496)	21	250
	777	**(496)**	**19**	**300**
Remeasurements:				
Return on plan assets, excluding amounts included in interest expense / (income)	-	496	-	496
Loss from changes in financial actuarial assumptions	1	-	32	33
	1	**496**	**32**	**529**
Contributions to plan:				
Employer contributions	-	(403)	-	(403)
Benefits paid	(538)	538	(3)	(3)
	(538)	**135**	**(3)**	**(406)**
At 31 March 2019	**33,715**	**(22,655)**	**1,001**	**12,061**

(in millions of Russian roubles, unless otherwise stated)

17. REVENUE

	Three months ended 31 March 2019	Three months ended 31 March 2018
Revenue from diamond sales:		
Export	57,173	82,499
Domestic	7,942	8,713
Revenue from diamonds for resale	836	5
Total revenue from diamond sales	**65,951**	**91,217**
Other revenue:		
Transport	1,322	1,224
Social infrastructure	674	647
Sale of gas	47	975
Other	1,547	831
Total revenue	**69,541**	**94,894**

18. COST OF SALES

	Three months ended 31 March 2019	Three months ended 31 March 2018
Wages, salaries and other staff costs	12,174	10,109
Depreciation	6,513	5,968
Extraction tax	5,829	5,633
Fuel and energy	4,016	3,295
Materials	2,611	2,441
Services	1,627	1,836
Cost of diamonds for resale	827	5
Transport	408	419
Other	248	310
Movement in inventory of diamonds, ores and sands	3,632	15,659
Total cost of sales	**37,885**	**45,675**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 2,587 for the three months ended 31 March 2019 (for the three months ended 31 March 2018: RR'mln 2,326).

Depreciation includes depreciation of the right-of-use assets amounting to RR'mln 205 for the three months ended 31 March 2019.

Depreciation totalling RR'mln 18 for the three months ended 31 March 2019 (for the three months ended 31 March 2018: RR'mln 272) and staff costs totalling RR'mln 671 (for the three months ended 31 March 2018: RR'mln 484) were incurred by the Group's construction divisions and were capitalised into property, plant and equipment in the respective periods.

19. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 31 March 2019	Three months ended 31 March 2018
Wages, salaries and other staff costs	1,620	1,267
Services and other administrative expenses	885	1,110
(Reversal of allowance) / allowance for expected credit losses	(39)	100
Total general and administrative expenses	**2,466**	**2,477**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 343 for the three months ended 31 March 2019 (for the three months ended 31 March 2018: RR'mln 298).

(in millions of Russian roubles, unless otherwise stated)

20. SELLING AND MARKETING EXPENSES

	Three months ended 31 March 2019	**Three months ended 31 March 2018**
Wages, salaries and other staff costs	509	449
Services and other selling and marketing expenses	122	301
Total selling and marketing expenses	**631**	**750**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 112 for the three months ended 31 March 2019 (for the three months ended 31 March 2018: RR'mln 112).

21. OTHER OPERATING INCOME

	Three months ended 31 March 2019	**Three months ended 31 March 2018**
Gain on disposal of property, plant and equipment	1,431	71
Income on disposal of subsidiaries	177	-
Other	406	258
Total other operating income	**2,014**	**329**

22. OTHER OPERATING EXPENSES

	Three months ended 31 March 2019	**Three months ended 31 March 2018**
Foreign exchange loss, net	2,474	195
Exploration expenses	2,171	2,143
Taxes other than income tax, extraction tax and payments to social funds (Note 14)	1,224	1,363
Social costs	831	956
Change in fair value of financial assets at fair value through profit or loss	223	25
Loss on disposal of subsidiaries	-	194
Other	703	827
Total other operating expenses	**7,626**	**5,703**

Social costs consist of:

	Three months ended 31 March 2019	**Three months ended 31 March 2018**
Maintenance of local infrastructure	368	385
Charity	321	492
Hospital expenses	38	41
Education	26	20
Other	78	18
Total social costs	**831**	**956**

23. FINANCE INCOME AND COSTS

	Three months ended 31 March 2019	**Three months ended 31 March 2018**
Interest income	569	494
Interest expense:		
Eurobonds	(1,047)	(1,026)
Bank loans	(407)	(82)
Other financial liabilities	(375)	(326)
Unwinding of discount of provisions	(106)	(120)
Foreign exchange gain, net	6,650	809
Total finance income / (costs), net	**5,284**	**(251)**

(in millions of Russian roubles, unless otherwise stated)

24. CASH GENERATED FROM OPERATING ACTIVITIES

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

	Three months ended 31 March 2019	Three months ended 31 March 2018
Profit before income tax	**30,524**	**41,886**
Adjustments for:		
Share of net profit of associates and joint ventures (note 4.1)	(1,642)	(746)
Interest income (note 23)	(569)	(494)
Interest expense (note 23)	1,935	1,554
Income on disposal of property, plant and equipment (note 21)	(1,431)	(71)
(Income) / loss on disposal of subsidiaries (note 21)	(177)	194
Change in provision for impairment of receivables and obsolete inventories, net	(29)	(498)
Depreciation (notes 7, 18)	6,575	6,008
Impairment of of property, plant and equipment (note 7)	90	-
Change in financial assets at fair value through profit or loss	223	-
Adjustments for non-cash financing activity	12	-
Unrealised foreign exchange effect on non-operating items	(4,175)	(616)
Net operating cash flows before changes in working capital	**31,336**	**47,217**
Net decrease in inventories	6,326	18,468
Net increase in trade and other receivables, excluding dividends receivable	(120)	(4,749)
Net decrease in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(1,553)	(4,527)
Net (decrease) / increase in taxes payable other than income tax	(1,188)	477
Cash inflows from operating activities	**34,801**	**56,886**
Income tax paid	(5,064)	(10,934)
Net Cash Inflows from Operating Activities	**29,737**	**5,952**

25. CONTINGENCIES AND COMMITMENTS

(a) Operating environment of the Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The economy is negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Stable oil prices, low level of unemployment, growth of average salary level led to a moderate growth of Russian economy in 2018. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

(b) Taxes

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

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

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

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

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

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

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 31 March 2019.

(d) Capital commitments

As at 31 March 2019 the Group has contractual commitments for capital expenditures of RR'mln 5,551 (31 December 2018: RR'mln 5,052).

25. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(e) 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 March 2019 the Group recognised a provision for these future expenses in the amount of RR'mln 5,630 (31 December 2018: RR'mln 5,473).

(f) 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 at 31 March 2019 and 31 December 2018.

(g) Guarantees

The Group has guaranteed the obligations of JSC "Aviacompania Yakutiya" to PJSC VTB Bank under the loan agreement amounting to RR'mln 1,500 and accrued interest till July 2022. The Group has recognized financial liability relating to this guarantee in full amount. Management estimates the probability of loan default to be above average.

26. 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)

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 March 2019 58.0 per cent of the Company's issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia).

Also as at 31 March 2019 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 26th of June 2018, the 15 seats on the Supervisory Board include 6 representatives of the Russian Federation (including 1 – the Chair of the Management Board and 1 – member of the Management Board), 4 representatives of the Republic of Sakha (Yakutia), 4 independent directors according to the Russian Corporate Law (1 of them were nominated by the Government of the Russian Federation, 1- was nominated by the Government of the Republic of Sakha (Yakutia), 2 was nominated by foreign minority shareholders), and 1 representative of the districts of the Republic of Sakha (Yakutia).

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 14, 18, 19, 20, 24 and 25.

(in millions of Russian roubles, unless otherwise stated)

26. 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	**31 March 2019**	**31 December 2018**
Long-term accounts receivable	34	34
Short-term accounts receivable	6,440	5,625
Short-term accounts payable	540	993
Loans received by the Group*	4,721	2,714
Cash and cash equivalents	3,568	13,919
Bank deposits	24,877	10,038

* The line includes the loans received from banks under the Government control with various due dates and interest rates ranging from 7.5% to 9.5%.

Consolidated Statement of Profit or Loss and Other Comprehensive Income	**Three months ended 31 March 2019**	**Three months ended 31 March 2018**
Sales of diamonds	3,246	2,755
Other sales	975	449
Income from grants	953	1,075
Electricity and heating expenses	(1,243)	(1,184)
Other purchases	(789)	(897)
Interest income	350	70
Interest expense	(73)	(59)

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

As at 31 March 2019 and 31 December 2018 the Management Board consisted of 8 members. As at 31 March 2019 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 2015, 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 months ended 31 March 2019 totalling RR’mln 70 (three months ended 31 March 2018: RR’mln 65).

(in millions of Russian roubles, unless otherwise stated)

26. RELATED PARTY TRANSACTIONS (CONTINUED)

Share-based payments

As at 31 March 2019 within the framework of the approved Long-Term Motivation Program for the Company's management the Group recognized a liability for remuneration of employees with share-based payments in the amount of RR'mln 817 in other long-term liabilities (31 December 2018: RR'mln 718). The program is set for a period of 3 years and is tied to the indicators of shareholders profitability and applies to members of the Management Board, heads of subsidiaries, units and other employees whose professional activities have key impact on the operating and financial results of the Group. The liability is remeasured at fair value at each reporting date and all changes are recognized immediately in profit or loss statement.

Fair value of shares and share options was valued by Black-Scholes model.

Associates and joint ventures

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

Current accounts receivable	31 March 2019	31 December 2018
Catoca Mining Company Ltd., dividends and other receivable	3,214	3,461
Total current accounts receivable	**3,214**	**3,461**

Significant transactions with associates are disclosed in note 4.1.

Other transactions with related parties

Transactions with the Group's pension plan are disclosed in note 16.

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 22.

27. 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.

(in millions of Russian roubles, unless otherwise stated)

27. SEGMENTS INFORMATION (CONTINUED)

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.

Three months ended 31 March 2019	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Gas**	**Other activities**	**Total**
Revenue	65,951	3,209	1,447	401	3,462	74,470
Intersegment revenue	-	(1,912)	(628)	(352)	(2,061)	(4,953)
Cost of sales, including	31,011	3,301	2,293	251	4,966	41,822
Depreciation	4,485	377	73	30	742	5,707
Gross margin	**34,940**	**(92)**	**(846)**	**150**	**(1,504)**	**32,648**
Three months ended 31 March 2018	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Gas**	**Other activities**	**Total**
Revenue	91,217	1,555	1,472	1,377	2,260	97,881
Intersegment revenue	-	(374)	(656)	(399)	(1,602)	(3,031)
Cost of sales, including	39,139	1,765	2,189	622	4,458	48,173
Depreciation	3,943	141	67	127	578	4,856
Gross margin	**52,078**	**(210)**	**(717)**	**755**	**(2,198)**	**49,708**

Reconciliation of revenue is presented below:

	Three months ended 31 March 2019	**Three months ended 31 March 2018**
Segment revenue	**74,470**	**97,881**
Elimination of intersegment revenue	(4,955)	(3,030)
Other adjustments and reclassifications	26	43
Revenue	**69,541**	**94,894**
Income from government grants	953	1,075
Revenue and income from grants as per consolidated statement of profit or loss and other comprehensive income	**70,494**	**95,969**

(in millions of Russian roubles, unless otherwise stated)

27. SEGMENTS INFORMATION (CONTINUED)

Reconciliation of cost of sales including depreciation is presented below:

	Three months ended 31 March 2019	Three months ended 31 March 2018
Segment cost of sales	**41,822**	**48,173**
Adjustment for depreciation of property, plant and equipment[1]	806	1,112
Elimination of intersegment purchases	(3,822)	(2,968)
Accrued provision for pension obligation [2]	129	(731)
Adjustment for inventories [3]	1,838	3,272
Accrual for employee flights and holidays [4]	76	156
Accrual for the part of expected annual bonus	(168)	(162)
Other adjustments	(140)	(551)
Reclassification of exploration expenses [5]	(1,624)	(1,781)
Other reclassifications	(1,032)	(1,142)
Cost of sales as per consolidated statement of profit or loss and other comprehensive income	**37,885**	**45,378**

[1] Adjustment for depreciation of property, plant and equipment - an adjustment arising from differences between the amount of depreciation presented to the Management Board and the amount of depreciation for IFRS accounting purposes
[2] Accrued provision for pension obligation – recognition of pension obligation in accordance with IAS 19
[3] 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
[4] Accrual for employees' flights and holidays – recognition of employees' flights and holidays provision under collective labour agreements of the Group's companies
[5] 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 31 March 2019	Three months ended 31 March 2018
Belgium	30,831	44,971
Russian Federation	12,261	12,628
India	9,261	13,927
United Arab Emirates	8,557	9,734
Israel	4,684	9,117
China	3,478	3,623
Belarus	306	713
Switzerland	288	198
Republic of Botswana	254	278
Angola	233	181
United Kingdom	167	173
USA	139	120
Armenia	32	306
Other countries	3	-
Total	**70,494**	**95,969**

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

	31 March 2019	31 December 2018
Russian Federation	240,088	236,027
Angola	3,979	4,601
Other countries	1,354	1,814
Total non-current assets	**245,421**	**242,442**

(in millions of Russian roubles, unless otherwise stated)

28. 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 2018. 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:

	31 March 2019				**31 December 2018**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	289	-	3	**292**	835	-	3	**838**
Total	**289**	**-**	**3**	**292**	**835**	**-**	**3**	**838**

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

(in millions of Russian roubles, unless otherwise stated)

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

As at 31 March 2019 the Group had the following assets and liabilities not measured at fair value but for which fair value is disclosed, classified by the levels of the fair value hierarchy:

	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
Current and non-current financial assets				
Bank deposits	-	51,590	-	51,590
Current and non-current financial receivable	-	17,395	-	17,395
Loans issued	-	-	983	983
Cash and cash equivalents	-	16,230	-	16,230
Total financial assets	**-**	**85,215**	**983**	**86,198**
Loans from banks	-	1,790	-	1,790
Eurobonds	57,898	-	-	57,898
Lease liabilities	-	4,096	-	4,096
Other loans	-	-	-	-
Total non-current financial liabilities	**57,898**	**5,886**	**-**	**63,784**
Current financial liabilities				
Loans from banks	-	38,840	-	38,840
Financial accounts payable	-	8,417	-	8,417
Current portion of lease liabilities	-	881	-	881
Dividends payable	-	184	-	184
Other loans		-	3,061	3,061
Total current financial liabilities	**-**	**48,322**	**3,061**	**51,383**
Total financial liabilities	**57,898**	**54,208**	**3,061**	**115,167**

(in millions of Russian roubles, unless otherwise stated)

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

As at 31 December 2018 the Group had the following assets and liabilities not measured at fair value but for which fair value is disclosed, classified by the levels of the fair value hierarchy:

	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
Current and non-current financial assets				
Bank deposits	-	11,784	-	11,784
Current and non-current financial receivable	-	18,011	-	18,011
Loans issued	-	-	985	985
Cash and cash equivalents	-	27,437	-	27,437
Total financial assets	**-**	**57,232**	**985**	**58,217**
Non-current financial liabilities				
Loans from banks	-	2,841	-	2,841
Eurobonds	62,133	-	-	62,133
Total non-current financial liabilities	**62,133**	**2,841**	**-**	**64,974**
Current financial liabilities				
Loans from banks	-	41,682	-	41,682
Financial accounts payable	-	7,798	5	7,803
Financial guarantee	-	-	1,500	1,500
Dividends payable	-	146	-	146
Total current financial liabilities	**-**	**49,626**	**1,505**	**51,131**
Total financial liabilities	**62,133**	**52,467**	**1,505**	**116,105**

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

There were no transfers between Levels 1, 2 and 3 during the period. There were no reclassifications of available-for-sale investments losses from other comprehensive income into the profit or loss.

29. EVENTS AFTER THE REPORTING PERIOD

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