PJSC ALROSA

INTERNATIONAL ACCOUNTING STANDARD No. 34

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2019 AND REPORT ON REVIEW

CONTENTS

Report on Review of Condensed Consolidated Interim Financial Statements

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Public Joint Stock Company ALROSA and its subsidiaries (together – the “Group”) as at 30 June 2019 and the related condensed consolidated interim statements of profit or loss and other comprehensive income for the three-month and six-month periods then ended, changes in cash flows and equity for the six-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, “Interim Financial Reporting”. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

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

AO PricewaterhouseCoopers Audit

16 August 2019
Moscow, Russian Federation

T.V. Sirotinskaya, certified auditor (licence no. 01-000527), AO PricewaterhouseCoopers Audit

Audited entity: Public Joint Stock Company ALROSA

Registered by the Administration of Mirninsky district (ulus) of the Republic of Sakha (Yakutia) on 13 August 1992 under No. 1

Record made in the Unified State Register of Legal Entities on 17 July 2002 under State Registration Number 1021400967092

6, Lenin Street, Mirny, 678175, Republic of Sakha (Yakutia), Russia

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

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

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 1160305054

(in millions of Russian roubles, unless otherwise stated)

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Notes	30 June 2019	31 December 2018
ASSETS			
Non-current Assets			
Goodwill		1,439	1,439
Property, plant and equipment	7	229,785	234,873
Right-of-use assets	3	5,182	-
Investments in associates and joint ventures	4	10,705	5,191
Deferred tax assets	14	4,915	4,785
Financial assets at fair value through profit or loss	27	276	838
Long-term accounts receivable	9	823	9,316
Total Non-current Assets		**253,125**	**256,442**
Current Assets			
Inventories	8	94,873	92,619
Prepaid current income tax		540	639
Trade and other receivables	9	21,886	22,271
Bank deposits	5	48,117	11,784
Cash and cash equivalents	6	5,706	27,437
Non-current assets held for sale	4	4,175	-
Total Current Assets		**175,297**	**154,750**
Total Assets		**428,422**	**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	231,052	224,976
Equity attributable to owners of PJSC ALROSA		**253,692**	**247,616**
Non-Controlling Interest		**283**	**(39)**
Total Equity		**253,975**	**247,577**
LIABILITIES			
Non-current Liabilities			
Long-term debt and other financial liabilities	3, 11	87,282	64,974
Provision for pension obligations	15	12,643	11,638
Other provisions		5,845	5,586
Deferred tax liabilities	14	3,177	3,245
Government grants		2,869	2,873
Other liabilities	25	731	718
Total Non-current Liabilities		**112,547**	**89,034**
Current Liabilities			
Short-term debt and other financial liabilities	3, 12	1,948	41,687
Trade and other payables	13	20,629	21,835
Current income tax payable		844	828
Other taxes payable	14	6,966	8,585
Dividends payable		30,013	146
Guarantees issued	24	1,500	1,500
Total Current Liabilities		**61,900**	**74,581**
Total Liabilities		**174,447**	**163,615**
Total Equity and Liabilities		**428,422**	**411,192**

Signed on 16 August 2019 by the following members of management:

Igor V. Sobolev
Acting Chief Executive Officer –
Chairman of the Executive Committee

Elena I. Glazunova
Financial Controller

(in millions of Russian roubles, unless otherwise stated)

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

		Three months ended		Six months ended	
	Notes	**30 June 2019**	**30 June 2018**	**30 June 2019**	**30 June 2018**
Revenue	16	55,905	70,719	125,446	165,613
Income from grants		1 464	1,523	2,417	2,598
Cost of sales	17	(28,619)	(28,463)	(66,504)	(74,138)
Royalty	14	(303)	(303)	(605)	(605)
Gross profit		**28,447**	**43,476**	**60,754**	**93,468**
General and administrative expenses	18	(3,709)	(2,704)	(6,175)	(5,181)
Selling and marketing expenses	19	(662)	(785)	(1,293)	(1,535)
Other operating income	20	576	1,971	2,590	2,229
Other operating expenses	21	(5,592)	(5,223)	(12,339)	(10,855)
Operating profit		**19,060**	**36,735**	**43,537**	**78,126**
Finance income / (costs), net	22	(1,372)	(6,014)	3,033	(6,265)
Share of net profit of associates and joint ventures	4	216	1,249	1,858	1,995
Profit before income tax		**17,904**	**31,970**	**48,428**	**73,856**
Income tax expenses	14	(4,458)	(6,592)	(10,917)	(15,594)
Profit for the period		**13,446**	**25,378**	**37,511**	**58,262**
Other comprehensive (loss) / income					
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations, net of tax		(587)	(101)	(1,113)	(457)
Total items that will not be reclassified to profit or loss		**(587)**	**(101)**	**(1,113)**	**(457)**
Items that will be reclassified to profit or loss:					
Currency translation differences, net of tax		(61)	168	(162)	169
Total items that will be reclassified to profit or loss		**(61)**	**168**	**(162)**	**169**
Total other comprehensive (loss) / income for the period		**(648)**	**67**	**(1,275)**	**(288)**
Total comprehensive income for the period		**12,798**	**25,445**	**36,236**	**57,974**
Profit attributable to:					
Owners of PJSC ALROSA		13,221	24,775	37,094	57,304
Non-controlling interest		225	603	417	958
Profit for the period		**13,446**	**25,378**	**37,511**	**58,262**
Total comprehensive income attributable to:					
Owners of PJSC ALROSA		12,545	24,945	35,705	57,113
Non-controlling interest		253	500	531	861
Total comprehensive income for the period		**12,798**	**25,445**	**36,236**	**57,974**
Basic and diluted earnings per share for profit attributable to the owners of PJSC ALROSA (in Russian Roubles)	10	1.83	3.41	5.15	7.85

(in millions of Russian roubles, unless otherwise stated)

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

		Six months ended	
	Notes	**30 June 2019**	**30 June 2018**
Net cash inflow from operating activities	23	**36,668**	**74,072**
Cash flows from investing activities			
Purchase of property, plant and equipment		(8,410)	(12,026)
Proceeds from sales of property, plant and equipment		1,878	241
Interest received	22	689	998
Sale of financial assets at fair value through profit or loss		343	1,779
Dividends received from associates and joint ventures		3,037	1,125
Proceeds from disposal of subsidiaries, net of cash disposed of		1,570	30,827
Cash transfer to deposit accounts		(52,337)	(5,160)
Cash received from deposit accounts		14,334	-
Government grants		257	-
Net cash (outflow) / inflow from investing activities		**(38,639)**	**17,784**
Cash flows from financing activities			
Repayments of loans		(65,141)	(35,281)
Loans received		52,597	902
Lease payments		(504)	-
Purchase of treasury shares		-	(10,160)
Interest paid		(4,790)	(2,741)
Dividends paid		(18)	(30)
Net cash outflow from financing activities		**(17,856)**	**(47,310)**
Net (decrease) / increase in cash and cash equivalents		**(19,827)**	**44,546**
Cash and cash equivalents at the beginning of the period	6	27,437	7,381
Effect of exchange rate changes on cash and cash equivalents		(1,904)	747
Cash and cash equivalents at the end of the period	6	**5,706**	**52,674**

(in millions of Russian roubles, unless otherwise stated)

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-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	-	-	-	-	-	57,304	57,304	958	58,262
Other comprehensive loss	-	-	-	-	(191)	-	(191)	(97)	(288)
Total comprehensive income/ (loss) for the year	**-**	**-**	**-**	**-**	**(191)**	**57,304**	**57,113**	**861**	**57,974**
Transactions with owners									
Dividends (note 10)	-	-	-	-	-	(37,987)	(37,987)	(9)	(37,996)
Purchase of treasury shares	(115,409,800)	-	-	(195)	-	(9,965)	(10,160)	-	(10,160)
Change in ownership in subsidiaries	-	-	-	-	56	-	56	(56)	-
Total transactions with owners	**(115,409,800)**	**-**	**-**	**(195)**	**56**	**(47,952)**	**(48,091)**	**(65)**	**(48,156)**
Balance at 30 June 2018	**7,249,555,830**	**12,473**	**10,431**	**(195)**	**(19,483)**	**271,015**	**274,241**	**458**	**274,699**

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	-	-	-	-	-	37,094	37,094	417	37,511
Other comprehensive (loss) / income	-	-	-	-	(1,389)	-	(1,389)	114	(1,275)
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**-**	**(1,389)**	**37,094**	**35,705**	**531**	**36,236**
Transactions with owners									
Dividends (note 10)	**-**	**-**	**-**	**-**	**-**	(29,629)	**(29,629)**	(209)	**(29,838)**
Total transactions with owners						**(29,629)**	**(29,629)**	**(209)**	**(29,838)**
Balance at 30 June 2019	**7,208,905,830**	**12,473**	**10,431**	**(264)**	**(32,744)**	**263,796**	**253,692**	**283**	**253,975**

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 2021 and 2048. Management believes the Group will be able to extend the licenses' terms after they expire as necessary.

As at 30 June 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.

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).

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 Group's 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 63.0756 and 69.4706 as at 30 June 2019 and 31 December 2018, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 71.8179 and 79.4605 as at 30 June 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 (the standard was issued on 13 January 2016 and is 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.

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.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases, which had previously been classified as operating leases under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The associated right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the Consolidated Statement of Financial Position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

In applying IFRS 16 for the first time, the Group has used the following practical expedients:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous in assessing whether the right-of-use asset is impaired;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease".

Lease

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, adjusted by 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.

(in millions of Russian roubles, unless otherwise stated)

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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”, “General and administrative expenses” or “Selling and marketing expenses” 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.

Short-term lease (with a lease term of 12 months or less) as well as lease of low-value assets is recognized as an expense in the consolidated statement of profit or loss over period of the lease.

As at 1 January 2019 the Group recognized the right-of-use assets by the following classes:

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

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 relating to reassessment of lease extension options	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

Weighted average 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 amended Standards became effective for the Group from 1 January 2019, but did not have any material impact on the Group:

- Clarification to IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- 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).

(in millions of Russian roubles, unless otherwise stated)

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

- 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 30 June 2019 and were not adopted early:

- 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).
- IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- 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.

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**	**30 June 2019**	**31 December 2018**
ALROSA Finance S.A.	Financial operations	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 30 June 2019 and 31 December 2018 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

		Percentage of ownership interest held at		Carrying value of investment at	
Name	**Place of business**	**30 June 2019**	**31 December 2018**	**30 June 2019**	**31 December 2018**
Catoca Mining Company Ltd. (associate)	Angola	41.0	32.8	10,458	4,993
Other (associates and joint ventures)	Russia	20-50	20-50	247	198
Total				**10,705**	**5,191**

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

	Three months ended		Six months ended	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
Catoca Mining Company Ltd. (associate)	166	1,253	1,806	2,000
Other (associates and joint ventures)	50	(4)	52	(5)
Total Group's share of net profit of associates and joint ventures	**216**	**1,249**	**1,858**	**1,995**

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

(in millions of Russian roubles, unless otherwise stated)

4 GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

Currency translation loss recognised in the other comprehensive income for the six months ended 30 June 2019 in respect of investment in Catoca totalled RR'mln 413. Currency translation gain recognised in the other comprehensive income for the six months ended 30 June 2018 totalled RR'mln 381.

In April 2019 as result of acquisition transaction, the Group has increased the effective interest in share capital of Catoca Mining Company Ltd. by 8.2% to 41% and recognised additional 8.2% in this company amounted to RR'mln 4,175 within assets held for sale.

5. BANK DEPOSITS

	30 June 2019	31 December 2018
Deposits in PJSC VTB Bank	17,661	5,935
Deposits in PJSC Sovcombank	11,308	1,042
Deposits in PJSC Promsvyazbank	5,700	-
Deposits in PJSC CREDIT BANK OF MOSCOW	5,614	-
Deposits in JSC Alfa-Bank	2,888	704
Deposits in PJSC Sberbank	2,000	3,167
Deposits in Bank GPB (JSC)	1,946	936
Deposits in JSC UniCredit Bank	1,000	-
Total bank deposits	**48,117**	**11,784**

As at 30 June 2019 the Group placed in banks deposits in roubles with maturity dates exceeding three months and interest rates ranging from 7.1% to 8.1% per annum, deposits in dollars – 2.6% to 4.3%.

As at 31 December 2018 the Group placed in banks deposits in roubles with maturity dates exceeding three months and interest rates ranging from 7.1% to 8.1% per annum, deposits in dollars – 3.7% to 4.1%.

6. CASH AND CASH EQUIVALENTS

	30 June 2019	31 December 2018
Deposit accounts	3,743	25,292
Cash in banks and on hand	1,963	2,145
Total cash and cash equivalents	**5,706**	**27,437**

Deposit accounts at 30 June 2019 and 31 December 2018 are mainly held to meet short-term cash needs and have various original maturities not exceeding three months and can be withdrawn on request without restrictions.

(in millions of Russian roubles, unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment	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**
Six months ended 30 June 2018:			
Net book value as at 31 December 2017	205,885	30,704	236,589
Foreign exchange differences – at cost	538	139	677
Foreign exchange differences – accumulated depreciation	(212)	-	(212)
Additions	4,043	10,327	14,370
Transfers	1,608	(1,608)	-
Disposal of subsidiaries – at cost	(119)	(692)	(811)
Disposal of subsidiaries - accumulated depreciation	119	575	694
Other disposals – at cost	(2,225)	(81)	(2,306)
Other disposals – accumulated depreciation	2,034	-	2,034
Change in estimate of provision for land recultivation	526	-	526
Reversal of impairment of property, plant and equipment	114	-	114
Depreciation charge for the period	(12,445)	-	(12,445)
As at 30 June 2018	**199,866**	**39,364**	**239,230**
Cost	383,753	39,364	423,117
Accumulated depreciation and impairment losses	(183,887)	-	(183,887)
Net book value as at 30 June 2018	**199,866**	**39,364**	**239,230**
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**
Six months ended 30 June 2019:			
Net book value as at 31 December 2018	211,111	23,762	234,873
Foreign exchange differences – at cost	(669)	21	(648)
Foreign exchange differences – accumulated depreciation	275	-	275
Additions	3,477	5,778	9,255
Transfers	2,125	(2,125)	-
Disposal of subsidiaries – at cost	(1,397)	(26)	(1,423)
Disposal of subsidiaries - accumulated depreciation	430	-	430
Other disposals – at cost	(1,678)	(8)	(1,686)
Other disposals – accumulated depreciation	1,318	-	1,318
Impairment of property, plant and equipment	(72)	-	(72)
Depreciation charge for the period	(12,537)	-	(12,537)
As at 30 June 2019	**202,383**	**27,402**	**229,785**
Cost	409,933	27,466	437,399
Accumulated depreciation and impairment losses	(207,550)	(64)	(207,614)
Net book value as at 30 June 2019	**202,383**	**27,402**	**229,785**

(in millions of Russian roubles, unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Borrowing costs capitalized in assets under construction

During six months ended 30 June 2019 the Group has capitalised borrowing costs amounting to RR'mln 155 (six months ended 30 June 2018: RR'mln 411) in construction of qualifying asset totalling RR'mln 5,341 (30 June 2018: RR'mln 11,714). In the consolidated statement of cash flow the capitalized borrowing costs were included into financing activity as part of interest paid. For six months ended 30 June 2019 borrowing costs were capitalized at the weighted average rate of its general borrowing of 5.80 per cent per annum (six months ended 30 June 2018: 6.35 per cent per annum).

8. INVENTORIES

	30 June 2019	31 December 2018
Diamonds*	44,247	49,587
Ores and sands mined	19,805	14,032
Mining and repair materials	28,914	27,164
Consumable and other supplies	1,907	1,836
Total inventories	**94,873**	**92,619**

*As at 30 June 2019 and 31 December 2018 diamonds include diamonds purchased from other producers in the amount of RR'mln 2,075 and RR'mln 2,032 respectively.

9. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	**30 June 2019**	**31 December 2018**
Loans issued*	559	602
Advances to suppliers	10	90
Long-term VAT recoverable	11	11
Prepayment for share in Catoca Mining Company Ltd.	-	8,350
Other long-term receivables	243	263
Total long-term accounts receivable	**823**	**9,316**

*The several loans issued of RR'mln 600 nominal value as at 30 June 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 for expected credit losses was not created.

Short-term accounts receivable	**30 June 2019**	**31 December 2018**
Financial accounts receivable	***15,034***	***18,131***
Trade receivables for supplied diamonds	10,768	12,080
Receivables from associates (note 25)	225	3,461
Loans issued	372	383
Interest on deposits	771	64
Consideration receivable for disposed interest in CJSC MMC Timir	-	535
Other short-term receivables	2,898	1,608
Non-financial accounts receivable	***6,852***	***4,140***
VAT recoverable	4,311	2,827
Advances to suppliers	2,402	1,013
Prepaid taxes, other than income tax	139	300
Total short-term accounts receivable	**21,886**	**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 financial receivable at 30 June 2019 and 31 December 2018 approximates their carrying value.

The credit loss allowance for trade and other financial receivables is presented in the amount of RR'mln 2,748 as at 30 June 2019 (31 December 2018: RR'mln 2,835).

(in millions of Russian roubles, unless otherwise stated)

10. SHAREHOLDERS' EQUITY

Share capital

Company's share capital authorised, issued and fully paid in totals RR'mln 12,473 as at 30 June 2019 and 31 December 2018 and consists of 7,364,965,630 ordinary shares at RR 0.5 par value share. In addition as at 30 June 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 that 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 30 June 2019 and 31 December 2018 subsidiaries of the Group held 156,059,800 ordinary shares of the Company.

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 and six months ended 30 June 2019, respectively (for the three and six months ended 30 June 2018: 7,259,762,973 and 7,300,013,703). There are no dilutive financial instruments outstanding in the Group.

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	-	-	-	(457)	(457)
Currency translation differences	266	-	-	-	266
Purchase of non-controlling interest	-	56	-	-	56
Balance as at 30 June 2018	**305**	**125**	**-**	**(19,913)**	**(19,483)**

	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	-	-	(1,113)	(1,113)
Currency translation differences	(276)	-	-	(276)
Balance as at 30 June 2019	**160**	**(11,220)**	**(21,684)**	**(32,744)**

(in millions of Russian roubles, unless otherwise stated)

10. SHAREHOLDERS' EQUITY (CONTINUED)

Dividends

On 28 June 2019 the Company's annual shareholders' meeting approved dividends for the second half of the year ended 31 December 2018, totalling RR'mln 30,270 (including RR'mln 641 for shares of the Group's subsidiaries). Dividends per share amounted to RR 4.11.

Dividends for the first half of 2018 were approved on 30 September 2018 by the Company's annual shareholders' meeting totalling RR'mln 43,674 (including RR'mln 925 for shares of the Group's subsidiaries). Dividends per share amounted to RR 5.93. Therefore, taking into consideration dividends paid for the first half of the year ended 31 December 2018, total dividends for the year ended 31 December 2018 comprise RR'mln 73,944 (including RR'mln 1,566 for shares of the subsidiaries) or RR 10.04 per share.

On 26 June 2018 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2017 totalling RR'mln 38,592 (including RR'mln 605 for shares of the Group's subsidiaries). Dividends per share amounted to RR 5.24.

11. LONG-TERM DEBT AND OTHER FINANCIAL LIABILITIES

	30 June 2019	31 December 2018
Debt to banks:		
RR denominated fixed rate	2,229	2,841
US$ denominated fixed rate	18,923	-
US$ denominated Eurobonds	62,528	62,133
Total long-term debt	**83,680**	**64,974**
Lease obligation	4,742	-
Less: current portion of lease obligation	(1,140)	-
Total long-term debt and other financial liabilities	**87,282**	**64,974**

The average market interest rates for each class of long-term debt at the end of the reporting period were as follows:

	30 June 2019	31 December 2018
Debt to banks:		
RR denominated fixed rate	9.7%	9.0%
US$ denominated fixed rate	5.5%	-
Eurobonds US$ denominated	5.1%	6.1%

As at 30 June 2019 and 31 December 2018 the fair value of long-term debt, excluding Eurobonds was not materially different from their carrying value.

Eurobonds

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.

Movements of issued Eurobonds during six months ended 30 June 2019 and 30 June 2018 were as follows:

	Six months ended	
	30 June 2019	30 June 2018
Balance at the beginning of the period	**62,133**	**57,600**
Amortisation of discount	3	1
Issuance	32,472	-
Repayment	(25,699)	(1,121)
Exchange (gain) / loss	(6,381)	5,335
Balance at the end of the period	**62,528**	**61,815**

As at 30 June 2019 the fair value of Eurobonds comprised RR'mln 65,854 (31 December 2018: RR'mln 65,689).

(in millions of Russian roubles, unless otherwise stated)

12. SHORT-TERM DEBT AND OTHER FINANCIAL LIABILITIES

	30 June 2019	31 December 2018
Debt to banks:		
US$ denominated fixed rate	-	41,682
RR denominated fixed rate	808	5
Total short-term debt	**808**	**41,687**
Add: current portion of lease obligation	1,140	-
Total short-term debt and other financial liabilities	**1,948**	**41,687**

As at 30 June 2019 and 31 December 2018 the fair value of short-term debt approximately equals the carrying value.

13. TRADE AND OTHER PAYABLES

	30 June 2019	31 December 2018
Accrual for employee holidays and travel expenses	8,101	7,000
Trade payables	6,106	6,380
Wages and salaries	3,860	5,591
Advances from customers	1,360	1,140
Interest payable	782	811
Current portion of provision for social obligation	77	306
Payables to associates	6	12
Other payables	337	595
Total trade and other payables	**20,629**	**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 30 June 2019 and 31 December 2018 the fair value of short-term financial payables approximately equals the carrying value.

14. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

Payments to social funds and taxes payable, other than income tax, comprise the following:

	30 June 2019	31 December 2018
Payments to social funds	3,052	2,977
Property tax	1,117	1,308
Extraction tax	1,087	1,924
Value added tax	1,054	1,216
Personal income tax (employees)	400	797
Other taxes and accruals	256	363
Total taxes payable, other than income tax	**6,966**	**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		Six months ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Property tax	1,117	1,300	2,246	2,581
Other taxes and accruals	102	100	197	182
Total taxes and accruals	**1,219**	**1,400**	**2,443**	**2,763**

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.

(in millions of Russian roubles, unless otherwise stated)

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

Income tax expense comprises the following:

	Three months ended		Six months ended	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
Current tax expense	4,074	6,411	10,934	17,653
Adjustments recognised in the period for current tax of prior periods	155	(60)	49	(185)
Deferred tax (benefit) / expense	229	241	(66)	(1,874)
Total income tax expense	**4,458**	**6,592**	**10,917**	**15,594**

15. PROVISION FOR PENSION OBLIGATION

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

	30 June 2019	**31 December 2018**
Present value of funded obligations	34,379	33,475
Fair value of pension plan assets	(22,855)	(22,790)
Pension obligations for the funded plan	11,524	10,685
Present value of unfunded obligation	1,119	953
Net liabilities	**12,643**	**11,638**

16. REVENUE

	Three months ended		Six months ended	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
Revenue from diamond sales:				
Export	44,748	58,851	101,921	141,350
Domestic	6,155	8,235	14,097	16,948
Revenue from diamonds for resale	915	11	1,751	16
Total revenue from diamond sales	**51,818**	**67,097**	**117,769**	**158,314**
Other revenue:				
Transport	1,934	1,998	3,256	3,222
Social infrastructure	472	418	1,146	1,065
Other	1,681	1,206	3,275	3,012
Total revenue	**55,905**	**70,719**	**125,446**	**165,613**

17. COST OF SALES

	Three months ended		Six months ended	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
Wages, salaries and other staff costs	12,195	10,327	24,369	20,436
Depreciation	5,844	5,972	12,357	11,940
Extraction tax	4,444	4,273	10,273	9,906
Fuel and energy	3,813	3,493	7,829	6,788
Materials	3,097	2,515	5,708	4,956
Services	1,644	2,019	3,271	3,855
Cost of diamonds for resale	1,044	10	1,871	15
Transport	344	560	752	979
Other	215	482	463	792
Movement in inventory of diamonds, ores and sands	(4,021)	(1,188)	(389)	14,471
Total cost of sales	**28,619**	**28,463**	**66,504**	**74,138**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 2,702 and RR'mln 5,289 for the three and six months ended 30 June 2019, respectively (for the three and six months ended 30 June 2018: RR'mln 2,199 and RR'mln 4,525, respectively).

(in millions of Russian roubles, unless otherwise stated)

17. COST OF SALES (CONTINUED)

Depreciation includes depreciation of the right-of-use assets amounting to RR'mln 286 and RR'mln 491 for the three months and six months ended 30 June 2019.

Depreciation totalling RR'mln 270 and RR'mln 288 for the three and six months ended 30 June 2019, respectively (for the three and six months ended 30 June 2018: RR'mln 162 and RR'mln 434, respectively) and wages, salaries and other staff costs totalling RR'mln 643 and RR'mln 1,313 for the three and six months ended 30 June 2019, respectively (for the three and six months ended 30 June 2018: RR'mln 1,175 and RR'mln 2,104, respectively) were capitalised in the respective periods.

18. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
Wages, salaries and other staff costs	2,394	1,940	4,014	3,207
Services and other administrative expenses	1,267	948	2,152	2,058
Allowance / (Reversal of allowance) for expected credit losses	48	(184)	9	(84)
Total general and administrative expenses	**3,709**	**2,704**	**6,175**	**5,181**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 302 and RR'mln 645 for the three and six months ended 30 June 2019, respectively (for the three and six months ended 30 June 2018: RR'mln 225 and RR'mln 523, respectively).

19. SELLING AND MARKETING EXPENSES

	Three months ended		Six months ended	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
Wages, salaries and other staff costs	376	466	885	915
Services and other selling and marketing expenses	286	319	408	620
Total selling and marketing expenses	**662**	**785**	**1,293**	**1,535**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 85 and RR'mln 197 for the three and six months ended 30 June 2019, respectively (for the three and six months ended 30 June 2018 in the amount of RR'mln 97 and RR'mln 209, respectively).

20. OTHER OPERATING INCOME

	Three months ended		Six months ended	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
Gain on disposal of property, plant and equipment	234	-	1,665	-
Gain on disposal of subsidiaries	-	-	177	-
Exchange gain	-	1,468	-	1,468
Reversal of loss on impairment of property, plant and equipment	-	114	-	114
Other	342	389	748	647
Total other operating income	**576**	**1,971**	**2,590**	**2,229**

(in millions of Russian roubles, unless otherwise stated)

21. OTHER OPERATING EXPENSES

	Three months ended		Six months ended	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
Exploration expenses	1,708	1,494	3,879	3,637
Loss / (gain) from exchange differences	371	(195)	1,966	-
Taxes other than income tax, extraction tax and payments to social funds (note 14)	1,219	1,400	2,443	2,763
Social costs	1,592	1,273	2,423	2,229
Loss on disposal and write-off of property, plant and equipment	-	165	-	94
Loss on disposal of subsidiaries	-	-	-	194
Change in fair value of financial assets through profit or loss	(73)	210	150	235
Loss on impairment of property, plant and equipment	109	-	199	-
Other	666	876	1,279	1,703
Total other operating expenses	**5,592**	**5,223**	**12,339**	**10,855**

Social costs consist of:

	Three months ended		Six months ended	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
Charity	866	698	1,187	1,190
Maintenance of local infrastructure	404	358	772	743
Hospital expenses	114	44	152	85
Education	29	29	55	49
Other	179	144	257	162
Total social costs	**1,592**	**1,273**	**2,423**	**2,229**

22. FINANCE INCOME AND COSTS

	Three months ended		Six months ended	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
Interest income	859	504	1,428	998
Interest expense:				
Bank loans	(330)	(68)	(737)	(150)
Eurobonds	(1,031)	(905)	(2,078)	(1,931)
Other liabilities	(2,160)	(348)	(2,535)	(674)
Unwinding of discount of future provisions	(77)	50	(183)	(70)
Exchange gain / (loss), net	1,367	(5,247)	8,808	(4,438)
Total finance income / (costs), net	**(1,372)**	**(6,014)**	**3,033**	**(6,265)**

(in millions of Russian roubles, unless otherwise stated)

23. CASH GENERATED FROM OPERATING ACTIVITIES

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

	Six months ended	
	30 June 2019	**30 June 2018**
Profit before income tax	**48,428**	**73,856**
Adjustments for:		
Share of net profit of associates and joint ventures (note 4)	(1,858)	(1,995)
Interest income (note 22)	(1,428)	(998)
Interest expense (note 22)	5,533	2,825
(Gain) / Loss on disposal and write-off of property, plant and equipment (note 21)	(1,665)	94
Depreciation (notes 7, 17)	12,474	12,011
(Gain) / Loss on disposal of subsidiaries (note 21)	(177)	194
Adjustment for non-cash financing activity	59	(477)
Impairment / (Reversal of impairment) of of property, plant and equipment (note 7, 20)	199	(114)
Unrealised foreign exchange effect on non-operating items	(5,127)	2,980
Net operating cash flows before changes in working capital	**56,438**	**88,376**
Net (increase) / decrease in inventories	(2,008)	12,063
Net increase in receivables, excluding dividends receivable and consideration receivable for disposed controlling interest in CJSC MMC Timir	(3,096)	(4,746)
Net decrease in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(2,249)	(1,851)
Net decrease in taxes payable, excluding income tax	(1,606)	(591)
Cash inflows from operating activities	**47,479**	**93,251**
Income tax paid	(10,811)	(19,179)
Net cash inflows from operating activities	**36,668**	**74,072**

24. CONTINGENCIES AND COMMITMENTS

(a) Operating environment of the Russian Federation

The economy of 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. In 2019 Russian economy continued demonstrating signs of recovery after overcoming the economic downturn of previous years. However, the economy is negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

(b) Taxes

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

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

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

24. CONTINGENCIES, COMMITMENTS AND OTHER RISKS (CONTINUED)

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

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

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

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 30 June 2019.

(d) Capital commitments

As at 30 June 2019 the Group has contractual commitments for capital expenditures of RR’mln 6,423 (31 December 2018: RR’mln 5,052).

(f) Restoration, rehabilitation and environmental costs

Under its license agreements, the Group is not responsible for any significant restoration, rehabilitation and environmental expenditures that may be incurred subsequent to the cessation of production at each mine, apart from the obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. As at 30 June 2019 the Group’s management recognised a provision for these future expenses in the amount of RR’mln 5,744 (31 December 2018: RR’mln 5,473).

(g) Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as at 30 June 2019 and 31 December 2018.

(h) 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.

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)

The major shareholders of the Company, Federal Agency for State Property Management on behalf of the government of the Russian Federation and the Ministry of Property and Land Relations of the Republic of Sakha (Yakutia) on behalf of the Republic of Sakha (Yakutia) were directly owned of 58.0 per cent of the Company’s issued shares as at 30 June 2019.

(in millions of Russian roubles, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS (CONTINUED)

Also as at 30 June 2019 8.0 per cent of the Company's shares were owned by administrations of 8 districts of the Republic of Sakha (Yakutia).

In accordance with the Charter of the Company, the Supervisory Board is elected with 15 members. Following the General Meeting of Shareholders on 26 June 2019,the Supervisory Board include 6 representatives of the Russian Federation (1 of them the Chief Executive Officer - Chair of the Management Board), 4 representatives of the Republic of Sakha (Yakutia), 1 representative of the districts of the Republic of Sakha (Yakutia), 4 independent directors (1 of them was nominated by the The Federal Agency for State Property Management, exercising the rights of the Russian Federation as a shareholder of the Company, 1 - by the Ministry of Property and Land Relations of the Republic of Sakha (Yakutia), exercising the rights of the Republic of Sakha (Yakutia) as a shareholder of the Company, 2 - by foreign minority shareholders).

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, 17, 18, 19, 23 and 24.

Parties under control or significant influence of the Government

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

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

Consolidated Interim Statement of Financial Position	**30 June 2019**	**31 December 2018**
Long-term accounts receivable	32	34
Short-term accounts receivable	7,053	5,625
Short-term accounts payable	676	993
Bank loans received by the Group*	2,464	2,714
Cash and cash equivalents	2,844	13,919
Bank deposits	21,607	10,038

** The line includes the loans received from banks under the Government control with various due dates and interest rates ranging from 7.1% to 9.5%.*

Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income	**Three months ended**		**Six months ended**	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
Sales of diamonds	2,509	3,113	5,755	5,868
Other sales	1,808	1,229	2,783	1,678
Income from grants	1,464	1,523	2,417	2,598
Fuel purchases	(2,859)	(5,036)	(3,730)	(5,470)
Electricity and heating purchases	(828)	(962)	(2,071)	(2,146)
Other purchases	(860)	(5,871)	(1,495)	(6,768)
Interest income	289	49	639	119
Interest expense	(51)	(15)	(124)	(74)

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.

(in millions of Russian roubles, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS (CONTINUED)

As at 30 June 2019 and 31 December 2018 the Management Board consisted of 8 members. Chief Executive Officer - Chair of the Management Board of the Company was also a member of the Supervisory Council.

Management Board members are entitled to salary, bonuses, voluntary medical insurance and other short-term employee benefits. Salary and bonus compensation paid to members of the Management Board is determined by the terms of "Remuneration Policy for the members of the Management Board of PJSC ALROSA" approved by the Company's Supervisory Council on 24 June 2019.

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

Key management received benefits for the three and six months ended 30 June 2019 totalling RR'mln 608 and RR' mln 678, respectively (three and six months ended 30 June 2018: RR'mln 113 and RR' mln 178, respectively). In 2019 the Group declared dividends RR'mln 5 to key management hold the Company's shares (RR'mln 19 in 2018).

Share-based payments

As of June 30, 2019 within the framework of the approved Long-Term Motivation Program for the Company's management the Group recognized a liability in the amount of RR 731 million in wages and salaries payable for remuneration of employees with share-based payment. (as at 31 December 2018 in the amount of RR 718 million). 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 a 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 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	**30 June 2019**	**31 December 2018**
Catoca Mining Company Ltd., dividends and other receivable	225	3,461
Total current accounts receivable	**225**	**3,461**

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.

(in millions of Russian roubles, unless otherwise stated)

26. SEGMENT INFORMATION (CONTINUED)

The following items are analysed on the Group level and are not allocated between segments for the purposes of the analysis:

- finance income;
- finance 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;
- Other activities.

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

Three months ended 30 June 2019	Diamonds segment	Transportation	Social infrastructure	Other activities	Total
Revenue	51,818	2,623	908	3,542	58,891
Intersegment revenue	-	(676)	(302)	(2,084)	(3,062)
Cost of sales, including	26,562	2,625	1,816	3,939	34,942
depreciation	4,607	730	79	765	6,181
Gross margin	**25,256**	**(2)**	**(908)**	**(397)**	**23,949**

Three months ended 30 June 2018	Diamonds segment	Transportation	Social infrastructure	Other activities	Total
Revenue	67,097	2,265	954	2,821	73,137
Intersegment revenue	-	(225)	(311)	(1,987)	(2,523)
Cost of sales, including	25,764	2,336	1,804	3,481	33,385
depreciation	3,946	315	69	578	4,908
Gross margin	**41,333**	**(71)**	**(850)**	**(660)**	**39,752**

(in millions of Russian roubles, unless otherwise stated)

26. SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2019	Diamonds segment	Transpor-tation	Social infra-structure	Other activities	Total
Revenue	117,769	4,353	2,355	7,404	131,881
Intersegment revenue	-	(1,108)	(930)	(4,499)	(6,537)
Cost of sales, including	57,573	4,447	4,109	9,157	75,286
depreciation	9,092	1,107	152	1,537	11,888
Gross margin	**60,196**	**(94)**	**(1,754)**	**(1,753)**	**56,595**
Six months ended 30 June 2018					
Revenue	158,314	3,820	2,426	6,458	171,018
Intersegment revenue	-	(599)	(967)	(3,987)	(5,553)
Cost of sales, including	64,903	4,101	3,993	8,559	81,556
depreciation	7,889	456	136	1,283	9,764
Gross margin	**93,411**	**(281)**	**(1,567)**	**(2,101)**	**89,462**

Reconciliation of revenue is presented below:

	Three months ended		Six months ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Segment revenue	**58,891**	**73,137**	**131,881**	**171,018**
Elimination of intersegment revenue	(3,062)	(2,523)	(6,537)	(5,553)
Other adjustments and reclassifications	76	105	102	148
Revenue	55,905	70,719	125,446	165,613
Income from grants	1,464	1,523	2,417	2,598
Total revenue and income from grants as per consolidated statement of profit or loss and other comprehensive income	**57,369**	**72,242**	**127,863**	**168,211**

Reconciliation of cost of sales including depreciation is presented below:

	Three months ended		Six months ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Segment cost of sales	**34,942**	**33,385**	**75,286**	**81,556**
Adjustment for depreciation of property, plant and equipment [1]	(337)	1,064	469	2,176
Elimination of intersegment purchases	(2,712)	(1,361)	(5,054)	(4,329)
Accrued provision for pension obligation [2]	116	(57)	246	(490)
Adjustment for inventories [3]	(783)	(1,238)	1,055	2,035
Accrual for employee flights and holidays [4]	(54)	(56)	22	100
Accrual for the part of expected annual bonus	438	270	270	108
Other adjustments	(186)	113	(326)	(437)
Reclassification of exploration expenses [5]	(1,545)	(1,949)	(3,168)	(3,730)
Other reclassifications	(1,260)	(1,708)	(2,296)	(2,851)
Cost of sales as per Consolidated Interim Financial Statement of Profit or Loss and Other Comprehensive Income	**28,619**	**28,463**	**66,504**	**74,138**

[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] *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*

(in millions of Russian roubles, unless otherwise stated)

26. SEGMENT INFORMATION (CONTINUED)

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

	Three months ended		Six months ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Belgium	22,985	30,674	53,816	75,644
Russian Federation (including income from grants)	11,504	13,797	23,765	26,425
India	9,841	9,162	19,102	23,089
United Arab Emirates	5,440	7,451	13,997	17,185
Israel	4,504	7,227	9,188	16,344
China	1,929	2,506	5,407	6,129
Switzerland	224	85	512	283
Angola	212	239	445	420
UK	190	115	357	287
Republic of Botswana	187	278	441	557
Belarus	181	334	487	1,047
USA	156	306	295	426
Armenia	16	68	49	374
Other countries	-	-	2	1
Total revenue and income from grants as per Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income	**57,369**	**72,242**	**127,863**	**168,211**

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:

	30 June 2019	31 December 2018
Russian Federation	231,785	231,034
Angola	14,296	9,594
Other countries	1,327	1,814
Total non-current assets	**247,408**	**242,442**

27. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group's activities exposed to a variety of 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, prepared in accordance with IFRS. There have been no changes in any risk management policies during the reporting period.

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

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

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

(in millions of Russian roubles, unless otherwise stated)

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

Recurring fair value measurements

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

	30 June 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	272	-	4	**276**	835	-	3	**838**
Total	**272**	**-**	**4**	**276**	**835**	**-**	**3**	**838**

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

As at 30 June 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
Financial assets at amortised cost				
Bank deposits	-	48,117	-	48,117
Current and non-current financial receivable	-	14,905	-	14,905
Loans issued	-	-	931	931
Cash and cash equivalents	-	5,706	-	5,706
Total financial assets	**-**	**68,728**	**931**	**69,659,**
Financial liabilities at amortised cost				
Non-current				
Debt to banks	-	21,152	-	21,152
Eurobonds	62,528	-	-	62,528
Total non-current financial liabilities	**62,528**	**21,152**	**-**	**83,680**
Current				
Financial accounts payable	-	7,231	-	7,231
Dividends payable	-	30,013	-	30,013
Financial guarantee	-	-	1,500	1,500
Debt to banks	-	808	-	808
Total current financial liabilities	**-**	**38,052**	**1,500**	**39,552**
Total financial liabilities	**62,528**	**59,204**	**1,500**	**123,232**

(in millions of Russian roubles, unless otherwise stated)

27. 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
Financial assets at amortised cost				
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**
Financial liabilities at amortised cost				
Non-current				
Debt to banks	-	2,841	-	2,841
Eurobonds	62,133	-	-	62,133
Total non-current financial liabilities	**62,133**	**2,841**	**-**	**64,974**
Current				
Debt to 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.