PJSC ALROSA

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015 AND

INDEPENDENT AUDITOR'S REPORT

CONTENTS

pwc

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Public Joint Stock Company ALROSA and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of profit or loss and other comprehensive income, cash flows and changes in equity for 2015, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

AO PricewaterhouseCoopers Audit White Square Office Center 10 Butyrsky Val Moscow, Russia, 125047
T: +7 (495) 967-6000, F:+7 (495) 967-6001, www.pwc.ru

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

AO PricewaterhouseCoopers Audit

15 March 2016

Moscow, Russian Federation

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Financial Position

	Notes	31 December 2015	31 December 2014
ASSETS			
Non-current Assets			
Goodwill	5.2	1,439	1,439
Property, plant and equipment	7	283,963	271,618
Investments in associates and joint ventures	5.3	6,891	6,219
Deferred tax assets	16	1,919	1,912
Available-for-sale investments		711	379
Long-term accounts receivable	9	3,453	2,489
Restricted cash	6	-	100
Total Non-current Assets		**298,376**	**284,156**
Current Assets			
Inventories	8	94,296	63,488
Prepaid income tax		6,258	3,716
Trade and other receivables	9	15,632	15,196
Cash and cash equivalents	6	20,503	21,693
Total Current Assets		**136,689**	**104,093**
Total Assets		**435,065**	**388,249**
EQUITY			
Share capital	10	12,473	12,473
Share premium		10,431	10,431
Treasury shares	10	(15)	-
Retained earnings and other reserves	10	128,853	114,147
Equity attributable to owners of PJSC ALROSA		**151,742**	**137,051**
Non-Controlling Interest in Subsidiaries	27	**(257)**	**123**
Total Equity		**151,485**	**137,174**
LIABILITIES			
Non-current Liabilities			
Long-term debt	11	197,467	176,358
Provision for pension obligations	14	10,556	5,793
Other provisions	13	5,841	4,347
Deferred tax liabilities	16	13,966	11,301
Total Non-current Liabilities		**227,830**	**197,799**
Current Liabilities			
Short-term loans and current portion of long-term debt	12	25,692	20,802
Trade and other payables	15	23,047	24,003
Income tax payable		921	2,716
Other taxes payable	16	6,001	5,287
Dividends payable		89	468
Total Current Liabilities		**55,750**	**53,276**
Total Liabilities		**283,580**	**251,075**
Total Equity and Liabilities		**435,065**	**388,249**

Approved for issue and signed on 15 March 2016 by the following members of management:

Andrey V. Zharkov
President

РОССИЙСКАЯ ФЕДЕРАЦИЯ * РЕСПУБЛИКА САХА (ЯКУТИЯ) * Акционерная компания «АЛРОСА» (публичное акционерное общество) * г. МИРНЫЙ

Svetlana V. Linnik
Chief accountant

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	17	224,524	207,159
Cost of sales	18	(93,240)	(99,334)
Royalty	16	(1,209)	(1,209)
Gross profit		**130,075**	**106,616**
General and administrative expenses	19	(10,243)	(10,270)
Selling and marketing expenses	20	(2,768)	(2,298)
Other operating income	21	3,101	4,117
Other operating expenses	22	(22,996)	(23,789)
Operating profit		**97,169**	**74,376**
Finance (costs) / income, net	23	(58,481)	(83,762)
Share of net profit of associates and joint ventures	5.3	2,628	1,589
Profit / (loss) before income tax		**41,316**	**(7,797)**
Income tax	16	(9,124)	(9,035)
Profit / (loss) for the year		**32,192**	**(16,832)**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations, net of tax		(4,716)	5,433
Total items that will not be reclassified to profit or loss		**(4,716)**	**5,433**
Items that will be reclassified to profit or loss:			
Currency translation differences, net of tax		(159)	307
Change in fair value of available for sale investments		16	-
Total items that will be reclassified to profit or loss		**(143)**	**307**
Other comprehensive (loss) / income for the year		**(4,859)**	**5,740**
Total comprehensive income/(loss) for the year		**27,333**	**(11,092)**
Profit / (loss) attributable to:			
Owners of PJSC ALROSA		30,674	(17,952)
Non-controlling interest	27	1,518	1,120
Profit / (loss) for the year		**32,192**	**(16,832)**
Total comprehensive income/(loss) attributable to:			
Owners of PJSC ALROSA		26,078	(12,212)
Non-controlling interest		1,255	1,120
Total comprehensive income / (loss) for the year		**27,333**	**(11,092)**

Basic and diluted earnings / (loss) per share for profit / (loss) attributable to the owners of PJSC ALROSA (in Roubles)	10	4.17	(2.44)

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Net Cash Inflow from Operating Activities	24	**75,541**	**78,115**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(34,241)	(36,056)
Proceeds from sales of property, plant and equipment		304	1,147
Proceeds from sales / (acquisition) of available-for-sale investments		122	(101)
Proceeds from disposal of subsidiaries, net of cash disposed of		(425)	2,483
Interest received		3,616	969
Dividends received from associates		1,664	670
Net Cash Outflow from Investing Activities		**(28,960)**	**(30,888)**
Cash Flows from Financing Activities			
Repayments of loans		(44,279)	(113,531)
Loans received		21,491	91,613
Interest paid		(12,083)	(9,228)
Sale of treasury shares		-	224
Purchase of treasury shares		(642)	(65)
Proceeds from disposal of non-controlling interest in subsidiaries		-	91
Dividends paid		(12,789)	(11,487)
Net Cash Outflow from Financing Activities		**(48,302)**	**(42,383)**
Net (Decrease)/Increase in Cash and Cash Equivalents		**(1,721)**	**4,844**
Cash and cash equivalents at the beginning of the year		21,693	10,408
Effect of exchange rate changes on cash and cash equivalents		531	6,441
Cash and Cash Equivalents at the End of the Year	6	**20,503**	**21,693**

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Changes in Equity

		Attributable to owners of PJSC ALROSA							
	Number of shares outstanding	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves (note 10)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2013	**7,360,112,830**	**12,473**	**10,431**	**(5)**	**(7,241)**	**144,142**	**159,800**	**(339)**	**159,461**
Comprehensive income / (loss)									
(Loss)/profit for the year		-	-	-	-	(17,952)	(17,952)	1,120	(16,832)
Other comprehensive income		-	-	-	5,740	-	5,740	-	5,740
Total comprehensive income / (loss) for the year		**-**	**-**	**-**	**5,740**	**(17,952)**	**(12,212)**	**1,120**	**(11,092)**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(10,818)	(10,818)	-	(10,818)
Sale of treasury shares	4,852,800	-	-	5	-	194	199	-	199
Sale of non-controlling interest		-	-	-	82	-	82	23	105
Dividends of subsidiaries to non-controlling shareholders		-	-	-	-	-	-	(681)	(681)
Total transactions with owners	**4,852,800**	**-**	**-**	**5**	**82**	**(10,624)**	**(10,537)**	**(658)**	**(11,195)**
Balance at 31 December 2014	**7,364,965,630**	**12,473**	**10,431**	**-**	**(1,419)**	**115,566**	**137,051**	**123**	**137,174**
Comprehensive income / (loss)									
Profit for the year		-	-	-	-	30,674	30,674	1,518	32,192
Other comprehensive income		-	-	-	(4,596)	-	(4,596)	(263)	(4,859)
Total comprehensive income / (loss) for the year		**-**	**-**	**-**	**(4,596)**	**30,674**	**26,078**	**1,255**	**27,333**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(10,816)	(10,816)	-	(10,816)
Purchase of treasury shares	(8,599,300)	-	-	(15)	-	(627)	(642)	-	(642)
Sale of non-controlling interest		-	-	-	71	-	71	(71)	-
Dividends of subsidiaries to non-controlling shareholders		-	-	-	-	-	-	(1,564)	(1,564)
Total transactions with owners	**(8,599,300)**	**-**	**-**	**(15)**	**71**	**(11,443)**	**(11,387)**	**(1,635)**	**(13,022)**
Balance at 31 December 2015	**7,356,366, 330**	**12,473**	**10,431**	**(15)**	**(5,944)**	**134,797**	**151,742**	**(257)**	**151,485**

1. ACTIVITIES

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

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

As at 31 December 2015 and 31 December 2014 the Company's principal shareholders are the Federal Agency for State Property Management on behalf of the government of the Russian Federation (43.9 per cent of shares) and the Ministry of the property and land relations of the Republic of Sakha (Yakutia) on behalf of the Republic of Sakha (Yakutia) (25.0 per cent of shares).

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

2. BASIS OF PRESENTATION, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES

(a) Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets and financial instruments categorised as at fair value through profit or loss. The consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Group companies incorporated in Russia maintain their statutory accounting records and prepare statutory financial reports in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR") and their functional currency is the Russian Rouble ("RR"). Group companies incorporated in other countries maintain their statutory accounting records in accordance with relevant legislation and in the appropriate functional currency.

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 72.8827 and 56.2584 as at 31 December 2015 and 31 December 2014, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 79.6972 and 68.3427 as at 31 December 2015 and 31 December 2014, respectively.

(b) Recent accounting pronouncements

In 2015 the Group has adopted all IFRS, amendments and interpretations which were effective as at 1 January 2015 and which are relevant to its operations.

The following new standards and interpretations became effective for the Group from 1 January 2015*, *but did not have any material impact on the Group:

- Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014);
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014);
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

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

Standards, Amendments and Interpretations to existing Standards that are not yet effective and have not been early adopted by the Group:

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Group has not early adopted:

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016);
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016);
- 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 1 January 2016);
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016);
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016);
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016);
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017.

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

(c) Principles of consolidation

The Group comprises the Company and its subsidiaries. The effects of transactions between subsidiaries within the Group are eliminated and accounting policies of the subsidiaries and associates are conformed to those of the Company.

Subsidiaries are those investees that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. The Group applies acquisition method on transactions under common control.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill" or a "bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition of and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

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

Non-controlling interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest in transactions that do not result in a loss of control. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20.0 and 50.0 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial cost for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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

(d) Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

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

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

(e) Property, plant and equipment

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

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

Expenditure related to geophysical analysis and exploration is expensed until it is determined to be probable that economically recoverable reserves exist. Exploration costs are classified as exploration expenses within other operating expenses. All expenses incurred subsequently are considered as development costs and are capitalised as part of property, plant and equipment. They are depreciated from the date of commencement of mining activities at the exact area of interest. Depreciation of these development costs is calculated on a units of production basis for each area of interest. Depreciation charges are based on proved and probable reserves. Depreciable amount includes future development costs to extract all reserve base from the mine.

Stripping costs incurred during production phase of an open pit are capitalised as part of property, plant and equipment to the extent they provide improved access to further quantities of diamond ore that will be mined in future periods and depreciated subsequently on a units of production basis to match the economic benefits derived from them. The Group recognises a stripping activity asset if, and only if, all of the following are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the Group;
- the Group can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

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

At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use, the carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or loss. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's recoverable amount.

(in millions of Russian roubles, unless otherwise stated)

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

Costs on borrowings are capitalised as part of the cost of qualifying assets during the period of time that is required to construct and prepare the asset for its intended use.

Classification of production licenses. Management treats cost of production licenses as an integral part of acquisition cost of tangible mining properties; accordingly, production licenses are included in property, plant and equipment in these consolidated financial statements. As at 31 December 2015 the net book value of production licenses included in property, plant and equipment is RR'mln 33,364 (31 December 2014: RR'mln 36,398), see also note 7.

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

Depreciation of buildings and land improvements related to extraction of minerals is calculated on a units of production basis for each area of interest. For the purpose of this calculation at the end of each reporting period management uses information with respect to ore reserves in accordance with JORC code on the basis of independent resource engineer's report. In situations where it is known that future development costs will be needed to extract all resource base of the mine, they are included in depreciable amount. Depreciation of production licenses is calculated on a units of production basis. Depreciation of other assets is calculated on a straight-line basis over their estimated useful life.

Summary of useful lives and alternative basis for depreciation:

	Assets related to extraction of minerals	**Other assets**
Buildings	Units of production	8-50 years
Land improvements	Units of production	7-50 years
Production licenses	Units of production	-
Plant and equipment	4-13 years	4-13 years
Transport	5-13 years	5-13 years
Other	4-17 years	4-17 years

The average depreciation rate for the property, plant and equipment depreciated on a units of production basis was 5.75 per cent. in the year ended 31 December 2015 (year ended 31 December 2014: 7.95 per cent.).

Local infrastructure assets. Local infrastructure assets constructed or purchased by the Group (including dwelling houses for the Group's employees located in the areas of the Group's production activity) are included in the consolidated financial statements at historical cost and depreciated during their useful lives as set out above. These assets are an integral part of the Group's production activities.

Finance leases. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in debts. The interest cost is charged to the consolidated statement of profit and loss and other comprehensive income over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

(f) Provisions

Provisions for liabilities are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

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

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

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

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

(g) Inventories

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

Cost of extracted ore and sands is calculated using the quantities determined based on surveyors’ measurements of the volumes of ore and sands remaining at the period end. Cost of inventories include those directly attributable to mining the diamonds, extracting the ore and producing sands, and those directly attributable to bringing mining and construction stores and consumable supplies to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

(h) Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

(i) Non derivative financial assets

The Group classifies its financial assets in the following categories:

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

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

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

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

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

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

Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

Impairment of loans and receivables. Impairment losses are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within the profit or loss for the year.

(j) Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

(k) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and instruments with maturity at the date of inception of less than three months, which are considered by the Group at the time of deposit to have minimal fair value and default risks.

Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

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

(l) Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods borrowings are stated at amortised cost using the effective yield method; any difference between the amount at initial recognition and the redemption amount is recognised as interest expense over the period to maturity of the borrowings.

Borrowing costs (the interests) directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets.

Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

(n) Pension and other post-retirement benefits

In the normal course of business the Group contributes to the Russian Federation state pension fund on behalf of its employees. Mandatory contributions to the Russian Federation state pension fund, which is a defined contribution plan, made on behalf of employees directly involved in production of diamonds, are included within wages, salaries and other staff costs in cost of production and apportioned between work-in-process (inventory of diamonds and ores and sands) and cost of sales. Mandatory contributions to the Russian Federation state pension fund made on behalf of other employees, are expensed as incurred and included within wages, salaries and other staff costs in general and administrative expenses and selling and marketing expenses.

The Group also operates a defined benefit pension plan. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is charged to the relevant category in the consolidated statement of profit and loss and other comprehensive income so as to spread the regular cost over the service lives of employees (the cost of providing pensions to employees involved in production process is apportioned between cost of production and work-in-progress). The pension obligation is measured at the present value of the estimated future cash outflows using the interest rates on governmental securities, which have the terms to maturity approximating the terms of the related liability. Actuarial remeasurements arising mainly from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they arise.

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

Joint stock company "Non-state Pensionary Fund "Almaznaya osen" administers the Group's defined benefit plan. The amount of pension benefit that an employee will receive on retirement is usually dependent on one or more factors such as age, years of service and average salary for the year preceding the year of retirement. The liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The Group contributes funds to the JSC "NPF "Almaznaya osen", which invests them in various financial instruments. These investments are considered the pension fund plan assets, as these assets are available to be used only to pay or fund employee benefits, are not available to the Group's own creditors (even in bankruptcy), and cannot be returned to the Group, unless either the remaining assets of the non-state pension fund are sufficient to meet all the related employee benefit obligations of the pension plan, or the assets are returned to the Group to reimburse it for employee benefits already paid.

Past-service costs are recognised immediately in profit or loss.

(o) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

(p) Equity

Share capital. Share capital consists of ordinary shares, which are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

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

Dividends. Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are approved at the General Meeting of Shareholders on or before the end of the reporting period.

(q) Revenue recognition

Revenues are recognised when goods are transferred to the customer, as this is the date on which the risks and rewards of ownership are transferred to the customer. Sales are shown net of VAT and export duties, and after eliminating sales within the Group.

Revenue from rendering of transport services is recognised in consolidated financial statements in the period when the services are rendered.

Interest income is recognised on accrual basis that takes into account the effective yield on the asset.

Dividend income is recognised when the shareholder's right to receive payment is established and inflow of economic benefits is probable.

(r) Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge (benefit) comprises current tax and deferred tax and is recognised in the Group's profit or loss except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns.

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

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

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

(s) Foreign currencies

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies, are translated into functional currencies at the official exchange rate of the Central Bank of the Russian Federation (“CBRF”) prevailing at the reporting date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the Group’s profit or loss. Foreign exchange gains and losses that relate to borrowings are presented in the income statement within ‘Finance costs, net’. All other foreign exchange gains and losses are presented in the income statement within ‘Other operating income’ or ‘Other operating expenses’.

The statements of financial position of foreign subsidiaries are translated into Russian Roubles at the exchange rate prevailing at the end of the respective reporting period. Statements of profit and loss and other comprehensive income of foreign entities are translated at the average exchange rate for the reporting period. Exchange differences arising from the translation of the net assets of foreign subsidiaries are recognised as translation differences and included in other comprehensive income.

Loans between Group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between Group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognized in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognized in other comprehensive income.

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

(t) Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. Operating leases include long-term leases of land with rental payments contingent on cadastral values regularly reviewed by the government.

(u) Social costs

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

(v) Non-cash transactions

Non-cash transactions are measured at the fair value of the consideration to be received or given up in non-cash settlements. Non-cash transactions have been excluded from the cash flow statement. Investing and financing activities and the total of operating activities represent actual cash flows.

(w) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board of the Company, which is the Group’s chief operating decision-maker. The Management Board is responsible for allocating resources and assessing performance of the operating segments.

(x) Non-current assets classified as held for sale

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

Critical accounting estimates and judgements in applying accounting policies

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

Investment into CJSC MMC Timir. CJSC MMC Timir owns four licences for extraction in the Republic of Sakha (Yakutia) of iron-ore reserves totalling of 3,500 mln ton. The management are pending first study of development Taezhny deposits to arrive extraction of 3 mln ton per year to 2017-2018 year.

During 2015 the economy was negatively impacted by the numbers of the factors and iron-ore prices slumped.

The management considered this as an indicator of potential impairment and performed an assessment of investment into the Joint Venture CJSC MMC Timir for impairment.

The recoverable amount has been assessed by reference to value in use.

In arriving at value in use, discount rate of 15.4 per cent has been applied to the post-tax cash flows expressed in nominal terms. The value in use was determined by estimating cash flows for a period of 25 years.

(in millions of Russian roubles, unless otherwise stated)

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

The cash flow projections are based on the milestones specified in the license agreement, capital investment projections, mine-plan, reserve calculation report, resourse feasibility report and iron-ore prices forecasts.

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

- future iron-ore prices;
- discount rate (based on WACC).

Based on the assessment of the value in use, the recoverable amount of the investment into CJSC MMC Timir approximates its carrying amount, disclosed in note 5. The calculation is highly sensitive to changes in the key assumptions. The sensitivity of the value in use assessment to these parametrs is as follows:

Change in assumption: future iron-ore prices	(10%)	(5%)	(2,5%)	0%	2,5%	5%	10%
Recoverable amount	(256)	1,061	1,694	2,319	2,942	3,564	4,809
Change in assumption: discount rate, p.p.	(5p.p.)	(2p.p)	(1p.p,.)	0%	1p.p.	2p.p.	5p.p.
Recoverable amount	3,754	3,349	2,978	2,319	1,752	1,498	1,260

Impairment provision for receivables. The impairment provision for trade receivables is based on management's assessment of the probability of collection of individual customer accounts receivable. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates.

When there is no expectation of recovering additional cash for an amount receivable, amount receivable is written off against associated provision.

Impairment of property, plant and equipment. The estimation of forecast cash flows involves the application of a number of significant judgements and estimates to certain variables including volumes of production, prices of diamonds, operating costs, capital investments, diamonds reserves estimates and macroeconomic factors such as inflation and discount rates. In addition, judgement is applied in determining the cash generating units assessed for impairment.

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. Management believes that as at 31 December 2015 and 31 December 2014 there were no such indicators, accordingly the Group did not conduct an impairment test of its property plant and equipment as at those dates.

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in note 5.2.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (note 25).

Useful lives of property, plant and equipment. Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Management believes diamond production licenses will be extended past their current expiration dates without significant additional charges. The Group has a history of renewal of its production licenses and there were no cases in the past when any of the Group's production licenses were not extended. Because of the extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

In the year ended 31 December 2015, if the estimated useful lives of property, plant and equipment had been 10 per cent. longer / shorter with all other variables held constant, depreciation charge for the year would have been RR'mln 1,435 (year ended 31 December 2014 – RR'mln 1,787) lower / higher.

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

Pension benefits. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the yield to maturity on federal loan bonds denominated in the currency in which the benefits will be paid, and with terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based on current market conditions (note 14).

Asset retirement obligations. Based on legal requirements, licenses agreements and estimated period of resourses extraction the Group estimates discounted costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations). The key assumptions used to determine the asset retirement obligations amount include: production volume, period of extraction and discount rate.

3. FINANCIAL RISK MANAGEMENT

The Group’s activities expose it to a variety of financial risks, including market risk (currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group’s overall risk management focuses on minimising potential adverse effects on the financial performance of the Group.

Interest rate risk. The Group has no significant interest-bearing assets. The Group’s principal interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2015 and 2014, the Group’s borrowings were denominated in US dollars and Russian Roubles (notes 11 and 12).

To mitigate this risk, the Group’s treasury function performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In cases where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favorable interest rate terms. Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of raising new debts management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable over the expected period until maturity. The Group did not use derivative instruments to hedge its interest rate risk.

At 31 December 2015, if interest rates on US dollar-denominated borrowings had been 200 basis points higher / lower with all other variables held constant, profit for the year would have been RR’mln 637 lower / higher (31 December 2014: loss for the year would have been RR’mln 340 higher / lower), mainly as result of higher / lower interest expense on floating rate borrowings. Other components of equity would have not been significantly affected.

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

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

(in millions of Russian roubles, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	31 December 2015			31 December 2014		
	Monetary financial assets	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
US Dollar	9,257	223,262	(214,005)	6,740	175,952	(169,212)
Euro	141	408	(267)	277	1,025	(748)
Other currency	282	28	254	267	30	237
Total	**9,680**	**223,698**	**(214,018)**	**7,284**	**177,007**	**(169,723)**

At 31 December 2015, if the Russian Rouble had weakened / strengthened by 20 per cent. against the US dollar with all other variables held constant, post-tax profit for the year would have been RR'mln 34,241 lower / higher, mainly as a result of foreign exchange losses / gains on translation of US dollar-denominated borrowings and accounts trade payable partially offset by foreign exchange gains/losses on translation of US dollar-denominated cash and accounts trade receivable. At 31 December 2014, if the Russian Rouble had weakened / strengthened by 40 per cent. against the US dollar with all other variables held constant, post-tax loss for the year would have been RR'mln 54,148 higher / lower, mainly as a result of foreign exchange losses / gains on translation of US dollar-denominated borrowings and accounts trade payable partially offset by foreign exchange gains/losses on translation of US dollar-denominated cash and accounts trade receivable.

Credit risk. Credit risk arises from cash and cash equivalents, as well as credit exposures to customers, including outstanding trade receivables, loans issued and other financial assets. Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to have minimal risk of default. Due to the fact that most of the counterparties do not have individual external credit rating, the Group has policies in place to ensure that sales of products and services and loans issued are made to counterparties with positive credit history. These procedures include assessment of financial position, past experience and other factors. To support certain receivables from customers of diamonds the Group may require either collateral, or bank or any other third party's guarantee. Although collections of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position secured by collateral received and exposed by finance guarantees given.

Liquidity risk. Liquidity risk management includes maintaining sufficient cash balances, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group management maintains flexibility in funding by ensuring availability under committed credit lines and expected cash flows from operating activities. Management monitors a rolling forecast of the Group's liquidity reserve (comprises undrawn borrowing facility and cash and equivalents) on the basis of expected cash flow. This is carried out at Group level monthly and annually. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet any net cash outflows and maintaining debt financing plans.

(in millions of Russian roubles, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below analyses the Group's liabilities for financial instruments into relevant maturity grouping based on the remaining period at the consolidated statement of financial position to contractual maturity date.

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 3 years	Over 3 years	Total
31 December 2015						
Borrowings and finance lease obligations	18	26	25,648	124,584	72,883	223,159
Trade payables	4,385	862	1,307	-	-	6,554
Interest payable	357	746	11,238	18,188	16,509	47,038
Payables to associates	10	-	-	-		10
Other payables and accruals	647	-	-	-		647
	5,417	**1,634**	**38,193**	**142,772**	**89,392**	**277,408**
31 December 2014						
Borrowings and finance lease obligations	374	83	20,345	86,261	90,097	197,160
Trade payables	3,891	456	1,070	91	-	5,508
Current accounts of third parties in MAK Bank LLC	68	141	638	-	-	847
Interest payable	766	784	9,875	16,781	15,233	43,439
Payables to associates	19	-	-	-	-	19
Other payables and accruals	1,175	-	-	-	-	1,175
	6,293	**1,464**	**31,928**	**103,133**	**105,330**	**248,148**

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

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

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

The Group has complied with all externally imposed capital requirements throughout 2015 and 2014. These are set out in the Group's loan agreements.

The Group monitors capital mostly on the basis of the gearing ratio for the purpose of maintaining major debt parameters at the optimal level. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position, less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt. Management is in process of assessment relevancy of gearing ratio to current economic situation. After completion of that analysis management will develop action plan for improvement of gearing ration if deemed to be necessary.

The gearing ratios at 31 December 2015 and 31 December 2014 were as follows:

	31 December 2015	31 December 2014
Total borrowings	223,159	197,160
Less: cash and cash equivalents	(20,503)	(21,693)
Net debt	202,656	175,467
Total equity	151,485	137,174
Total capital	**354,141**	**312,641**
Gearing ratio	57%	56%

(in millions of Russian roubles, unless otherwise stated)

4. FINANCIAL INSTRUMENTS BY CATEGORY

FINANCIAL ASSETS	Loans and receivables		Available for sale		Total	
	31 December		31 December		31 December	
	2015	2014	2015	2014	2015	2014
Non-current financial assets						
Restricted cash	-	100	-	-	-	100
Available-for-sale investments	-	-	711	379	711	379
Loans issued	930	1,319	-	-	930	1,319
Consideration receivable for disposed interest in CJSC MMC Timir	1,381	773	-	-	1,381	773
Receivables from associates	727	-	-	-	727	-
Other long-term receivables	184	225	-	-	184	225
Total non-current financial assets	**3,222**	**2,417**	**711**	**379**	**3,933**	**2,796**
Current financial assets						
Loans issued	277	1,236	-	-	277	1,236
Trade receivables for supplied diamonds	350	157	-	-	350	157
Receivables from associates	2,993	3,278	-	-	2,993	3,278
Consideration receivable for disposed interest in CJSC MMC Timir	519	991	-	-	519	991
Other trade receivables	3,002	3,313	-	-	3,002	3,313
Cash and cash equivalents	20,503	21,693	-	-	20,503	21,693
Total current financial assets	**27,644**	**30,668**	**-**	**-**	**27,644**	**30,668**
Total financial assets	**30,866**	**33,085**	**711**	**379**	**31,577**	**33,464**

FINANCIAL LIABILITIES	Liabilities at amortised cost	
	31 December	
	2015	2014
Non-current financial liabilities		
Long-term debt	197,467	176,358
Total non-current financial liabilities	**197,467**	**176,358**
Current financial liabilities		
Short-term loans and current portion of long-term debt	25,692	20,802
Trade payables	6,554	5,508
Interest payable	1,547	1,324
Current accounts of third parties in MAK-Bank LLC	-	847
Payables to associates	10	19
Other payables and accruals	647	1,175
Total current financial liabilities	**34,450**	**29,675**
Total financial liabilities	**231,917**	**206,033**

(in millions of Russian roubles, unless otherwise stated)

5. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

Name	Principal activity	Place of business	Notes	Percentage of ownership interest held	
				31 December 2015	31 December 2014
ALROSA Finance S.A.	Financial services	Luxembourg		100.0	100.0
OJSC ALROSA-Gaz	Gas production	Russia		100.0	100.0
JSC Almazy Anabara	Diamonds production	Russia		100.0	100.0
CJSC Geotransgaz	Gas production	Russia		100.0	100.0
Urengoy Gaz Company Ltd.	Gas production	Russia		100.0	100.0
OJSC Nizhne-Lenskoe	Diamonds production	Russia		100.0	100.0
OJSC Viluyskaya GES-3	Electricity production	Russia		99.7	99.7
PJSC Severalmaz	Diamonds production	Russia		99.6	99.6
Arcos Belgium N.V.	Diamonds trading	Belgium		99.6	99.6
PJSC ALROSA-Nyurba	Diamonds production	Russia		87.5	87.5
Hydroshikapa S.A.R.L	Electricity production	Angola		55.0	55.0
ALROSA-VGS LLC	Capital construction	Russia		-	100.0
MAK-Bank LLC	Banking activity	Russia	5.1	-	84.7

As at 31 December 2015 and 31 December 2014 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

5.1. Disposal of MAK-Bank LLC

In February 2015, the Group sold 84.7 per cent interest in MAK-Bank LLC for a total cash consideration of RR'mln 201. As a result of the transaction the Group lost an ability to control financial and operating activities of MAK-Bank LLC. The details of assets and liabilities related to MAK-Bank LLC at the date of disposal were as follows:

Property, plant and equipment	681
Other receivables	1,234
Cash	645
Borrowings	(1,658)
Trade and other payables	(546)
Net assets at the date of disposal	**356**
Consideration receivable	**201**
Loss on disposal	**(155)**

5.2. Goodwill

The amount of goodwill totalling RR'mln 1,439 relates to acquisition of a 49.0 per cent. shares in JSC Almazy Anabara in December 2007. The goodwill is attributable to the operational synergies expected to arise after this acquisition as a result of more effective integration of operational activity of this subsidiary into the Group's one. As of the date of acquisition goodwill was attributed to the diamond mining businesses of JSC Almazy Anabara. As at 31 December 2015 the recoverable amount of goodwill was determined on the basis of the recent management's forecast of future cash flows of JSC Almazy Anabara for the years 2016-2023 that reflects the expected period of production activity on the existing deposits. Based on results of the analysis, management concluded that there is no impairment for goodwill as at 31 December 2015 and 31 December 2014.

(in millions of Russian roubles, unless otherwise stated)

5. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

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

	Year ended 31 December 2015	Year ended 31 December 2014
Pre-tax discount rate	15.0%	18.2%/14.9%*
Producer price index for 2016-2019	3.2% - 10.9%	5.6% - 10.6%
Producer price index for 2020-2023	3.0% - 8.0%	6.2% - 8.2%
Average diamond price, RR / carat	6,833	7,546
EBITDA margin	36% - 52%	36% - 59%

*Discount rate for 2015-2016 – 18,2%, for next periods – 14,9%.

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

5.3. Investments in Associates and Joint Ventures

Name	Place of business	Percentage of ownership interest held at 31 December		Carrying value of investment at 31 December		Group's share of net profit/(loss) for the year ended 31 December	
		2015	2014	2015	2014	2015	2014
Catoca Mining Company Ltd.	Angola	32.8	32.8	4,429	3,413	2,550	1,597
CJSC MMC Timir	Russia	49.0	49.0	2,207	2,179	(37)	(12)
JSB Almazergienbank*	Russia	12.4	20.00	-	425	34	37
Other	Russia	20-50	20-50	255	202	81	(33)
				6,891	**6,219**	**2,628**	**1,589**

*The Group's share in JSB Almazergienbank decreased to 12.4% following additional issue of shares by JSB Almazergienbank in August 2015. As a result the Group lost significant influence on JSB Almazergienbank and reclassified the remaining share into available-for-sale investments.

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

As at 31 December 2015 and 31 December 2014 the percentage of ownership interest of the Group in its associates and joint venture is equal to the percentage of voting interest.

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

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

In May 2014 Catoca declared dividends for the year ended 31 December 2013, the Group's share of these dividends amounted to RR'mln 1,139 before taxation in the amount of RR'mln 114. Currency translation gain recognised in the consolidated other comprehensive income for the year ended 31 December 2014 in respect of investment in Catoca totalled RR'mln 1,251.

(in millions of Russian roubles, unless otherwise stated)

5. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

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

	Catoca Mining Company Ltd		CJSC MMC Timir		JSB Almazergienbank		Other		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Non-current assets	16,270	11,526	6,040	5,878	-	n/a	474	439	22,784	17,843
Current assets	18,896	15,055	48	97	-	n/a	96	90	19,040	15,242
Total assets	35,166	26,581	6,088	5,975	-	20,335	570	529	41,824	53,420
Non-current liabilities	2,949	3,910	114	175	-	n/a	23	27	3,086	4,112
Current liabilities	18,714	12,266	1,470	1,354	-	n/a	61	51	20,245	13,671
Total liabilities	21,663	16,176	1,584	1,529	-	18,209	84	78	23,331	35,992
Net assets	13,503	10,405	4,504	4,446	-	2,126	486	451	18,493	17,428
Group's share in net assets	4,429	3,413	2,207	2,179	-	425	255	202	6,891	6,219
Revenue	36,435	34,212	-	-	2,215	2,215	245	270	38,895	36,697
Profit/(loss)	7,775	7,098	(75)	(6)	168	168	6	10	7,874	7,270
Dividends declared	(6,306)	(5,626)	-	-	-	-	-	-	(6,306)	(5,626)

6. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Deposit accounts	12,011	14,302
Cash in banks and on hand	8,492	7,391
Total cash and cash equivalents	**20,503**	**21,693**

Deposit accounts at 31 December 2015 and 31 December 2014 are mainly held to meet short-term cash needs and have various original maturities but can be withdrawn on request without restrictions.

(in millions of Russian roubles, unless otherwise stated)

6. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	Credit rating at 31 December 2015	Rating agency	31 Decembe 2015	31 December 2014
JSC VTB Bank	Ba1	Moody's	12,012	12,784
JSC Alfa-Bank	Ba2	Moody's	3,129	2,275
Gazprombank (JSC)	Ba2	Moody's	1,207	8
VTB 24 (PJSC)	Ba1	Moody's	838	1,003
Gazprombank (Switzerland), Ltd.	BB+	Fitch s	813	2,206
Lloyds Bank Plc	A1	Moody's	457	353
PJSC Sberbank	Ba2	Moody's	356	53
The Bank of New York Mellon S.A.	Aa1	Moody's	352	150
JSC UniCredit Bank	BB+	S&P	178	151
HSBC	Aa1	Moody's	113	43
National Bank of Abu Dhabi	Aa3	Moody's	105	324
ABN AMRO Bank N.V.	A2	Moody's	58	44
Khanty-Mansiysk bank Otkritie (PJSC)	B2	Moody's	-	143
Current accounts of Mak-Bank LLC in the Central Bank of the Russian Federation	n/a	n/a	-	803
Bank of Moscow	Ba2	Moody's	-	447
Cash of Mak-Bank LLC on hand and in cash machines	n/a	n/a	-	399
Other banks and cash on hand	n/a	n/a	885	407
Total cash and cash equivalents			**20,503**	**21,693**

(in millions of Russian roubles, unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Land and Improvements	Plant and Equipment	Transport	Production Licenses	Assets under Construction	Other	TOTAL
Cost at 31.12.2013	**66,068**	**99,930**	**69,589**	**22,501**	**14,463**	**58,191**	**3,789**	**334,531**
Additions	259	4,101	6,205	1,814	140	28,102	246	40,867
Transfers	4,370	22,530	5,600	1,250	-	(33,768)	18	-
Reclassification from assets held for sale – at cost*	911	11,559	2,893	68	24,767	2,540	12	42,750
Disposal of subsidiaries – at cost	(51)	(1,236)	(164)	(25)	(1)	(725)	(202)	(2,404)
Other disposals – at cost	(2,137)	(267)	(3,024)	(1,460)	(15)	(2,799)	(705)	(10,407)
Effect of translation to presentation currency	81	1,695	8	12	-	4	105	1,905
Change in estimate of provision for land recultivation (note 13)	-	(597)	-	-	-	-	-	(597)
Cost at 31.12.2014	**69,501**	**137,715**	**81,107**	**24,160**	**39,354**	**51,545**	**3,263**	**406,645**
Additions	889	1,137	7,764	1,861	52	23,757	234	35,694
Transfers	2,650	11,532	1,831	225	-	(16,261)	23	-
Disposal of subsidiaries – at cost	(726)	(20)	(228)	(103)	-	(5)	(80)	(1,162)
Other disposals – at cost	(2,807)	(2,316)	(4,233)	(2,559)	(345)	(2,723)	(173)	(15,156)
Effect of translation to presentation currency	-	1,155	6	9	-	117	1	1,288
Change in estimate of provision for land recultivation (note 13)		1,286						1,286
Cost at 31.12.2015	**69,507**	**150,489**	**86,247**	**23,593**	**39,061**	**56,430**	**3,268**	**428,595**
Accumulated depreciation and impairment losses at 31.12.2013	**(24,758)**	**(35,401)**	**(42,203)**	**(13,906)**	**(458)**	**(1,028)**	**(1,500)**	**(119,254)**
Charge for the year	(2,166)	(6,201)	(8,122)	(1,958)	(2,498)	-	(188)	(21,133)
Reclassification to assets held for sale – accumulated depreciation*	(38)	(972)	(166)	(19)	-	-	(4)	(1,199)
Disposal of subsidiaries – accumulated depreciation	30	749	107	17	-	-	65	968
Other disposals – accumulated depreciation	1,011	141	2,926	1,372	-	-	141	5,591
Accumulated depreciation and impairment losses at 31.12.2014	**(25,921)**	**(41,684)**	**(47,458)**	**(14,494)**	**(2,956)**	**(1,028)**	**(1,486)**	**(135,027)**
Charge for the year	(2,064)	(4,884)	(8,548)	(2,279)	(2,461)	-	(191)	(20,427)
Disposal of subsidiaries – accumulated depreciation	66	7	189	78	-	-	28	368
Other disposals – accumulated depreciation	1,672	2,023	4,225	2,429	-	-	105	10,454
Accumulated depreciation and impairment losses at 31.12.2015	**(26,247)**	**(44,538)**	**(51,592)**	**(14,266)**	**(5,417)**	**(1,028)**	**(1,544)**	**(144,632)**
Net book value at 31.12.2014	**43,580**	**96,031**	**33,649**	**9,666**	**36,398**	**50,517**	**1,777**	**271,618**
Net book value at 31.12.2015	**43,260**	**105,951**	**34,655**	**9,327**	**33,644**	**55,402**	**1,724**	**283,963**

*During 2013 the Group signed an agreement with Rosneft Oil Company and certain of its affiliates for the sale of the Gas companies. As at 31 December 2014 disposal of the Gas companies was not completed and assets were reclassified from assets held for sale.

Capitalised borrowing costs

During the year the Group has capitalised borrowing costs amounting to RR'mln 255 (2014: RR'mln 286) on qualifying asset totalling RR'mln 4,283 (2014: RR'mln 4,218). For the year ended 31 December 2015 borrowing costs were capitalized at the weighted average rate of its general borrowing of 5.95 per cent (31 December 2014: 6.79 per cent.).

(in millions of Russian roubles, unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Finance leases

Property, plant and equipment include the mining equipment and transport which the Group received under finance lease agreements. As at 31 December 2015 the carrying value of this equipment is RR'mln 293 (31 December 2014: RR'mln 675).

Impairment of property, plant and equipment

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. Management believes that as at 31 December 2015 and 31 December 2014 there were no such indicators, accordingly the Group did not conduct an impairment test of its property plant and equipment as at those dates.

8. INVENTORIES

	31 December 2015	31 December 2014
Diamonds	57,376	32,100
Ores and sands mined	14,560	10,004
Mining and other materials	19,654	18,452
Consumable and other supplies	2,706	2,932
Total inventories	**94,296**	**63,488**

9. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 December 2015	31 December 2014
Consideration receivable for disposed interest in CJSC MMC Timir	1,381	773
Loans issued*	930	1,319
Receivables from associates (note 26)	727	-
Advances to suppliers	220	157
Long-term VAT recoverable	11	15
Other long-term receivables	184	225
Total long-term accounts receivable	**3,453**	**2,489**

*The several loans issued of RR'mln 1,200 nominal value as at 31 December 2015 (31 December 2014: RR'mln 1,400) are collateralised by shares of OAO Pur-Navolok Otel and real estate. The management estimates that collateral taken exceeds the current value of the loans issued.

Short-term accounts receivable	31 December 2015	31 December 2014
Prepaid taxes, other than income tax	4,881	1,010
Receivables from associates (note 26)	2,993	3,278
VAT recoverable	2,867	4,027
Advances to suppliers	743	1,184
Consideration receivable for disposed interest in CJSC MMC Timir*	519	991
Trade receivables for supplied diamonds	350	157
Loans issued	277	1,236
Other trade receivables	3,002	3,313
Total short-term accounts receivable	**15,632**	**15,196**

*The consideration is receivable from Evraz plc, which credit rating as at 31 December 2015 is BB- (Stable) assessed by Fitch.

(in millions of Russian roubles, unless otherwise stated)

9. TRADE AND OTHER RECEIVABLES (CONTINUED)

The fair value of each class of short-term trade and other accounts receivable at 31 December 2015 and 31 December 2014 approximates their carrying value.

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

	31 December 2015		31 December 2014	
	Effective interest rates	**Market interest rates**	**Effective interest rates**	**Market interest rates**
Consideration receivable for disposed interest in CJSC MMC Timir	18.2%	15.0%	18.2%	18.2%
Loans issued	9.8%	12.7%	.5.1%	20.1%
Receivables from associates	18.2%	15.0%	18.2%	18.2%
Other long-term receivables	10.1%	16.1%	10.1%	16.1%

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

	31 December 2015		31 December 2014	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Consideration receivable for disposed interest in CJSC MMC Timir	1,381	1,381	773	773
Loans issued	930	706	1,319	1,010
Receivables from associates	727	727	-	-
Other long-term receivables	184	139	225	205

Trade and other accounts receivables relate to Level 3 fair value measurement hierarchy described in Note 29.

The impairment provision offset against individual receivable balances is as follows:

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

Long-term accounts receivable	**31 December 2014**	**Bad debt write-off**	**Bad debt expense**	**31 December 2013**
Loans issued	-	(3,820)	-	3,820
Receivables from associates	35	-	-	35
Other long term receivables	60	-	60	-
	95	**(3,820)**	**60**	**3,855**
Short-term accounts receivable				
Receivables from associates	26	-	-	26
Loans issued	542	(14)	213	343
Other trade receivables	450	(633)	312	771
	1,018	**(647)**	**525**	**1,140**

(in millions of Russian roubles, unless otherwise stated)

9. TRADE AND OTHER RECEIVABLES (CONTINUED)

The individually impaired receivables mainly relate to the customers, which are in difficult economic situations or under bankruptcy procedures. The ageing analysis of these receivables is as follows:

	31 December 2015				31 December 2014			
	Up to 1 year	1 to 3 years	Over 3 years	Total	Up to 1 year	1 to 3 years	Over 3 years	Total
Long-term accounts receivable								
Loans issued	-	-	-	-	-	-	-	-
Receivables from associates	-	-	35	35	-	-	35	35
Other long term receivables	-	78	-	78	-	60	-	60
	-	**78**	**35**	**113**	**-**	**60**	**35**	**95**
Short-term accounts receivable								
Loans issued	-	-	-	-	305	147	90	542
Receivables from associates	-	-	-	-	-	26	-	26
Other trade receivables	106	643	267	1,016	143	280	27	450
	106	**643**	**267**	**1,016**	**448**	**453**	**117**	**1,018**

For the purpose of analysis of credit quality of debtors management classified financial receivables of the Group, except receivable for disposed interest in CJSC MMC Timir, as follows:

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

31 December 2014	Large customers	Medium and small customers	Entities controlled by the Government	Individuals	Total
Long-term accounts receivable					
Loans issued	-	830	1	488	1,319
Other long-term receivables	-	225	-	-	225
Total long-term accounts receivable	**-**	**1,055**	**1**	**488**	**1,544**
Short-term accounts receivable					
Receivables from associates	3,015	261	2	-	3,278
Loans issued	-	967	157	112	1,236
Trade receivables for supplied diamonds	-	157	-	-	157
Other trade receivables	301	1,590	1,132	290	3,313
Total short-term accounts receivable	**3,316**	**2,975**	**1,291**	**402**	**7,984**

(in millions of Russian roubles, unless otherwise stated)

9. TRADE AND OTHER RECEIVABLES (CONTINUED)

For the purposes of the above analysis customers are considered large if their total assets exceed RR'mln 5,000 and their revenue exceeds RR'mln 1,000. Management believes that balances of accounts receivable with large customers have higher credit quality than medium and small customers or individuals.

As at 31 December 2015 trade and other receivables in the amount of RR'mln 8,806 (31 December 2014: RR'mln 9,068) were neither past due nor impaired and have no history of overdue payments. Most of these debtors have no individual external credit rating.

As at 31 December 2015 accounts receivable in the amount of RR'mln 1,557 (as at 31 December 2014: RR'mln 460) were past due but were not considered impaired. They include only other trade receivables and relate to a number of independent medium and small customers for whom there is no recent history of default. As at 31 December 2015 and 31 December 2014 none of these accounts receivable was secured by any collateral.

The ageing analysis of receivables that are past due but not impaired is as follows:

	31 December 2015	31 December 2014
Up to 3 months	1,125	166
3 to 6 months	53	20
6 to 12 months	34	42
More than 1 year	345	232
Total past due but not impaired	**1,557**	**460**

As at 31 December 2015 11 individual debtors of the Group (31 December 2014: 8 individual debtors) had the outstanding balance with the Group exceeding RR'mln 100. As at 31 December 2015 total amount of such accounts receivable was RR'mln 6,286 (31 December 2014: RR'mln 5,147).

10. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 31 December 2015 and 31 December 2014 and consists of 7,364,965,630 ordinary shares, including treasury shares, at RR 0.5 par value share. In addition as at 31 December 2015 and 31 December 2014 share capital includes hyperinflation adjustment totalling RR'mln 8,790, which was calculated in accordance with requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" and relates to the reporting periods prior to 1 January 2003.

Distributable profits

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

Treasury shares

As at 31 December 2015 subsidiaries of the Group held 8,599,300 ordinary shares of the Company (31 December 2014: no shares). The Group management effectively controls the voting rights of shares held by subsidiaries.

(in millions of Russian roubles, unless otherwise stated)

10. SHAREHOLDERS' EQUITY (CONTINUED)

Earnings or loss per share

Earnings or loss per share have been calculated by dividing the profit or loss attributable to owners of PJSC ALROSA by the weighted average number of shares outstanding during the year, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares. There were 7,359,179,168 and 7,360,600,109 weighted average shares outstanding for the years ended 31 December 2015 and 31 December 2014, respectively.

There are no dilutive financial instruments outstanding.

Other reserves

	Currency translation	Purchase of non-controlling interest	Available-for-sale investments	Recognition of accumulated actuarial (loss)/gain	Total other reserves
Balance at 31 December 2013	**88**	**(169)**	**41**	**(7,201)**	**(7,241)**
Currency translation differences	307	-	-	-	307
Purchase of non-controlling interest	-	82	-	-	82
Actuarial remeasurement on post employment benefit obligation	-	-	-	5,433	5,433
Balance at 31 December 2014	**395**	**(87)**	**41**	**(1,768)**	**(1,419)**
Currency translation differences	104	-	-	-	104
Purchase of non-controlling interest	-	71	-	-	71
Actuarial remeasurement on post employment benefit obligation	-	-	-	(4,716)	(4,716)
Change in fair value of available for sale investments	-	-	16	-	16
Balance at 31 December 2015	**499**	**(16)**	**57**	**(6,484)**	**(5,944)**

Dividends

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

On 28 June 2014 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2013 totalling RR'mln 10,827, including dividends on shares held by subsidiaries of the Group totalling RR'mln 9. Dividends per share amounted to RR 1.47.

11. LONG-TERM DEBT

	31 December 2015	31 December 2014
Banks:		
US$ denominated floating rate	43,730	33,755
US$ denominated fixed rate	104,951	85,794
RR denominated fixed rate	1,204	36
	149,885	**119,585**
Eurobonds US$ denominated	72,883	56,258
RR denominated non-convertible bonds	-	20,044
Finance lease obligation	341	488
Other RR denominated fixed rate loans	13	348
	223,122	**196,723**
Less: current portion of long-term debt (note 12)	(25,655)	(20,365)
Total long-term debt	**197,467**	**176,358**

(in millions of Russian roubles, unless otherwise stated)

11. LONG-TERM DEBT (CONTINUED)

At 31 December 2015 long-term loans had the following maturity profile (based on the contractual cash flows):

	Within 1 year	1 to 2 Years	2 to 3 years	3 to 4 Years	4 years and thereafter	Total
Banks:						
US$ denominated floating rate	-	-	43,730	-	-	43,730
US$ denominated fixed rate	25,509	79,442	-	-	-	104,951
RR denominated fixed rate	-	515	689	-	-	1,204
Eurobonds US$ denominated	-	-	-	-	72,883	72,883
RR denominated non-convertible bonds	-	-	-	-	-	
Finance lease obligation	146	109	86	-	-	341
Other RR denominated fixed rate loans	-	13	-	-	-	13
Total long-term debt	**25,655**	**80,079**	**44,505**	**-**	**72,883**	**223,122**

At 31 December 2014 long-term loans had the following maturity profile (based on the contractual cash flows):

	Within 1 year	1 to 2 Years	2 to 3 years	3 to 4 Years	4 years and thereafter	Total
Banks:						
US$ denominated floating rate	-	-	-	33,755	-	33,755
US$ denominated fixed rate	-	24,472	61,322	-	-	85,794
RR denominated fixed rate	-	30	-	5	1	36
Eurobonds US$ denominated	-	-	-	-	56,258	56,258
RR denominated non-convertible bonds	20,044	-	-	-	-	20,044
Finance lease obligation	207	122	86	73	-	488
Other RR denominated fixed rate loans	114	28	201	5	-	348
Total long-term debt	**20,365**	**24,652**	**61,609**	**33,838**	**56,259**	**196,723**

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

	31 December 2015		31 December 2014	
	Effective interest rates	Market interest rates	Effective interest rates	Market interest rates
Banks				
US$ denominated floating rate	6.6%	6.6%	6.3%	6.7%
US$ denominated fixed rate	4.1%	6.3%	4.2%	8.2%
RR denominated fixed rate	13.5%	13.7%	9.2%	14.1%
Eurobonds US$ denominated	7.8%	6.4%	7.8%	8.1%
RR denominated non-convertible bonds	-	-	8.9%	13.8%
Finance lease obligation	11.5%	11.5%	11.5%	11.5%

(in millions of Russian roubles, unless otherwise stated)

11. LONG-TERM DEBT (CONTINUED)

The fair value of long-term debt is estimated by discounting the future contractual cash outflows at the market interest rate available to the Group at the end of the reporting period. The carrying amounts and fair values of long-term debt are as follows:

	31 December 2015		31 December 2014	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Banks				
US$ denominated floating rate	43,730	43,742	33,755	33,494
US$ denominated fixed rate	104,951	102,757	85,794	79,756
RR denominated fixed rate	1,204	1,190	36	34
Eurobonds US$ denominated	72,883	76,982	56,258	53,235
RR denominated non-convertible bonds	-	-	20,044	19,637
Finance lease obligation	341	341	488	488
Other RR denominated fixed rate loans	13	11	348	290

Loans from banks relate to Level 2 fair value measurement hierarchy, Eurobonds and RR denominated non-convertible bonds relate to Level 1 fair value measurement hierarchy, and finance lease obligation relates to Level 3 fair value measurement hierarchy described in note 29.

As at 31 December 2015 and 31 December 2014 there were no long-term loans secured with the assets of the Group.

Eurobonds

	Year ended 31 December 2015	Year ended 31 December 2014
Balance at the beginning of the reporting period	**56,258**	**49,088**
Amortisation of discount	4	7
Repayment	-	(22,976)
Foreign exchange losses	16,621	30,139
Balance at the end of the reporting period	**72,883**	**56,258**

Finance lease obligation

	Minimum lease payments 31 December 2015	Discounted value of minimum lease payments 31 December 2015	Minimum lease payments 31 December 2014	Discounted value of minimum lease payments 31 December 2014
Within 1 year	150	146	212	207
After 1 year	227	195	327	281
Total finance lease obligation	**377**	**341**	**539**	**488**

Finance lease obligations relate to the certain mining equipment and transport recorded as property, plant and equipment items in these consolidated financial statements (note 7). These leased assets are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

(in millions of Russian roubles, unless otherwise stated)

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

	31 December 2015	31 December 2014
Banks:		
RR denominated fixed rate	-	100
	-	**100**
Other RR denominated fixed rate loans	37	337
	37	**437**
Add: current portion of long-term debt (note 11)	25,655	20,365
Total short-term debt and current portion of long-term debt	**25,692**	**20,802**

As at 31 December 2015 and 31 December 2014 there were no short-term loans secured with the assets of the Group.

As at 31 December 2015 and 31 December 2014 the fair value of short-term loans is approximately equal the carrying value.

13. OTHER PROVISIONS

	31 December 2015	31 December 2014
Provision for land recultivation	5,350	3,722
Provision for social obligations	491	625
Other provisions	**5,841**	**4,347**

Provision for social obligations

In 2012 the Group entered into a number of agreements with the Republic of Sakha (Yakutia) to support its social and economic development. In accordance with the agreements the Group has assumed certain obligations which include repair works related to certain infrastructure assets which belong to local municipalities, dismantling of certain worn out assets and other. During 2015 and 2014 the Group has partially fulfilled these obligations in the amount of RR’mln 755 and RR’mln 898. The current portion of provision for social obligation as at 31 December 2015 in the amount of RR’mln 296 (31 December 2014: RR’mln 996) was included in trade and other payables within the Group’s current liabilities (note 15).

Provision for land recultivation

	Year ended 31 December 2015	Year ended 31 December 2014
At the beginning of the year	**3,722**	**3,076**
Accrual of provision	153	958
Unwinding of the present value discount	389	310
Utilisation	(199)	(25)
Change in estimate of provision	1,285	(597)
At the end of the year	**5,350**	**3,722**

The Group assumed an obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. The Group recognised a provision for these future expenses in its consolidated financial statements with a corresponding asset recognised within property, plant and equipment (note 7). During 2015 and 2014 the Group assumed additional obligations which resulted in the respective increase of the provision.

The discount rate used to calculate the net present value of future cash outflows relating to assumed social and land recultivation obligations at 31 December 2015 was 9.95 per cent. (31 December 2014: 14.10 per cent.), which represents adjusted risk free rate for the Group and is considered appropriate to the Group in the economic environment in the Russian Federation at the end of the year.

(in millions of Russian roubles, unless otherwise stated)

14. PROVISION FOR PENSION OBLIGATIONS

The Group operates defined employee benefit plans, including corporate pension plan with defined payments, one-off payments on retirement, jubilee payments, payments for years of service and provision of financial assistance in case of an employee's or non-working pensioner's death. Corporate pension is administered through the separate entity – Non-state pension fund JSC NPF Almaznaya osen. Group makes contributions to this pension fund to cover its obligations. There are no any minimum funding requirements prescribed by regulatory authorities. Other plans are non-funded and implemented through payments to employees made directly by the Group.

The amounts recognised in the consolidated statement of financial position in respect of pension obligations associated with the defined benefit plan operated by the Group are as follows:

	31 December 2015	31 December 2014
Present value of obligations	19,710	14,547
Fair value of plan assets	(10,312)	(9,510)
Pension obligations for the funded plan	9,398	5,037
Present value of unfunded obligation	1,158	756
Net liability	**10,556**	**5,793**

Changes in the present value of pension obligations and plan assets are as follows:

	Present value of obligations on funded plans	Fair value of plan assets	Present value of obligations on unfunded plans	Total
At 1 January 2014	**20,122**	**(9,017)**	**1,052**	**12,157**
Current service cost	386	-	26	412
Past service cost and curtailment	(289)	-	(18)	(307)
Interest expense / (income)	1,574	(717)	78	935
	1,671	**(717)**	**86**	**1,040**
Remeasurements:				
Return on plan assets, excluding amounts included in interest expense / (income)	-	278	-	278
Loss/(gain) from changes in demographic actuarial assumptions	7	-	(2)	5
Gain from changes in financial actuarial assumptions	(7,439)	-	(350)	(7,789)
Loss from experience adjustments	1,140	-	81	1,221
	(6,292)	**278**	**(271)**	**(6,285)**
Contributions to plan:				
Employer contributions	-	(1,008)	-	(1,008)
Benefits paid	(954)	954	(111)	(111)
	(954)	**(54)**	**(111)**	**(1,119)**
At 31 December 2014	**14,547**	**(9,510)**	**756**	**5,793**

(in millions of Russian roubles, unless otherwise stated)

14. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

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

Net expense recognised in the consolidated statement of profit or loss and other comprehensive income is included in cost of sales, general and administrative expenses, selling and marketing expenses in the amounts of RR'mln 132 (year ended 31 December 2014: RR'mln 83), RR'mln 18 (year ended 31 December 2014: RR'mln 11) and RR'mln 17 (year ended 31 December 2014: RR'mln 11), respectively.

Expense recognised through profit or loss	**Year ended 31 December 2015**	**Year ended 31 December 2014**
Current service cost	204	412
Past service cost and curtailment	(37)	(307)
Interest expense	701	935
Total expense recognised through profit or loss	**868**	**1,040**

Expense / (income) recognised through other comprehensive income	**Year ended 31 December 2015**	**Year ended 31 December 2014**
(Gain) / loss from changes in demographic actuarial assumptions	(191)	5
Loss / (gain) from changes in financial actuarial assumptions	5,534	(7,789)
(Gain) / loss from experience adjustments	(240)	1,499
Total (gain)/loss recognised through other comprehensive income	**5,103**	**(6,285)**

Change in amount of remeasurements of employee benefit obligations charged to other comprehensive income	**Year ended 31 December 2015**	**Year ended 31 December 2014**
Remeasurement amount at 1 January	1,879	8,164
Change in remeasurement amount	5,103	(6,285)
Remeasurement amount at 31 December	**6,982**	**1,879**

Estimation of financial actuarial assumptions was based on market forecasts at the end of the reporting period in relation to period, during which the obligation should be settled. Average estimated term of settlement of Group obligations at the reporting date totals 10.04 years (at 31 December 2014 – 9.56 years).

(in millions of Russian roubles, unless otherwise stated)

14. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

	Year ended 31 December 2015	Year ended 31 December 2014
Discount rate (nominal)	9.5%	13.0%
Future salary increases (nominal)	8.0%	8.3%
Future pension increases (nominal)	6.1%	6.5%

In the year ended 31 December 2015 the actual income on plan assets was RR'mln 708 (year ended 31 December 2014: RR'mln 532).

The Group expects to contribute RR'mln 1,280 to the defined benefit plans during the year beginning 1 January 2016.

Actuarial assumptions related to mortality of employees were formed based on Russian population mortality data in 1998 corrected by 50% related to mortality of employees and by 25% related to mortality of pensioneers of the Group.

Actuarial assumptions extrapolated to expected life period in the expected retirement age are listed below.

	Year ended 31 December 2015	Year ended 31 December 2014
Expected age of retirement		
Male	58	57
Female	56	56
Source - table of mortality dated:	1998 – adjusted	1998 - adjusted
The life expectancy in the expected retirement age		
Male	17.57	18.21
Female	24.54	24.54

The assumption of staff turnover was made on the basis of statistical data of the Group layoffs, turnover rate depends on the employment of workers and continuously decreases during seniority of workers. Averaged rates point: with a seniority of 0 to 10 years – 10.5% per year, with a seniority of 10 to 20 years – 4.1% per year, with a seniority of 20 to 30 years – 2.1% per year, with a seniority of more than 30 – 0.7% per year.

Sensitivity of the total amount of pension obligations to changes in underlying actuarial assumptions set out below:

	Change in assumption	Impact on provision for pension obligations
Discount rate	Increase / decrease by 0.5%	Decrease / increase by 5.6%
Future salary increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 0.1%
Future pension increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 5.4%
Expected age of retirement	Increase / decrease by 1 year	Decrease / increase by 1.8%
Employee turnover	Increase / decrease by 10%	Decrease / increase by 0.2%
Mortality level	Increase / decrease by 10%	Decrease / increase by 3.4%

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

(in millions of Russian roubles, unless otherwise stated)

14. PROVISION FOR PENSION OBLIGATIONS (CONTINUED)

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

	Year ended 31 December 2015	Year ended 31 December 2014
Russian corporate bonds	23.2%	14.7%
Bank deposits	60.7%	70.3%
Russian Government and municipal bonds	1.1%	3.4%
Equity securities of Russian issuers	9.5%	4.8%
Debt securities of Russian issuers	5.5%	6.8%
Total plan assets	**100.0%**	**100.0%**

All categories of plan assets are measured at fair value.

As at 31 December 2015 5,176 shares of the Company's subsidiary – PJSC ALROSA-Nyurba with the fair value of RR'mln 533 were held by JSC NPF Almaznaya osen.

As at 31 December 2014 4,962 shares of the Company's subsidiary – PJSC ALROSA-Nyurba with the fair value of RR'mln 447 were held by JSC NPF Almaznaya osen.

The Group is exposed to a number of risks, the most significant of which are detailed below:

Assets volatility

The plan liabilities are calculated using a discount rate set with the reference to the Russian government bonds which considered to be risk-free; if plan assets underperform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform Russian government bonds in the long-term while providing volatility and risk in the short-term.

Inflation risk

Certain Group's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

In case of the funded plans, the Group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturites that match the benefit payments as they fall due. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the processes used to manage its risks from previous periods. The Group does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2015 and 2014 consisted bank deposits.

(in millions of Russian roubles, unless otherwise stated)

15. TRADE AND OTHER PAYABLES

	31 December 2015	31 December 2014
Accrual for employee flights and holidays	8,150	7,427
Trade payables	6,554	5,508
Wages and salaries	4,801	5,954
Interest payable	1,547	1,324
Advances from customers	1,042	753
Current portion of provision for social obligation (note 13)	296	996
Payables to associates	10	19
Current accounts of third parties in MAK Bank LLC	-	847
Other payables and accruals	647	1,175
Total trade and other payables	**23,047**	**24,003**

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

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2015 and 31 December 2014 approximates their carrying value.

16. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

	31 December 2015	31 December 2014
Payments to social funds	2,315	1,897
Property tax	1,091	1,134
Extraction tax	1,090	648
Personal income tax (employees)	652	830
Value added tax	496	245
Other taxes and accruals	357	533
Total taxes payable, other than income tax	**6,001**	**5,287**

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

	Year ended 31 December 2015	Year ended 31 December 2014
Property tax	3,497	3,228
Other taxes and accruals	802	526
Total taxes other than income tax expense	**4,299**	**3,754**

In accordance with Resolution № 795 of the Government of the Russian Federation dated 23 December 2006, in addition to the taxes noted above, the Group is obliged to pay 6.5 per cent. on the value of diamonds sold for export in the form of an export duty (note 17).

In accordance with the amendment to the license agreement registered in May 2007, PJSC ALROSA-Nyurba, a subsidiary of the Group, is obliged to make annual fixed royalty payments to the Republic of Sakha (Yakutia) starting from 1 January 2012 in the amount of RR'mln 1,209 per annum.

(in millions of Russian roubles, unless otherwise stated)

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

Income tax comprise the following:

	Year ended 31 December 2015	Year ended 31 December 2014
Current tax expense	7,417	8,469
Deferred tax expense / (benefits)	2,948	(44)
Adjustments recognised in the period for current tax of prior periods	(1,241)	610
Total income tax expense	**9,124**	**9,035**

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

	Year ended 31 December 2015	Year ended 31 December 2014
Profit/(loss) before income tax	41,316	(7,797)
Theoretical tax charge at rate of 20 per cent. thereon	8,263	(1,559)
Prior periods adjustments recognised in the current period	(1,241)	610
Tax effect of:		
foreign exchange gain recognised from intergroup settlements	(1,610)	6,892
charity and social program carried out for Republic of Sakha (Yakutia)	1,063	1,131
expenses and losses not deductible for income tax purposes	2,649	1,961
Total income tax expense	**9,124**	**9,035**

Expenses and losses not deductible for income tax purposes include mostly charity and social expenses as well as non-deductible wages, salaries and other staff costs.

Differences between IFRS and Russian statutory tax accounting give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement in these temporary differences is recorded at the rate of 20.0 per cent.

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

(in millions of Russian roubles, unless otherwise stated)

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

	Effect of changes temporary difference on deferred tax					
	31 December 2014	**Charged/ (credited) to profit or loss**	**Charged/ (credited) directly to other comprehensive income**	**Reclassification of assets held for sale**	**Disposal of subsidiaries**	**31 December 2013**
Property, plant and equipment	11,732	1,835	-	5,534	(40)	4,403
Inventories	2,379	(1,528)	-	13	(5)	3,899
Long- term investments	147	351	-	-	-	(204)
Accruals and provisions	(2,170)	(986)	-	-	10	(1,194)
Exploration costs write-off	(1,629)	(1,116)	-	-	-	(513)
Provision for pension obligations	(985)	(159)	852	-	-	(1,678)
Impairment of receivables	(28)	919	-	-	2	(949)
Other deductible temporary differences	(57)	640	(213)	-	(2)	(482)
Net deferred tax liability/(asset)	**9,389**	**(44)**	**639**	**5,547**	**(35)**	**3,282**
Deferred tax asset	(1,912)					-
Deferred tax liability	11,301					3,282
Net deferred tax liability/(asset)	**9,389**	**(44)**	**639**	**5,547**	**(35)**	**3,282**

As at 31 December 2015 and 31 December 2014 the Group had not recorded a deferred tax liability in respect to taxable temporary differences of RR'mln 10,241 and RR'mln 7,147, respectively, associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

17. REVENUE

	Year ended 31 December 2015	**Year ended 31 December 2014**
Revenue from diamond sales:		
Export	179,500	163,667
Domestic	20,477	19,511
Revenue from diamonds for resale	1,265	887
Total revenue from diamond sales	**201,242**	**184,065**
Other revenue:		
Sales of gas	6,343	6,797
Social infrastructure	4,014	4,995
Transport	5,671	4,884
Other	7,254	6,418
Total revenue	**224,524**	**207,159**

Export duties totalling RR'mln 12,188 for the year ended 31 December 2015 (year ended 31 December 2014: RR'mln 10,999) were netted against revenues from export of diamonds.

In the years ended 31 December 2015 and 31 December 2014 the Group had no customers accounting for more than 10 per cent. of the Group's revenue.

(in millions of Russian roubles, unless otherwise stated)

18. COST OF SALES

	Year ended 31 December 2015	Year ended 31 December 2014
Wages, salaries and other staff costs	40,253	34,279
Depreciation	19,096	18,452
Extraction tax	23,323	14,697
Fuel and energy	17,610	13,686
Materials	12,098	9,569
Services	5,748	5,138
Transport	2,118	2,474
Cost of diamonds for resale	1,258	879
Other	1,568	1,058
Movement in inventory of diamonds, ores and sands	(29,832)	(898)
Total cost of sales	**93,240**	**99,334**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 8,230 (year ended 31 December 2014: RR'mln 6,494). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR'mln 6,872 (year ended 31 December 2014: RR'mln 4,682).

Depreciation totalling RR'mln 1,159 (year ended 31 December 2014: RR'mln 2,250) and staff costs totalling RR'mln 3,745 (year ended 31 December 2014: RR'mln 2,967) were incurred by the Group's construction divisions and were capitalised into property, plant and equipment in the year.

19. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2015	Year ended 31 December 2014
Wages, salaries and other staff costs	5,918	5,673
Services and other administrative expenses	3,665	4,012
Impairment of accounts receivable (note 9)	660	585
Total general and administrative expenses	**10,243**	**10,270**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 848 (year ended 31 December 2014: RR'mln 591). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR'mln 713 (year ended 31 December 2014: RR'mln 488).

20. SELLING AND MARKETING EXPENSES

	Year ended 31 December 2015	Year ended 31 December 2014
Wages, salaries and other staff costs	1,502	1,375
Services and other selling and marketing expenses	1,266	923
Total selling and marketing expenses	**2,768**	**2,298**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 307 (year ended 31 December 2014: RR'mln 256). These payments include mandatory contributions to the Russian Federation state pension fund in the amount of RR'mln 295 (year ended 31 December 2014: RR'mln 184).

(in millions of Russian roubles, unless otherwise stated)

21. OTHER OPERATING INCOME

	Year ended 31 December 2015	Year ended 31 December 2014
Foreign exchange gain, net	2,007	3,011
Gain on disposal of subsidiary	-	142
Other	1,094	964
Total other operating income	**3,101**	**4,117**

22. OTHER OPERATING EXPENSES

	Year ended 31 December 2015	Year ended 31 December 2014
Exploration expenses	8,206	8,478
Social costs	5,410	5,707
Taxes other than income tax, extraction tax and payments to social funds (note 16)	4,299	3,754
Loss on disposal of property, plant and equipment	3,848	3,472
Loss on disposal of subsidiaries	220	279
Other	1,013	2,099
Total other operating expenses	**22,996**	**23,789**

In the years ended 31 December 2015 and 31 December 2014 the amounts of operating cash outflows associated with exploration expenses were approximately equal to the respective amounts recognised within other operating expenses.

Social costs consist of:

	Year ended 31 December 2015	Year ended 31 December 2014
Charity	2,879	2,762
Maintenance of local infrastructure	1,749	2,309
Hospital expenses	270	259
Education	140	136
Other	372	241
Total social costs	**5,410**	**5,707**

23. FINANCE INCOME AND COSTS

	Year ended 31 December 2015	Year ended 31 December 2014
Interest income	3,912	969
Interest expense:		
Eurobonds	(4,713)	(4,336)
Bank loans	(6,313)	(3,131)
RR denominated non-convertible bonds	(1,131)	(1,780)
Other financial liabilities	(903)	(1,331)
Unwinding of discount of provisions (note 13)	(474)	(310)
Foreign exchange loss, net	(48,859)	(73,843)
Total finance (costs) / income, net	**(58,481)**	**(83,762)**

(in millions of Russian roubles, unless otherwise stated)

24. CASH GENERATED FROM OPERATING ACTIVITIES

Reconciliation of profit/(loss) before tax to cash generated from operating activities:

	Year ended 31 December 2015	Year ended 31 December 2014
Profit / (loss) before income tax	**41,316**	**(7,797)**
Adjustments for:		
Share of net profit of associates and joint ventures (note 5)	(2,628)	(1,589)
Interest income (note 23)	(3,912)	(969)
Interest expense and discounting of provisions (note 23)	13,534	10,884
Loss on disposal of property, plant and equipment (note 22)	3,848	3,472
Loss on disposal of subsidiaries (note 21, 22)	220	137
(Recovery) / creation provision for social obligation	(285)	562
Change in provision for impairment of receivables and obsolete inventories, net	1,539	1,029
Depreciation (notes 7, 18)	19,268	18,883
Adjustments for non-cash financing activity	15	(30)
Payments to restricted cash account (note 6)	4	149
Unrealised foreign exchange effect on non-operating items	47,061	70,109
Net operating cash flows before changes in working capital	**119,980**	**94,840**
Net increase in inventories	(31,308)	(3,478)
Net (increase) / decrease in trade and other receivables, excluding dividends receivable	(1,757)	1,236
Net decrease in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(1,717)	(2,393)
Net increase in taxes payable other than income tax	688	289
Cash inflows from operating activities	**85,886**	**90,494**
Income tax paid	(10,345)	(12,379)
Net Cash Inflows from Operating Activities	**75,541**	**78,115**

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. During 2015 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

(b) Taxes

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

(in millions of Russian roubles, unless otherwise stated)

25. CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

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

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

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

In 2014, in Russia the Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures controlled by Russian tax residents (controlling parties). Starting from 2015, CFC income is subject to income tax at the rate of 20.0 per cent in accordance with Russian tax legislation.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 31 December 2015

(d) Capital commitments

As at 31 December 2015 the Group had contractual commitments for capital expenditures of approximately RR’mln 6,181 (31 December 2014: RR’mln 7,243).

(e) Operating lease commitments

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

	31 December 2015	31 December 2014
Not later than 1 year	185	257
Later than 1 year and not later than 5 years	545	626
Later than 5 years	745	849
Total operating lease commitments	**1,475**	**1,732**

(f) Restoration, rehabilitation and environmental costs

Under its license agreements, the Group is not responsible for any significant restoration, rehabilitation and environmental expenditures that may be incurred subsequent to the cessation of production at each mine, apart from the obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. At 31 December 2015 the Group recognised a provision for these future expenses in the amount of RR’mln 5,350 (31 December 2014: RR’mln 3,722), see note 13.

25. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(g) Compliance with covenant

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants at 31 December 2015 and 31 December 2014.

(h) Guarantees

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

26. RELATED PARTY TRANSACTIONS

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

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

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

Federal Agency for State Property Management on behalf of the government of the Russian Federation and the Ministry of the property and land relations of the Republic of Sakha (Yakutia) on behalf of the Republic of Sakha (Yakutia) are the major shareholders of the Company. As at 31 December 2015 68.9 per cent. of the Company's issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Also as at 31 December 2015 8 per cent. of the Company's shares were owned by administrations or 8 districts of the Republic of Sakha (Yakutia). Following the General Meeting of Shareholders in June 2015, the 15 seats on the Supervisory Board include 11 representatives of the Russian Federation and the Republic of Sakha (Yakutia) (including one – the Chair of the Management Board), three independent directors according to the Russian Corporate Law (two of them were nominated by the Government of the Russian Federation, one was nominated by foreign minority shareholders), and one representative of the discricts of the Republic of Sakha (Yakutia). Governmental, federal and local economic and social policies affect the Group's financial position, results of operations and cash flows.

Tax balances are disclosed in the consolidated statement of financial position and in notes 9 and 16. Tax transactions are disclosed in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and in notes 17, 18, 19, 20 and 25.

Parties under control of the Government

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

(in millions of Russian roubles, unless otherwise stated)

26. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Consolidated Statement of Financial Position	31 December 2015	31 December 2014
Short-term accounts receivable	1,053	1,556
Short-term accounts payable	1,464	1,517
Loans received by the Group	44,947	38,674
Loans issued by the Group	2	183
Deposits, cash and cash equivalents	15,227	16,414

Consolidated Statement of Profit or Loss and Other Comprehensive Income	Year ended 31 December 2015	Year ended 31 December 2014
Sales of diamonds	5,947	6,254
Other sales	7,480	7,897
Electricity and heating expenses	(9,809)	(8,156)
Other purchases	(8,150)	(7,762)
Interest income	1,767	688
Interest expense	(2,492)	(1,288)

Key management compensation

The Supervisory Council of the Company consists of 15 members, including state representatives and the President of the Company. Representatives of Governments of the Russian Federation (except for independent directors) and the Republic of Sakha (Yakutia) in the Supervisory Council of the Company are not entitled to compensation for serving as members of the Supervisory Council. The President of the Company is entitled to compensation for serving as a Chairman of the Management Board of the Company.

As at 31 December 2015 and 31 December 2014 the Management Board consisted of 13 and 12 members respectively. As at 31 December 2015 one of the Management Board members was also a member of the Supervisory Council. Management Board members are entitled to salary, bonuses, voluntary medical insurance and other short-term employee benefits. Salary and bonus compensation paid to members of the Management Board is determined by the terms of “Remuneration Policy for the members of the Management Board of PJSC ALROSA” approved by the Company’s Supervisory Council on 10 November 2015.

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

Key management received short-term benefits for the year ended 31 December 2015 totalling RR’mln 770 (year ended 31 December 2014: RR’mln 827). The portion of provision for pension obligations attributable to key management as at 31 December 2015 equals to RR’mln 37 (31 December 2014: RR’mln 31). The amount of expenses recognised in the consolidated statement of profit or loss and other comprehensive income in respect of the operation of the defined benefit plan for key management in the year ended 31 December 2015 equals to RR’mln 6 (year ended 31 December 2014: RR’mln 6).

(in millions of Russian roubles, unless otherwise stated)

26. RELATED PARTY TRANSACTIONS (CONTINUED)

Associates and Joint Ventures

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

Long-term accounts receivable	31 December 2015	31 December 2014
CJSC MMC Timir, loans issued (contractual interest rate: 0.5%)	727	-
Total long-term accounts receivable	**727**	**-**

Current accounts receivable	31 December 2015	31 December 2014
Catoca, dividends and other receivable	2,937	2,067
CJSC MMC Timir, loans issued (contractual interest rate: 0.5%)	9	1,124
Other	47	87
Total current accounts receivable	**2,993**	**3,278**

Transactions with the Group's pension plan are disclosed in note 14.

27. NON-CONTROLLING INTEREST

The following tables provide information about each subsidiary that has non-controlling interest that is material to the Group:

Name	Carrying amount of non-controlling interest		Profit/(loss) attributable to non-controlling interest		Revenue		Profit/(loss)		Total comprehensive income/(loss)	
	31.12.2015	31.12.2014	2015	2014	2015	2014	2015	2014	2015	2014
PJSC ALROSA-Nyurba	(55)	(185)	1,677	1,148	35,778	30,395	13,403	9,172	13,403	9,172
MAK-Bank LLC	-	51	-	(62)	-	373	-	(392)	-	(392)
PJSC Severalmaz	101	104	(3)	(1)	5,080	3,269	(798)	(387)	(798)	(387)
OJSC Viluyskaya GES-3	(63)	(65)	2	1	2,377	2,700	841	556	841	556
Hydroshikapa S.A.R.L.	(375)	76	(187)	36	933	579	(416)	81	(1,001)	81
Total	**(392)**	**(19)**	**1,489**	**1,122**	**44,168**	**37,316**	**13,030**	**9,030**	**12,445**	**9,030**
Other subsidiaries	135	142	29	(2)						
Per financial statements	**(257)**	**123**	**1,518**	**1,120**						

Name	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
PJSC ALROSA-Nyurba	3,439	3,730	12,274	8,199	1,093	824	4,187	1,791
MAK Bank LLC	-	1,301	-	1,212	-	208	-	2,016
PJSC Severalmaz	22,110	21,901	6,842	6,340	1,373	65	944	742
OJSC Viluyskaya GES-3	10,893	10,902	521	473	4,925	-	663	6,270
Hydroshikapa S.A.R.L.	5,613	4,796	353	408	7,477	6,149	1,203	769
Total	**42,055**	**42,630**	**19,990**	**16,632**	**14,868**	**7,246**	**6,997**	**11,588**

(in millions of Russian roubles, unless otherwise stated)

27. NON-CONTROLLING INTEREST (CONTINUED)

Name	PJSC ALROSA-Nyurba		MAK Bank LLC		PJSC Severalmaz		OJSC Viluyskaya GES-3		Hydroshikapa S.A.R.L.	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Cash Inflow / (Outflow) from Operating Activity	13,548	11,317	-	(1,270)	(151)	(3,383)	1,586	1,381	307	356
Income tax paid	(2,645)	(2,675)			-	-	(262)	(152)	(84)	-
Net Cash Inflows / (Outflows) from Operating Activities	10,903	8,642	-	(1,270)	(151)	(3,383)	1,324	1,229	223	356
Net Cash (Outflow) / Inflow from Investing Activities	2	(1,681)	-	331	(969)	(2,278)	(363)	(568)	-	-
Net Cash (Outflow) /Inflow from Financing Activities	(11,378)	(6,678)	(1,201)	(39)	1,168	5,737	(910)	(444)	(249)	(226)
Net Increase/(Decrease) in Cash and Cash Equivalents	(473)	283	(1,201)	(978)	48	76	51	217	(26)	130
Cash and eash equivalents at the beginning of the period	522	221	1,201	2,185	105	60	315	98	168	38
Foreign exchange gains/(losses) on cash and cash equivalents	(28)	18	-	(6)	(1)	(31)	-	-	63	-
Cash and Cash Equivalents at the End of the Period	**21**	**522**	**-**	**1,201**	**152**	**105**	**366**	**315**	**205**	**168**

The figures presented above are before inter-company eliminations.

The following table provides information about dividends paid by subsidiaries to non-controlling shareholders that interest is material to the Group:

	Dividends paid	
Subsidiary	**Year ended 31 December 2015**	**Year ended 31 December 2014**
PJSC ALROSA-Nyurba	1,564	677
MAK Bank LLC	-	2
Total dividends paid by subsidiaries to non-controlling shareholders	**1,564**	**679**

Holders of the non-controlling interest have a right to veto any transaction with related parties with a financial effect above: PJSC ALROSA-Nyurba – RR'mln 312; PJSC Severalmaz – RR'mln 704; OJSC Viluyskaya GES-3 – RR'mln 270; Hydroshikapa S.A.R.L. – RR'mln 187. These restrictions apply to 2 per cent. of the subsidiaries' total assets as disclosed above.

28. SEGMENT INFORMATION

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

The Group's primary activity is the production and sales of diamonds. The internal management reporting system is mainly focused on the analysis of information relating to production and sales of Diamond segment, however information relating to other activities (represented by several subdivisions of the Company and separate legal entities of the Group`s all other business) is also regularly reviewed by the CODM. The Management Board regularly evaluates and analyses financial information derived from statutory accounting data net of intersegment operations between subdivisions of the Company, but including intercompany transactions between the legal entities included in the Group.

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

(in millions of Russian roubles, unless otherwise stated)

28. SEGMENT INFORMATION (CONTINUED)

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

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

The following reportable segments were identified:

- Diamonds segment - production and sales of diamonds;
- Transportation – airline business, transportation services and services at transportation terminals, ports and airports;
- Social infrastructure – include residential housing units, sports complexes and cultural facilities, such as cinemas and theatres and other social infrustructure;
- 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 consolidated financial statements include those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

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

Year ended 31 December 2014	Diamonds segment	Transpor-tation	Social infrastructure	Gas	Other activities	Total
Revenue	195,064	5,847	5,964	7,841	11,484	226,200
Intersegment revenue	-	(965)	(575)	(1,048)	(6,475)	(9,063)
Cost of sales, including	63,785	6,237	8,716	4,209	10,892	93,839
depreciation	10,797	453	486	1,005	1,722	14,463
Gross margin	**131,279**	**(390)**	**(2,752)**	**3,632**	**592**	**132,361**

(in millions of Russian roubles, unless otherwise stated)

28. SEGMENT INFORMATION (CONTINUED)

Reconciliation of revenue is presented below:

	Year ended 31 December 2015	Year ended 31 December 2014
Segment revenue	**241,030**	**226,200**
Elimination of intersegment revenue	(6,476)	(9,063)
Reclassification of custom duties [1]	(12,188)	(10,999)
Other adjustments and reclassifications	2,158	1,021
Revenue as per consolidated statement of profit or loss and other comprehensive income	**224,524**	**207,159**

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

Reconciliation of cost of sales including depreciation is presented below:

	Year ended 31 December 2015	Year ended 31 December 2014
Segment cost of sales	**82,179**	**93,839**
Adjustment for depreciation of property, plant and equipment	2,775	3,989
Elimination of intersegment purchases	(4,083	(7,701)
Accrued provision for pension obligation [1]	(1,100)	(1,112)
Reclassification of extraction tax [2]	19,405	12,044
Adjustment for inventories [3]	(1,573)	1,612
Accrual for employee flights and holidays [4]	352	(53)
Other adjustments	(8)	148
Reclassification of exploration expenses [5]	(3,389)	(3,053)
Other reclassifications	(1,318)	(379)
Cost of sales as per consolidated statement of profit or loss and other comprehensive income	**93,240**	**99,334**

[1] Accrued provision for pension obligation – recognition of pension obligation in accordance with IAS 19
[2] Reclassification of extraction tax – reclassification from general and administrative expenses
[3] Adjustment for inventories – treatment of extraction tax as direct expenses for financial statements, with acorresponding entry in inventory figure and other adjustments
[4] Accrual for employee flights and holidays – recognition of employee flights and holidays reserve
[5] Reclassification of exploration expenses – reclassification to other operating expenses

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

	Year ended 31 December 2015	Year ended 31 December 2014
Belgium	98,101	101,012
Russian Federation	42,828	41,834
India	33,929	26,298
Israel	24,480	21,283
China	10,292	7,028
United Arab Emirates	8,358	6,288
United Kingdom	1,837	348
USA	1,770	1,207
Belarus	1,172	612
Angola	933	579
Armenia	554	173
Other countries	270	497
Total	**224,524**	**207,159**

(in millions of Russian roubles, unless otherwise stated)

28. SEGMENT INFORMATION (CONTINUED)

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

	31 December 2015	31 December 2014
Russian Federation	288,879	276,513
Angola	5,178	4,796
Other countries	1,097	430
Total non-current assets other than financial instruments	**295,154**	**281,739**

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Recurring fair value measurements

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

	31 December 2015				31 December 2014			
	Level				Level			
	1	2	3	Total	1	2	3	Total
Available-for-sale investments	120	-	591	**711**	188	-	191	**379**
Total	**120**	**-**	**591**	**711**	**188**	**-**	**191**	**379**

The description of valuation technique and description of inputs used in the fair value measurement for Level:

	31 December 2015	31 December 2014	Valuation technique	Inputs used
Available-for-sale investments	591	191	Net assets valuation	Financial statements of the investee
Total	**591**	**191**		

(in millions of Russian roubles, unless otherwise stated)

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

(in millions of Russian roubles, unless otherwise stated)

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2014 the Group had the following assets and liabilities not measured at fair value but for which fair value is disclosed, classified by the levels of the fair value hierarchy:

	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
Current and non-current financial assets				
Current and non-current accounts receivable	-	8,894	-	8,894
Loans issued	-	-	2,555	2,555
Cash and cash equivalents	-	21,693	100	21,793
Total financial assets	**-**	**30,587**	**2,655**	**33,242**
Non-current financial liabilities				
Loans from banks and other loans	-	119,819	-	119,819
Eurobonds	56,258	-	-	56,258
Finance lease obligation	-	-	281	281
Total non-current financial liabilities	**56,258**	**119,819**	**281**	**176,358**
Current financial liabilities				
Loans from banks and other loans	-	551	-	551
RR denominated non-convertible bonds	20,044	-	-	20,044
Financial accounts payable	-	8,873	-	8,873
Finance lease obligation	-	-	207	207
Dividends payable	-	468	-	468
Total current financial liabilities	**20,044**	**9,892**	**207**	**30,143**
Total financial liabilities	**76,302**	**129,711**	**488**	**206,501**

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.