**OJSC ALROSA**

**INTERNATIONAL ACCOUNTING STANDARD No. 34**

# CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2013 AND REVIEW REPORT

# CONTENTS

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# Report on Review of Condensed Consolidated Interim Financial Information

**To the Shareholders and Supervisory Council of**
**Open Joint Stock Company AK ALROSA**

***Introduction***

We have reviewed the accompanying condensed consolidated interim statement of financial position of Open Joint Stock Company AK ALROSA and its subsidiaries (the "Group") as of 30 June 2013, and the related condensed consolidated interim statements of profit and loss and other comprehensive income for the three-month and six-month periods then ended and condensed consolidated interim statements of cash flows and of changes in equity for the six month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

***Scope of Review***

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

***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material aspects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

12 September 2013

Moscow, Russian Federation

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***(in millions of Russian roubles, unless otherwise stated)***

# Condensed Consolidated Interim Statement of Profit and Loss and Other Comprehensive Income (unaudited)

| | | Three months ended | | Six months ended | |
|---|---|---|---|---|---|
| | **Notes** | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Revenue | 15 | 42,770 | 39,329 | 82,229 | 76,529 |
| Cost of sales | 16 | (19,706) | (15,880) | (39,641) | (33,789) |
| Royalty | 13 | (303) | (303) | (605) | (605) |
| **Gross profit** | | **22,761** | **23,146** | **41,983** | **42,135** |
| General and administrative expenses | 17 | (2,288) | (2,560) | (4,193) | (4,162) |
| Selling and marketing expenses | 18 | (472) | (504) | (1,140) | (962) |
| Other operating income | 19 | 2,840 | 415 | 3,153 | 2,515 |
| Other operating expenses | 20 | (4,390) | (4,239) | (9,367) | (9,032) |
| **Operating profit** | | **18,451** | **16,258** | **30,436** | **30,494** |
| Finance income | 21 | 552 | 2,456 | 547 | 1,569 |
| Finance costs | 22 | (8,150) | (14,007) | (11,583) | (10,488) |
| Share of net profit of associates and joint ventures | 4 | 107 | 94 | 393 | 546 |
| **Profit before income tax** | | **10,960** | **4,801** | **19,793** | **22,121** |
| Income tax | 13 | (2,602) | (1,301) | (5,177) | (5,930) |
| **Profit for the period** | | **8,358** | **3,500** | **14,616** | **16,191** |
| **Other comprehensive income** | | | | | |
| *Items that will not be reclassified to profit or loss:* | | | | | |
| Remeasurement of post-employment benefit obligations, net of tax | | 1,982 | (100) | 1,869 | (177) |
| **Total items that will not be reclassified to profit or loss** | | **1,982** | **(100)** | **1,869** | **(177)** |
| *Items that will be reclassified to profit or loss:* | | | | | |
| Currency translation differences, net of tax | | 1,583 | (253) | 678 | (148) |
| **Total items that will be reclassified to profit or loss** | | **1,583** | **(253)** | **678** | **(148)** |
| **Other comprehensive income / (loss) for the period** | | **3,565** | **(353)** | **2,547** | **(325)** |
| **Total comprehensive income for the period** | | **11,923** | **3,147** | **17,163** | **15,866** |
| | | | | | |
| **Profit attributable to:** | | | | | |
| Owners of OJSC ALROSA | | 7,993 | 3,296 | 14,087 | 15,743 |
| Non-controlling interest | | 365 | 204 | 529 | 448 |
| **Profit for the period** | | **8,358** | **3,500** | **14,616** | **16,191** |
| | | | | | |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of OJSC ALROSA | | 11,558 | 2,943 | 16,634 | 15,418 |
| Non-controlling interest | | 365 | 204 | 529 | 448 |
| **Total comprehensive income for the period** | | **11,923** | **3,147** | **17,163** | **15,866** |
| **Basic and diluted earnings per share for profit attributable to the owners of OJSC ALROSA (in Roubles)** | | 1.11 | 0.46 | 1.95 | 2.18 |

*(in millions of Russian roubles, unless otherwise stated)*

## Condensed Consolidated Interim Statement of Cash Flows (unaudited)

| | Notes | Six months ended 30 June 2013 | Six months ended 30 June 2012 |
|---|---|---|---|
| **Net Cash Inflow from Operating Activities** | 23 | **24,029** | **16,419** |
| **Cash Flows from Investing Activities** | | | |
| Purchase of property, plant and equipment | | (14,928) | (13,915) |
| Proceeds from sales of property, plant and equipment | | 64 | 851 |
| Interest received | | 104 | 142 |
| Acquisition of CJSC Geotransgaz and Urengoy Gaz Company Ltd., net of cash acquired | 4.1 | - | (32,262) |
| Dividends received from associates | | 317 | - |
| Net proceeds from disposal of subsidiaries | | 623 | - |
| Reclassification to assets held-for-sale | 4.1 | (99) | - |
| Acquisition of OJSC Nizhne-Lenskoe, net of cash acquired | 4.2 | (3,659) | - |
| **Net Cash Outflow from Investing Activities** | | **(17,578)** | **(45,184)** |
| **Cash Flows from Financing Activities** | | | |
| Repayments of loans | | (32,708) | (15,340) |
| Loans received | | 41,401 | 49,746 |
| Proceeds from sale of treasury shares | | 185 | - |
| Acquisition of non-controlling interest in OJSC Nizhne-Lenskoe | 4.2 | (3,330) | - |
| Proceeds from sale of non-controlling interest in subsidiary | | 256 | - |
| Purchase of treasury shares | | - | (9) |
| Interest paid | | (4,912) | (3,378) |
| Dividends paid | | (803) | (500) |
| **Net Cash Inflow from Financing Activities** | | **89** | **30,519** |
| **Net Increase in Cash and Cash Equivalents** | | **6,540** | **1,754** |
| Cash and cash equivalents at the beginning of the period | | 6,242 | 12,014 |
| Exchange gains / (losses) on cash and cash equivalents | | 62 | (238) |
| **Cash and Cash Equivalents at the End of the Period** | | **12,844** | **13,530** |

***(in millions of Russian roubles, unless otherwise stated)***

# Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

| | | Attributable to owners of OJSC ALROSA | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Number of shares outstanding** | **Share capital** | **Share premium** | **Treasury shares** | **Other reserves** | **Retained earnings** | **Total** | **Non-controlling interest** | **Total equity** |
| **Previously reported balance at 31 December 2011** | **7,216,276,100** | **12,473** | **10,431** | **(249)** | **(646)** | **91,805** | **113,814** | **(717)** | **113,097** |
| Effect of adoption of Amended IAS 19 (net of tax) | | - | - | - | (3,290) | (91) | (3,381) | - | (3,381) |
| **Adjusted as at 1 January 2012** | **7,216,276,100** | **12,473** | **10,431** | **(249)** | **(3,936)** | **91,714** | **110,433** | **(717)** | **109,716** |
| **Comprehensive income** | | | | | | | | | |
| Profit for the period | | - | - | - | - | 15,743 | 15,743 | 448 | 16,191 |
| ***Other comprehensive income*** | | | | | | | | | |
| Actuarial loss on post employment benefit obligations, net of tax | | - | - | - | (177) | - | (177) | - | (177) |
| Currency translation differences | | - | - | - | (148) | - | (148) | - | (148) |
| Total other comprehensive income | | - | - | - | (325) | - | (325) | - | (325) |
| **Total comprehensive income for the period** | | **-** | **-** | **-** | **(325)** | **15,743** | **15,418** | **448** | **15,866** |
| **Transactions with owners** | | | | | | | | | |
| Dividends (Note 9) | | - | - | - | - | (7,439) | (7,439) | - | (7,439) |
| Purchase of own shares | (485,500) | - | - | (1) | - | (8) | (9) | - | (9) |
| Dividends paid by subsidiary to the owners of non—controlling interest | | - | - | - | - | - | - | (131) | (131) |
| **Total transactions with owners** | **(485,500)** | **-** | **-** | **(1)** | **-** | **(7,447)** | **(7,448)** | **(131)** | **(7,579)** |
| **Previously reported balance at 30 June 2012** | **7,215,790,600** | **12,473** | **10,431** | **(250)** | **(794)** | **100,101** | **121,961** | **(400)** | **121,561** |
| Effect of adoption of Amended IAS 19 (net of tax) | | - | - | - | (3,467) | (91) | (3,558) | - | (3,558) |
| **Adjusted as at 1 July 2012** | **7,215,790,600** | **12,473** | **10,431** | **(250)** | **(4,261)** | **100, 010** | **118,403** | **(400)** | **118,003** |
| **Previously reported balance at 31 December 2012** | **7,213,444,600** | **12,473** | **10,431** | **(254)** | **(1,429)** | **117,076** | **138,297** | **(448)** | **137,849** |
| Effect of adoption of Amended IAS 19 (net of tax) | | | | | (6,286) | (62) | (6,348) | | (6,348) |
| **Adjusted as at 1 January 2013** | **7,213,444,600** | **12,473** | **10,431** | **(254)** | **(7,715)** | **117,014** | **131,949** | **(448)** | **131,501** |
| **Comprehensive income** | | | | | | | | | |
| Profit for the period | | - | - | - | - | 14,087 | 14,087 | 529 | 14,616 |
| ***Other comprehensive income*** | | | | | | | | | |
| Actuarial gain on post employment benefit obligations,net of tax | | - | - | - | 1,869 | - | 1,869 | - | 1,869 |
| Currency translation differences | | - | - | - | 678 | - | 678 | - | 678 |
| Total other comprehensive income | | - | - | - | 2,547 | - | 2,547 | - | 2,547 |
| **Total comprehensive income for the period** | | **-** | **-** | **-** | **2,547** | **14,087** | **16,634** | **529** | **17,163** |
| **Transactions with owners** | | | | | | | | | |
| Dividends (Note 9) | | - | - | - | - | (8,017) | (8,017) | - | (8,017) |
| Acquisition of OJSC Nizhne-Lenskoe (Note 4.2) | | - | - | - | - | - | - | 3,527 | 3,527 |
| Purchase of non-controlling interest | | - | - | - | 360 | - | 360 | (3,425) | (3,065) |
| Sale of own shares | 6,116,700 | - | - | 11 | - | 174 | 185 | - | 185 |
| Dividends paid by subsidiary to the owners of non-controlling interest | | - | - | - | - | - | - | (404) | (404) |
| **Total transactions with owners** | **6,116,700** | **-** | **-** | **11** | **360** | **(7,843)** | **(7,472)** | **(302)** | **(7,774)** |
| **Balance at 30 June 2013** | **7,219,561,300** | **12,473** | **10,431** | **(243)** | **(4,808)** | **123,258** | **141,111** | **(221)** | **140,890** |

The accompanying notes form an integral part of this condensed consolidated interim financial information

## 1. ACTIVITIES

The core activities of Open Joint Stock Company ALROSA ("the Company") and its subsidiaries ("the Group") are the exploration and extraction of diamond reserves and the marketing and distribution of raw and cut diamonds. The Company was registered on 13 August 1992 as a closed joint stock company in the Republic of Sakha (Yakutia), which is located within the Russian Federation. On 5 April 2011, the extraordinary shareholders' meeting approved reorganisation of the Company from closed joint-stock company to open joint-stock company.

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 2015 and 2022. Management believes the Group will be able to extend the licenses' terms after they expire.

As at 30 June 2013 and 31 December 2012 the Company's principal shareholders are the governments of the Russian Federation (50.9 per cent. of shares) and the Republic of Sakha (Yakutia) (32.0 per cent. of shares).

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

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

## 2. BASIS OF PRESENTATION

The condensed consolidated interim financial information is prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). This condensed consolidated interim financial information should be read together with the consolidated financial statements for the year ended 31 December 2012 prepared in accordance with International Financial Reporting Standards ("IFRS").

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

The preparation of condensed consolidated interim financial information in conformity with IAS 34 requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The most significant estimates relate to valuation of inventories, investments, allowance for bad and doubtful accounts receivable, deferred taxation, reserve estimates used to calculate depreciation, pension and other post-retirement benefit costs. Actual results could differ from these estimates.

The official US dollar ("US$") to RR exchange rates as determined by the Central Bank of the Russian Federation were 32.71 and 30.37 as at 30 June 2013 and 31 December 2012, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 42.72 and 40.23 as at 30 June 2013 and 31 December 2012, respectively.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2012, except as described below.

Profit tax in the interim periods is accrued using a tax rate that would be applicable to expected total annual earnings.

**New accounting developments**

In 2013 the Group has adopted all IFRS, amendments and interpretations which are effective as at 1 January 2013 and which are relevant to its operations.

The Group adopted a set of standards on consolidation: IFRS 10 "Consolidated Financial Statements" ("IFRS 10"), IFRS 11 "Joint Arrangements" ("IFRS 11"), IFRS 12 "Disclosure of Interests in Other Entities" ("IFRS 12"). The set of new standards introduces the new model of control and treatment of joint arrangements and also new disclosure requirements. The adoption of these standards did not impact the condensed consolidated interim financial information of the Group. The application of IFRS 12 will result in additional disclosures in the annual consolidated financial statements.

Amendments to IAS 1 "Presentation of Items of Other Comprehensive Income" – Amendments to IAS 1 "Presentation of financial statements" ("IAS 1") introduce grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The amendment affected presentation only and had no material impact on the Group's financial position or results of operations.

IFRS 13 "Fair Value Measurement" ("IFRS 13") establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements of the Group. IFRS 13 also requires specific disclosures of fair values. Some of these disclosures are specifically required for the interim condensed consolidated financial statements. The Company made these disclosures in Note 27.

IAS 19 (revised) "Employee Benefits" makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The nature and the impact of revised standard are described below.

Several other new standards and amendments adopted in 2013 are amended IFRS 7 "Financial Instruments: Disclosure" ("IFRS 7"), and IAS 32 "Financial Instrument: Presentation" ("IAS 32"), amendments resulting from Annual Improvements 2009-2011 cycle to IAS 1, IAS 16 "Property, Plant and Equipment" ("IAS 16"), IAS 32, IAS 34. Application of these standards and amendments had no significant impact on the Group's financial position or results of operations.

***IAS 19 (revised) "Employee Benefits" ("IAS 19 Revised")***

From 1 January 2013 the Group has applied the amendments to *IAS 19 "Employee benefits"* retrospectively in accordance with the transition provisions of the standard. IAS 19 Revised makes significant changes to the recognition and measurement of defined benefit pension expenses and to disclosures of all employee benefits.

The material impacts of IAS 19 Revised on the Group's condensed consolidated interim financial information are as follows:

- "Actuarial gains and losses" are renamed "remeasurements"; remeasurements related to post-employment benefits are now recognised immediately in "other comprehensive income" and thus, will no longer be deferred using the corridor approach or recognised in profit or loss. As the result, unrecognised actuarial losses at 1 January 2012 in the amount of RR'mln 3,381 (31 December 2012: RR'mln 6,348) were recorded within Retained earnings and other reserves. Correspondingly, the net defined benefit assets / liabilities have changed for those amounts;
- Past-services costs are now recognised immediately through profit or loss when they occur, in the period of a plan amendment. This is resulted in unrecognised past-service costs (net of tax) at 1 January 2012 of RR'mln 91 (31 December 2012: RR'mln 62) being expensed within Retained earnings;
- The standard replaces the interest cost on the defined benefit obligations and the expected return on plan assets with a net interest expense or income based on the net defined benefit assets or liability and the discount rate, measured at the beginning of the year. For the 6 months ended at 30 June 2013 and 30 June 2012, net interest expense totalled RR'mln 463 and RR'mln 362, respectively.

The total effect of the adoption of IAS 19 (revised) on the consolidated financial statements is shown below. All changes in the accounting policies have been made in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors" ("IAS 8") which requires retrospective application unless the new standard requires otherwise.

*(in millions of Russian roubles, unless otherwise stated)*

The financial effects of the change in the accounting of employee benefits are shown below:

| Reconciliation of condensed consolidated interim statement of financial position as at 1 January 2012 | Notes | Previously reported | Adjustment due to change in accounting policy | Restated |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current Assets** | | | | |
| Goodwill | | 1,439 | - | 1,439 |
| Property, plant and equipment | 6 | 169,534 | - | 169,534 |
| Investments in associates and joint ventures | | 2,350 | - | 2,350 |
| Available-for-sale investments | | 157 | - | 157 |
| Long-term accounts receivable | | 1,833 | - | 1,833 |
| Restricted cash | | 237 | - | 237 |
| **Total Non-current Assets** | | **175,550** | **-** | **175,550** |
| **Current Assets** | | | | |
| Inventories | | 44,429 | - | 44,429 |
| Prepaid income tax | | 213 | - | 213 |
| Current accounts receivable | | 8,758 | - | 8,758 |
| Cash and cash equivalents | | 12,014 | - | 12,014 |
| **Total Current Assets** | | **65,414** | **-** | **65,414** |
| **Total Assets** | | **240,964** | **-** | **240,964** |
| **Equity** | | | | |
| Share capital | | 12,473 | - | 12,473 |
| Share premium | | 10,431 | - | 10,431 |
| Treasury shares | | (249) | - | (249) |
| Retained earnings and other reserves | | 91,159 | (3,381) | 87,778 |
| **Equity attributable to owners of OJSC ALROSA** | | **113,814** | **(3,381)** | **110,433** |
| **Non-Controlling Interest in Subsidiaries** | | **(717)** | **-** | **(717)** |
| **Total Equity** | | **113,097** | **(3,381)** | **109,716** |
| **Liabilities** | | | | |
| **Non-current Liabilities** | | | | |
| Long-term debt | | 75,529 | - | 75,529 |
| Provision for pension obligations | 14 | 5,028 | 4,226 | 9,254 |
| Other provisions | | 522 | - | 522 |
| Deferred tax liabilities | | 3,478 | (845) | 2,633 |
| **Total Non-current Liabilities** | | **84,557** | **3,381** | **87,938** |
| **Current Liabilities** | | | | |
| Short-term debt and current portion of long-term debt | | 20,024 | - | 20,024 |
| Derivative financial instruments | | 1,995 | - | 1,995 |
| Trade and other payables | | 15,591 | - | 15,591 |
| Income tax payable | | 1,851 | - | 1,851 |
| Other taxes payable | | 3,364 | - | 3,364 |
| Dividends payable | | 485 | - | 485 |
| **Total Current Liabilities** | | **43,310** | **-** | **43,310** |
| **Total Liabilities** | | **127,867** | **3,381** | **131,248** |
| **Total Equity and Liabilities** | | **240,964** | **-** | **240,964** |

*(in millions of Russian roubles, unless otherwise stated)*

| Reconciliation of condensed consolidated interim statement of financial position as at 31 December 2012 | Notes | Previously reported | Adjustment due to change in accounting policy | Restated |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current Assets** | | | | |
| Goodwill | | 1,439 | - | 1,439 |
| Property, plant and equipment | 6 | 224,746 | - | 224,746 |
| Investments in associates and joint ventures | 4 | 2,115 | - | 2,115 |
| Available-for-sale investments | | 104 | - | 104 |
| Long-term accounts receivable | 8 | 2,328 | - | 2,328 |
| Restricted cash | | 286 | - | 286 |
| **Total Non-current Assets** | | **231,018** | **-** | **231,018** |
| **Current Assets** | | | | |
| Inventories | 7 | 54,670 | - | 54,670 |
| Prepaid income tax | | 55 | - | 55 |
| Current accounts receivable | 8 | 12,724 | - | 12,724 |
| Cash and cash equivalents | 5 | 6,242 | - | 6,242 |
| **Total Current Assets** | | **73,691** | **-** | **73,691** |
| **Total Assets** | | **304,709** | **-** | **304,709** |
| **Equity** | | | | |
| Share capital | 9 | 12,473 | - | 12,473 |
| Share premium | | 10,431 | - | 10,431 |
| Treasury shares | 9 | (254) | - | (254) |
| Retained earnings and other reserves | 9 | 115,647 | (6,348) | 109,299 |
| **Equity attributable to owners of OJSC ALROSA** | | **138,297** | **(6,348)** | **131,949** |
| **Non-Controlling Interest in Subsidiaries** | | **(448)** | **-** | **(448)** |
| **Total Equity** | | **137,849** | **(6,348)** | **131,501** |
| **Liabilities** | | | | |
| **Non-current Liabilities** | | | | |
| Long-term debt | 10 | 90,357 | - | 90,357 |
| Provision for pension obligations | 14 | 5,108 | 7,935 | 13,043 |
| Other provisions | | 5,232 | - | 5,232 |
| Deferred tax liabilities | | 8,933 | (1,587) | 7,346 |
| **Total Non-current Liabilities** | | **109,630** | **6,348** | **115,978** |
| **Current Liabilities** | | | | |
| Short-term debt and current portion of long-term debt | 11 | 32,344 | - | 32,344 |
| Trade and other payables | 12 | 19,130 | - | 19,130 |
| Income tax payable | | 1,331 | - | 1,331 |
| Other taxes payable | 13 | 3,883 | - | 3,883 |
| Dividends payable | | 542 | - | 542 |
| **Total Current Liabilities** | | **57,230** | **-** | **57,230** |
| **Total Liabilities** | | **166,860** | **6,348** | **173,208** |
| **Total Equity and Liabilities** | | **304,709** | **-** | **304,709** |

*(in millions of Russian roubles, unless otherwise stated)*

| Reconciliation of condensed consolidated interim statement of profit and loss and other comprehensive income for the six months ended 30 June 2012 | Notes | Previously reported | Adjustment due to change in accounting policy | Restated |
|---|---|---|---|---|
| Revenue | 15 | 76,529 | - | 76,529 |
| Cost of sales | 16 | (33,789) | - | (33,789) |
| Royalty | 13 | (605) | - | (605) |
| **Gross profit** | | **42,135** | **-** | **42,135** |
| General and administrative expenses | 17 | (4,162) | - | (4,162) |
| Selling and marketing expenses | 18 | (962) | - | (962) |
| Other operating income | 19 | 2,515 | - | 2,515 |
| Other operating expenses | 20 | (9,032) | - | (9,032) |
| **Operating profit** | | **30,494** | **-** | **30,494** |
| Finance income | 21 | 1,569 | - | 1,569 |
| Finance costs | 22 | (10,488) | - | (10,488) |
| Share of net profit of associates | 4 | 546 | - | 546 |
| **Profit before income tax** | | **22,121** | **-** | **22,121** |
| Income tax | 13 | (5,930) | - | (5,930) |
| **Profit for the period** | | **16,191** | **-** | **16,191** |
| **Other comprehensive income** | | | | |
| *Items that will not be reclassified to profit or loss:* | | | | |
| Remeasurement of post-employment benefit obligations, net of tax | | - | (177) | (177) |
| **Total items that will not be reclassified to profit or loss** | | **-** | **(177)** | **(177)** |
| *Items that will be reclassified to profit or loss:* | | - | (177) | (177) |
| Currency translation differences, net of tax | | (148) | - | (148) |
| **Total items that will be reclassified to profit or loss** | | **(148)** | **-** | **(148)** |
| **Other comprehensive loss for the period** | | **(148)** | **(177)** | **(325)** |
| **Total comprehensive income for the period** | | **16,043** | **(177)** | **15,866** |
| **Profit attributable to:** | | | | |
| Owners of OJSC ALROSA | | 15,743 | - | 15,743 |
| Non-controlling interest | | 448 | - | 448 |
| **Profit for the period** | | **16,191** | **-** | **16,191** |
| **Total comprehensive income attributable to:** | | | | |
| Owners of OJSC ALROSA | | 15,595 | (177) | 15,418 |
| Non-controlling interest | | 448 | - | 448 |
| **Total comprehensive income for the period** | | **16,043** | **(177)** | **15,866** |

Certain new standards, interpretations and amendments to standards and interpretations, as disclosed in the consolidated financial statements for the year ended 31 December 2012, have been issued but are not yet effective and have not been early adopted by the Group. The Group is currently considering the implications of these new accounting pronouncements, their impact on its consolidated financial statements and the timing of their adoption by the Group.

***(in millions of Russian roubles, unless otherwise stated)***

## 4. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

| Name | Principal activity | Country of Incorporation | Notes | Percentage of ownership interest held 30 June 2013 | 31 December 2012 |
|---|---|---|---|---|---|
| ALROSA Finance S.A. | Financial services | Luxembourg | | 100.0 | 100.0 |
| Sunland Trading S.A. | Diamonds trading | Switzerland | | 100.0 | 100.0 |
| CJSC Irelyakhneft | Oil production | Russia | | 100.0 | 100.0 |
| OJSC ALROSA-Gaz | Gas production | Russia | | 100.0 | 100.0 |
| ALROSA-VGS LLC | Capital construction | Russia | | 100.0 | 100.0 |
| OJSC Almazy Anabara | Diamonds production | Russia | | 100.0 | 100.0 |
| CJSC Geotransgaz | Gas production | Russia | 4.1 | 100.0 | 100.0 |
| Urengoy Gaz Company Ltd. | Gas production | Russia | 4.1 | 100.0 | 100.0 |
| OJSC Nizhne-Lenskoe | Diamonds production | Russia | 4.2 | 100.0 | - |
| OJSC Viluyskaya GES-3 | Electricity production | Russia | | 99.7 | 99.7 |
| OJSC Severalmaz | Diamonds production | Russia | | 99.6 | 99.6 |
| Arcos Belgium N.V. | Diamonds trading | Belgium | | 99.6 | 99.6 |
| OJSC ALROSA-Nyurba | Diamonds production | Russia | | 87.6 | 88.1 |
| MAK Bank LLC | Banking activity | Russia | | 84.7 | 84.7 |
| OJSC MMC Timir | Iron ore production | Russia | 4.3 | 49.0 | 100.0 |

As at 30 June 2013 and 31 December 2012 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

### *4.1. CJSC Geotransgaz and Urengoy Gaz Company Ltd.*

In March 2012 the Group and the companies affiliated with OJSC Bank VTB agreed to early terminate put-option agreements and signed share purchase agreements in accordance to which the Group purchased back a 90.0 per cent. interest in CJSC Geotransgaz and Urengoy Gaz Company Ltd. (the "Gas companies") for a total cash consideration of RR'mln 30,145 (US$'mln 1,036). Also in March 2012 the Group acquired an additional 10.0 per cent. interest in the Gas companies from their minority shareholders for a total cash consideration of RR'mln 2,908 (US$'mln 100).

As a result of these transactions (which were considered as a one single transaction) the Group acquired 100.0 per cent. ownership interest and full control over the Gas companies. These entities hold production licenses for certain gas deposits located in the Tyumen region of the Russian Federation (which expire in 2020 and 2024 with the option to extend the license period) and currently perform construction of production infrastructure at their licensed areas.

The fair values of assets and liabilities of the Gas companies at the date of acquisition are as follows:

| | |
|---|---|
| Property, plant and equipment | 37,364 |
| Inventories | 719 |
| Trade and other receivables | 499 |
| Cash | 297 |
| Deferred tax liability | (5,518) |
| Trade and other payables | (308) |
| **Fair value of acquired net assets** | **33,053** |
| **Cash consideration paid** | **33,053** |
| **Fair value of terminated put option** | **(1,995)** |
| **Negative goodwill on acquisition of the Gas companies** | **1,995** |

Negative goodwill was recognised in the amount of the fair-value of put-options, which were early terminated as part of the purchase and not exercised. The entire amount of negative goodwill was recorded as other operating income (see note 19).

As at 30 June 2013 the assets and liabilities related to the Gas companies have been presented as held for sale following Supervisory Council approval of the decision to dispose of these operations. The completion date of the transaction is expected to be before the year end. The Gas companies assets and liabilities are a disposal group. However, the Gas companies are not discontinued operations at 30 June 2013, as they do not represent a major line of business of the Group.

For the three and six months ended 30 June 2013 the Gas companies generated revenue of RR'mln 1,120 and RR'mln 1,788, respectively. For the three and six months ended 30 June 2013 the Gas companies generated net profit of

***(in millions of Russian roubles, unless otherwise stated)***

RR'mln 180 and net loss of RR'mln 38, respectively. The gas companies contributed revenue of RR'mln 112 and net loss of RR'mln 370 to the Group for the period from the date of acquisition in March 2012 to 30 June 2012.

The major classes of assets and liabilities of the Gas companies disposal group are as follows:

| | **30 June 2013** |
|---|---|
| **Assets classified as held for sale** | |
| Property, plant and equipment | 41,187 |
| Inventories | 381 |
| Trade and other receivables | 455 |
| Cash and cash equivalents | 99 |
| **Total assets of the disposal group classified as held for sale** | **42,122** |
| **Liabilities classified as held for sale** | |
| Trade and other payables | (696) |
| Deferred tax liability | (5,502) |
| Other current liabilities | (12) |
| **Total liabilities of the disposal group classified as held for sale** | **(6,210)** |
| **Total net assets of the disposal group classified as held for sale** | **35,912** |

### *4.2. Acquisition of OJSC Nizhne-Lenskoe*

On 22 January 2013 the Group acquired a 51.0 per cent. interest in OJSC Nizhne-Lenskoe from the Government of the Republic of Sakha (Yakutia) for a total cash consideration of RR'mln 3,670. As a result of this transaction the Group acquired control over OJSC Nizhne-Lenskoe. The core activity of OJSC Nizhne-Lenskoe is exploration and extraction of alluvial diamond reserves and distribution of raw diamonds.

The fair values of assets and liabilities of OJSC Nizhne-Lenskoe at the date of acquisition are as follows:

| | |
|---|---|
| Property, plant and equipment | 12,687 |
| Inventories | 2,868 |
| Available-for-sale investments | 109 |
| Investments in associates | 262 |
| Trade and other receivables | 712 |
| Cash | 11 |
| Deferred tax liability | (1,737) |
| Borrowings | (3,999) |
| Trade and other payables | (3,716) |
| **Fair value of acquired net assets** | **7,197** |
| **Non-controlling interest measured as proportionate share of acquired net assets** | **(3,527)** |
| **Total purchase consideration** | **3,670** |

On 5 June 2013 the Group acquired an additional 49.0 per cent. interest in OJSC Nizhne-Lenskoe for a total cash consideration of RR'mln 3,330. As a result of this transaction the Group acquired 100.0 per cent. ownership in OJSC Nizhne-Lenskoe.

OJSC Nizhne-Lenskoe contributed revenue of RR'mln 1,524 and net profit of RR'mln 525 to the Group for the period from the date of acquisition to 30 June 2013.

As at the date of acquisition the gross contractual amounts receivable in OJSC Nizhne-Lenskoe are equal to the fair value of accounts receivable recognised in this condensed consolidated interim financial information.

The fair values of the acquired assets and liabilities were determined on a provisional basis in this condensed consolidated interim financial information as the process of determining fair values of certain assets and liabilities has not been finalised yet. Management is required to finalise the accounting within 12 months of the acquisition date. Any revisions to the provisional values will be reflected retrospectively from the acquisition date.

### *4.3. Disposal of controlling interest in OJSC MMC Timir*

On 2 April 2013 the Group and Evraz plc signed an agreement to sell a controlling 51.0 per cent. interest in OJSC MMC Timir to Evraz plc for a total cash consideration of RR'mln 4,950 to be paid in several installments within 16 months after the transaction. As a result of the transaction, Evraz plc holds 51.0 per cent. interest in OJSC MMC Timir, the Group holds 49.0 per cent. interest minus one share and State corporation Bank for Development and Foreign Economic

***(in millions of Russian roubles, unless otherwise stated)***

Affairs (Vnesheconombank) holds one share.

As a result of the transaction the Company lost an ability to control financial and operating activity of OJSC MMC Timir. Accordingly OJSC MMC Timir was deconsolidated since 2 April 2013. The details of assets and liabilities of OJSC MMC Timir at the date of deconsolidation were as follows:

| | |
|---|---|
| Property, plant and equipment | 5,443 |
| Available-for-sale investments | 22 |
| Trade and other receivables | 67 |
| Cash | 57 |
| Deferred tax asset | 103 |
| Trade and other payables | (6) |
| **Net assets of deconsolidated subsidiary** | **5,686** |
| **Investment in joint venture recognised at fair value** | **2,237** |
| **Consideration receivable** | **6,001** |
| **Gain on disposal** | **2,552** |

Consideration receivable includes cash consideration of RR'mln 4,950 as described above and outstanding loans in the amount of RR'mln 1,122 issued by the Group to OJSC MMC Timir before disposal of controlling interest. Consideration receivable was reduced by the amount of transaction costs incurred by the Group in the amount of RR'mln 71.

The remaining 49.0 per cent. interest investment in OJSC MMC Timir was recorded at fair value as an investment in joint venture.

***Associates and joint ventures***

| **Name** | **Country of Incorporation** | **Percentage of ownership interest held at** | | **Carrying value of investment at** | |
|---|---|---|---|---|---|
| | | **30 June 2013** | **31 December 2012** | **30 June 2013** | **31 December 2012** |
| Catoca Mining Company Ltd | Angola | 32.8 | 32.8 | 1,236 | 1,898 |
| OJSC MMC Timir | Russia | 49.0 | - | 2,220 | - |
| OJSC Almazny Mir | Russia | 47.4 | 47.4 | 185 | 184 |
| OJSC Almazergienbank | Russia | 22.8 | - | 276 | - |
| Other | Russia | 20-50 | 20-50 | 18 | 33 |
| **Total carrying value of investment** | | | | **3,935** | **2,115** |

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

The investment in OJSC Almazergienbank was acquired as part of the acquisition of OJSC Nizhne-Lenskoe.

As at 30 June 2013 and 31 December 2012 the percentage of ownership interest of the Group in its associates is equal to the percentage of voting interest.

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

| | **Three months ended** | | **Six months ended** | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Catoca Mining Company Ltd. | 134 | 94 | 408 | 545 |
| OJSC MMC Timir | (16) | - | (16) | - |
| OJSC Almazny Mir | (1) | - | 3 | 1 |
| OJSC Almazergienbank | 9 | - | 14 | - |
| Other | (19) | - | (16) | - |
| **Total Group's share of net profit of associates and joint ventures** | **107** | **94** | **393** | **546** |

Catoca Mining Company Ltd. ("Catoca") is a diamond-mining venture located in Angola. In May 2013 Catoca declared dividends for the year ended 31 December 2012; the Group's share of these dividends amounted to RR'mln 1,216 Currency translation gain recognised in the condensed consolidated interim statement of profit and loss and other comprehensive income for the six months ended 30 June 2013 in respect of investment in Catoca totalled RR'mln 146. In May 2012 Catoca declared dividends for the year ended 31 December 2011; the Group's share of these dividends amounted to RR'mln 1,244. Currency translation gain recognised in the condensed consolidated interim statement of profit and loss and other comprehensive income for the six months ended 30 June 2012 in respect of investment in Catoca totalled RR'mln 49.

*(in millions of Russian roubles, unless otherwise stated)*

## 5. CASH AND CASH EQUIVALENTS

| | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Cash in banks and on hand | 12,552 | 6,018 |
| Deposit accounts | 292 | 224 |
| **Total cash and cash equivalents** | **12,844** | **6,242** |

At 30 June 2013 the weighted average interest rate on the cash balances of the Group was 0.15 per cent. (31 December 2012: 0.13 per cent.).

## 6. PROPERTY, PLANT AND EQUIPMENT

| | Operating assets | Assets under construction | TOTAL |
|---|---|---|---|
| **As at 31 December 2011** | | | |
| Cost | 230,820 | 36,168 | 266,988 |
| Accumulated depreciation and impairment losses | (96,429) | (1,025) | (97,454) |
| **Net book value as at 31 December 2011** | **134,391** | **35,143** | **169,534** |
| **Six months ended 30 June 2012** | | | |
| Net book value as at 31 December 2011 | 134,391 | 35,143 | 169,534 |
| Foreign exchange differences | 79 | - | 79 |
| Additions | 1,832 | 12,668 | 14,500 |
| Additions through acquisition of the Gas companies (note 4.1) | 31,074 | 6,290 | 37,364 |
| Transfers | 7,498 | (7,498) | - |
| Disposals – at cost | (2,237) | (114) | (2,351) |
| Disposals – accumulated depreciation | 1,282 | - | 1,282 |
| Change in estimate of provision for land recultivation | (6) | - | (6) |
| Depreciation charge for the period | (7,539) | - | (7,539) |
| **Net book value as at 30 June 2012** | **166,374** | **46,489** | **212,863** |
| **As at 31 December 2012** | | | |
| Cost | 284,745 | 48,631 | 333,376 |
| Accumulated depreciation and impairment losses | (107,602) | (1,028) | (108,630) |
| **Net book value as at 31 December 2012** | **177,143** | **47,603** | **224,746** |
| **Six months ended 30 June 2013** | | | |
| Net book value as at 31 December 2012 | 177,143 | 47,603 | 224,746 |
| Foreign exchange differences | 244 | - | 244 |
| Additions | 3,552 | 12,806 | 16,358 |
| Additions through acquisition of OJSC Nizhne-Lenskoe (note 4.2) | 12,677 | 10 | 12,687 |
| Transfers | 3,999 | (3,999) | - |
| Reclassification to assets held for sale – at cost (note 4.1) | (33,532) | (8,434) | (41,966) |
| Reclassification to assets held for sale – accumulated depreciation (note 4.1) | 779 | - | 779 |
| Disposal of subsidiaries – at cost | (7,064) | (6) | (7,070) |
| Disposal of subsidiaries – accumulated depreciation | 356 | - | 356 |
| Other disposals – at cost | (1,922) | (347) | (2,269) |
| Other disposals – accumulated depreciation | 1,197 | - | 1,197 |
| Change in estimate of provision for land recultivation | (109) | - | (109) |
| Depreciation charge for the period | (7,652) | - | (7,652) |
| **Net book value as at 30 June 2013** | **149,668** | **47,633** | **197,301** |
| **As at 30 June 2013** | | | |
| Cost | 262,590 | 48,661 | 311,251 |
| Accumulated depreciation and impairment losses | (112,922) | (1,028) | (113,950) |
| **Net book value as at 30 June 2013** | **149,668** | **47,633** | **197,301** |

***Capitalised borrowing costs***

As at 30 June 2013 borrowing costs totalling RR’mln 73 (as at 30 June 2012: RR’mln 60) were capitalised in property, plant and equipment. For the six months ended 30 June 2013 the capitalisation rate applied to qualifying assets totalling RR’mln 1,056 (six months ended 30 June 2012: RR’mln 838) was 7.36 per cent. (30 June 2012: 7.68 per cent.). In accordance with transitional rules of revised IAS 23 “Borrowing costs”, borrowing costs are capitalised for projects commencing after 1 January 2009.

*(in millions of Russian roubles, unless otherwise stated)*

## 7. INVENTORIES

| | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Diamonds | 24,916 | 27,147 |
| Ores and concentrates | 15,234 | 10,825 |
| Mining and construction materials | 15,246 | 13,842 |
| Consumable supplies | 3,643 | 2,856 |
| **Total inventories** | **59,039** | **54,670** |

## 8. TRADE AND OTHER RECEIVABLES

| Long-term accounts receivable | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Loans issued | 3,075 | 2,248 |
| Consideration receivable for disposed controlling interest in OJSC MMC Timir (note 4.3) | 1,485 | - |
| Receivables from associates and joint ventures (note 25) | 284 | - |
| Notes receivable | 103 | - |
| Long-term VAT recoverable | 60 | 79 |
| Other long-term receivables | 19 | 1 |
| **Total long-term accounts receivable** | **5,026** | **2,328** |

| Current accounts receivable | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Advances to suppliers | 4,550 | 2,406 |
| Consideration receivable for disposed controlling interest in OJSC MMC Timir (note 4.3) | 2,970 | - |
| Loans issued | 2,583 | 2,662 |
| Receivables from associates and joint ventures (note 25) | 2,361 | 411 |
| VAT recoverable | 1,720 | 1,657 |
| Prepaid taxes, other than income tax | 1,786 | 1,975 |
| Trade receivables for supplied diamonds | 292 | 812 |
| Other trade receivables | 3,730 | 2,801 |
| **Total current accounts receivable** | **19,992** | **12,724** |

Trade and other receivables are presented net of impairment provision of RR'mln 5,241 and RR'mln 4,925 as at 30 June 2013 and 31 December 2012, respectively.

## 9. SHAREHOLDERS' EQUITY

### *Share capital*

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 30 June 2013 and 31 December 2012 and consists of 7,364,965,630 ordinary shares, including treasury shares, at RR 0.5 par value share. In addition as at 30 June 2013 and 31 December 2012 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. For the six months ended 30 June 2013 the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 15,208 (for the six months ended 30 June 2012 – RR'mln 15,824). 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 this condensed consolidated interim financial information.

### *Treasury shares*

As at 30 June 2013 and 31 December 2012 subsidiaries of the Group held 145,404,330 and 151,521,030 ordinary shares of the Company, respectively. The Group management controls the voting rights of these shares.

***(in millions of Russian roubles, unless otherwise stated)***

***Earnings per share***

Earnings per share have been calculated by dividing the profit attributable to owners of OJSC 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 7,222,616,297 and 7,218,746,225 weighted average shares outstanding for the three and six months ended 30 June 2013, respectively (for the three and six months ended 30 June 2012 – 7,216,116,045 and 7,216,196,073 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 reverves |
|---|---|---|---|---|---|
| **Balance at 31 December 2011** | **(145)** | **(542)** | **41** | **-** | **(646)** |
| Effect of adoption of IAS 19 Revised (net of tax) | - | - | - | (3,290) | (3,290) |
| **Balance at 1 January 2012** | **(145)** | **(542)** | **41** | **(3,290)** | **(3,936)** |
| Actuarial loss on post employment benefit obligations | - | - | - | (177) | (177) |
| Currency translation differences | (148) | - | - | - | (148) |
| **Balance at 30 June 2012** | **(293)** | **(542)** | **41** | **(3,467)** | **(4,261)** |
| **Balance at 31 December 2012** | **(929)** | **(542)** | **42** | **-** | **(1,429)** |
| Effect of adoption of IAS 19 Revised (net of tax) | - | - | - | (6,286) | (6,286) |
| **Balance at 1 January 2013** | **(929)** | **(542)** | **42** | **(6,286)** | **(7,715)** |
| Actuarial gain on post employment benefit obligations | - | - | - | 1,869 | 1,869 |
| Purchase of non-controlling interest | - | 360 | - | - | 360 |
| Currency translation differences | 678 | - | - | - | 678 |
| **Balance at 30 June 2013** | **(251)** | **(182)** | **42** | **(4,417)** | **(4,808)** |

***Dividends***

On 29 June 2013 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2012 totalling RR'mln 8,175, including dividends on shares held by subsidiaries of the Group totalling RR'mln 158. Dividends per share amounted to RR 1.11.

On 30 June 2012 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2011 totalling RR'mln 7,439, including dividends on shares held by subsidiaries of the Group totalling RR'mln 135. Dividends per share amounted to RR 1.01.

## 10. LONG-TERM DEBT

| | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Bank loans: | | |
| US$ denominated floating rate | 22,405 | 18,224 |
| US$ denominated fixed rate | 6,542 | 6,075 |
| RR denominated fixed rate | 183 | 8 |
| | **29,130** | **24,307** |
| Eurobonds | 49,055 | 45,548 |
| RR denominated non-convertible bonds | 20,614 | 36,000 |
| Finance lease obligation | 850 | 454 |
| Other RR denominated fixed rate loans | 1,855 | 1,822 |
| | **101,504** | **108,131** |
| Less: current portion of long-term debt (see note 11) | (2,575) | (17,774) |
| **Total long-term debt** | **98,929** | **90,357** |

As at 30 June 2013 and at 31 December 2012 there were no long-term loans secured with the assets of the Group.

***(in millions of Russian roubles, unless otherwise stated)***

The average effective interest rates were as follows:

| | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Bank loans: | | |
| US$ denominated floating rate | 4.0% | 4.0% |
| US$ denominated fixed rate | 4.9% | 4.9% |
| RR denominated fixed rate | 10.2% | 14.9% |
| Eurobonds | 8.1% | 8.1% |
| RR denominated non-convertible bonds | 9.0% | 8.6% |
| Finance lease obligation | 11.3% | 7.6% |
| Other RR denominated fixed rate loans | 5.2% | 6.8% |

**Eurobonds**

| | Six months ended | |
|---|---|---|
| | **30 June 2013** | **30 June 2012** |
| **Balance at the beginning of the period** | **45,548** | **48,278** |
| Amortisation of discount | 3 | 3 |
| Exchange losses | 3,504 | 928 |
| **Balance at the end of the period** | **49,055** | **49,209** |

## 11. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

| | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Bank loans: | | |
| US$ denominated floating rate | 16,355 | - |
| US$ denominated fixed rate | 1,471 | 2,582 |
| RR denominated fixed rate | 10,240 | - |
| | **28,066** | **2,582** |
| European commercial paper | 8,775 | 9,138 |
| Other US$ denominated fixed rate loans | - | 9 |
| Other RR denominated fixed rate loans | 3,266 | 2,841 |
| | **40,107** | **14,570** |
| Add: current portion of long-term debt (note 10) | 2,575 | 17,774 |
| **Total short-term debt and current portion of long-term debt** | **42,682** | **32,344** |

The average effective interest rates were as follows:

| | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Banks loans: | | |
| US$ denominated floating rate | 1.2% | - |
| US$ denominated fixed rate | 2.7% | 4.0% |
| RR denominated fixed rate | 11.0% | - |
| European commercial paper | 2.5% | 4.7% |
| Other US$ denominated fixed rate loans | - | 6.1% |
| Other RR denominated fixed rate loans | 6.7% | 1.1% |

As at 30 June 2013 and 31 December 2012 there were no short-term loans secured with the assets of the Group.

## 12. TRADE AND OTHER PAYABLES

| | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Accrual for employee flights and holidays | 6,983 | 6,494 |
| Trade payables | 6,417 | 4,114 |
| Advances from customers | 2,762 | 364 |
| Wages and salaries | 1,960 | 4,142 |
| Current accounts of third parties in MAK Bank LLC | 1,631 | 1,622 |
| Interest payable | 1,116 | 1,313 |
| Payables to associates and joint ventures | 6 | 57 |
| Other payables and accruals | 1,006 | 1,024 |
| **Total trade and other payables** | **21,881** | **19,130** |

***(in millions of Russian roubles, unless otherwise stated)***

## 13. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

| | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Payments to social funds | 1,332 | 1,338 |
| Property tax | 955 | 878 |
| Extraction tax | 873 | 753 |
| Value added tax | 602 | 355 |
| Personal income tax (employees) | 313 | 499 |
| Tax penalties | - | 1 |
| Other taxes and accruals | 146 | 59 |
| **Total taxes payable, other than income tax** | **4,221** | **3,883** |

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

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Property tax | 916 | 841 | 1,845 | 1,660 |
| Other taxes and accruals | 77 | 162 | 217 | 228 |
| **Total taxes other than income tax expense** | **993** | **1,003** | **2,062** | **1,888** |

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 (see note 15).

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

Income tax expense comprises the following:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Current tax expense | 2,731 | 2,263 | 5,318 | 6,017 |
| Adjustments recognised in the period for current tax of prior periods | - | 506 | - | 53 |
| Deferred tax benefit | (129) | (1,468) | (141) | (140) |
| **Total income tax expense** | **2,602** | **1,301** | **5,177** | **5,930** |

## 14. PROVISION FOR PENSION OBLIGATION

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

| | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Present value of funded obligations | 17,466 | 19,175 |
| Fair value of plan assets | (8,671) | (7,188) |
| Deficit of the funded plans | 8,795 | 11,987 |
| Present value of unfunded obligation | 940 | 1,056 |
| **Liability in the condensed consolidated interim statement of financial position** | **9,735** | **13,043** |

***(in millions of Russian roubles, unless otherwise stated)***

The movement in the net defined benefit obligation over three months ended 30 June 2012 and three months ended 30 June 2013 is as follows:

| | Present value of obligation | Fair value of plan assets | Total |
|---|---|---|---|
| **At 31 March 2012** | **15,260** | **(6,329)** | **8,931** |
| Current service cost | 63 | - | 63 |
| Interest expense / (income) | 300 | (124) | 176 |
| | **363** | **(124)** | **239** |
| Remeasurements: | | | |
| Return on plan assets, excluding amount included in interest expense / (income) | - | 125 | 125 |
| | **-** | **125** | **125** |
| Contributions paid by employer | - | (555) | (555) |
| Benefit payments | (53) | 53 | - |
| | **(53)** | **(502)** | **(555)** |
| **As at 30 June 2012** | **15,570** | **(6,830)** | **8,740** |

| | Present value of obligation | Fair value of plan assets | Total |
|---|---|---|---|
| **At 31 March 2013** | **20,373** | **(6,909)** | **13,464** |
| Current service cost | 106 | - | 106 |
| Interest expense / (income) | 361 | (99) | 262 |
| | **467** | **(99)** | **368** |
| Remeasurements: | | | |
| Return on plan assets, excluding amount included in interest expense / (income) | (2,307) | (171) | (2,478) |
| | **(2,307)** | **(171)** | **(2,478)** |
| Contributions paid by employer | - | (1,619) | (1,619) |
| Benefit payments | (127) | 127 | - |
| | **(127)** | **(1,492)** | **(1,619)** |
| **As at 30 June 2013** | **18,406** | **(8,671)** | **9,735** |

The movement in the net defined benefit obligation over six months ended 30 June 2012 and six months ended 30 June 2013 is as follows:

| | Present value of obligation | Fair value of plan assets | Total |
|---|---|---|---|
| **At 1 January 2012** | **15,241** | **(5,987)** | **9,254** |
| Current service cost | 126 | - | 126 |
| Interest expense / (income) | 610 | (248) | 362 |
| | **736** | **(248)** | **488** |
| Remeasurements: | | | |
| Return on plan assets, excluding amount included in interest expense / (income) | - | 221 | 221 |
| | | **221** | **221** |
| Contributions paid by employer | - | (1,223) | (1,223) |
| Benefit payments | (407) | 407 | - |
| | **(407)** | **(816)** | **(1,223)** |
| **As at 30 June 2012** | **15,570** | **(6,830)** | **8,740** |

***(in millions of Russian roubles, unless otherwise stated)***

| | Present value of obligation | Fair value of plan assets | Total |
|---|---|---|---|
| **At 1 January 2013** | **20,231** | **(7,188)** | **13,043** |
| Current service cost | 213 | - | 213 |
| Interest expense / (income) | 718 | (255) | 463 |
| | **931** | **(255)** | **676** |
| Remeasurements: | | | |
| Return on plan assets, excluding amount included in interest expense / (income) | - | (30) | (30) |
| Gain from change in financial assumptions | (2,307) | - | (2,307) |
| | **(2,307)** | **(30)** | **(2,337)** |
| Contributions paid by employer | - | (1,647) | (1,647) |
| Benefit payments | (449) | 449 | - |
| | **(449)** | **(1,198)** | **(1,647)** |
| **As at 30 June 2013** | **18,406** | **(8,671)** | **9,735** |

The significant actuarial assumptions are as follows:

| | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Discount rate (nominal) | 8.0% | 7.1% |
| Future salary increases (nominal) | 7.0% | 7.0% |
| Future pension increases (nominal) | 5.5% | 5.5% |

## 15. REVENUE

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Revenue from diamond sales: | | | | |
| Export | 32,920 | 25,686 | 63,060 | 52,785 |
| Domestic | 4,690 | 9,709 | 10,523 | 16,864 |
| Revenue from diamonds for resale | 96 | 592 | 383 | 870 |
| **Total revenue from diamond sales** | **37,706** | **35,987** | **73,966** | **70,519** |
| Other revenue: | | | | |
| Transport | 1,305 | 1,351 | 2,050 | 2,290 |
| Social infrastructure | 707 | 560 | 1,489 | 1,402 |
| Trading | 729 | 387 | 787 | 493 |
| Construction | 127 | 94 | 155 | 141 |
| Other | 2,196 | 950 | 3,782 | 1,684 |
| **Total revenue** | **42,770** | **39,329** | **82,229** | **76,529** |

Export duties totalling RR'mln 2,192 and RR'mln 4,224 for the three and six months ended 30 June 2013, respectively (three and six months ended 30 June 2012: RR'mln 1,728 and RR'mln 3,495, respectively) were netted against revenue from diamond export sales.

## 16. COST OF SALES

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Wages, salaries and other staff costs | 8,389 | 6,552 | 16,031 | 14,590 |
| Depreciation | 3,548 | 3,043 | 6,759 | 6,806 |
| Fuel and energy | 3,103 | 2,493 | 6,278 | 4,964 |
| Extraction tax | 2,488 | 1,940 | 4,919 | 4,216 |
| Materials | 2,912 | 1,627 | 3,947 | 3,050 |
| Services | 523 | 1,090 | 1,173 | 1,971 |
| Transport | 590 | 456 | 1,050 | 929 |
| Cost of diamonds for resale | 16 | 572 | 283 | 839 |
| Impairment of inventories | 9 | 243 | 111 | 250 |
| Other | 24 | 62 | 31 | 163 |
| Movement in inventory of diamonds, ores and concentrates | (1,896) | (2,198) | (941) | (3,989) |
| **Total cost of sales** | **19,706** | **15,880** | **39,641** | **33,789** |

*(in millions of Russian roubles, unless otherwise stated)*

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 1,907 and RR'mln 3,578 for the three and six months ended 30 June 2013, respectively (for the three and six months ended 30 June 2012 in the amount of RR'mln 1,486 and RR'mln 2,870, respectively).

Depreciation totalling RR'mln 212 and RR'mln 737 for the three and six months ended 30 June 2013, respectively (for the three and six months ended 30 June 2012: RR'mln 378 and RR'mln 733, respectively) and wages,salaries and other staff costs totalling RR'mln 556 and RR'mln 1,264 for the three and six months ended 30 June 2013, respectively (for the three and six months ended 30 June 2012: RR'mln 704 and RR'mln 1,484, respectively) were incurred by the Group's construction divisions and were capitalised in the respective periods.

## 17. GENERAL AND ADMINISTRATIVE EXPENSES

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Services and other administrative expenses | 1,156 | 1,103 | 2,036 | 1,585 |
| Wages, salaries and other staff costs | 959 | 1,418 | 1,944 | 2,390 |
| Impairment of accounts receivable | 173 | 39 | 213 | 187 |
| **Total general and administrative expenses** | **2,288** | **2,560** | **4,193** | **4,162** |

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 154 and RR'mln 309 for the three and six months ended 30 June 2013, respectively (for the three and six months ended 30 June 2012 in the amount of RR'mln 107 and RR'mln 247, respectively).

## 18. SELLING AND MARKETING EXPENSES

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Wages, salaries and other staff costs | 287 | 352 | 583 | 665 |
| Services and other selling and marketing expenses | 185 | 152 | 557 | 297 |
| **Total selling and marketing expenses** | **472** | **504** | **1,140** | **962** |

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 69 and RR'mln 141 for the three and six months ended 30 June 2013, respectively (for the three and six months ended 30 June 2012 in the amount of RR'mln 62 and RR'mln 121, respectively).

## 19. OTHER OPERATING INCOME

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Gain on disposal of OJSC MMC Timir (note 4.3) | 2,552 | - | 2,552 | - |
| Negative goodwill on acquisition of the Gas companies (note 4.1) | - | - | - | 1,995 |
| Other | 288 | 415 | 601 | 520 |
| **Total other operating income** | **2,840** | **415** | **3,153** | **2,515** |

## 20. OTHER OPERATING EXPENSES

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Exploration expenses | 1,560 | 1,398 | 4,045 | 3,514 |
| Social costs | 1,021 | 1,640 | 1,689 | 3,030 |
| Taxes other than income tax, extraction tax and payments to social funds (note 13) | 993 | 1,003 | 2,062 | 1,888 |
| Loss / (gain) on disposal of property, plant and equipment | (35) | 18 | 540 | 219 |
| Other | 851 | 180 | 1,031 | 381 |
| **Total other operating expenses** | **4,390** | **4,239** | **9,367** | **9,032** |

***(in millions of Russian roubles, unless otherwise stated)***

**Social costs consist of:**

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Maintenance of local infrastructure | 404 | 640 | 709 | 1,311 |
| Charity | 442 | 848 | 687 | 1,477 |
| Hospital expenses | 55 | 41 | 70 | 74 |
| Education | 25 | 35 | 44 | 37 |
| Other | 95 | 76 | 179 | 131 |
| **Total social costs** | **1,021** | **1,640** | **1,689** | **3,030** |

## 21. FINANCE INCOME

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Interest income | 6 | 101 | 104 | 142 |
| Exchange gains | 546 | 2,355 | 443 | 1,427 |
| **Total finance income** | **552** | **2,456** | **547** | **1,569** |

## 22. FINANCE COSTS

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Interest expense: | | | | |
| Eurobonds | 949 | 942 | 1,877 | 1,838 |
| RR denominated non-convertible bonds | 728 | 540 | 1,485 | 1,088 |
| Bank loans | 546 | 332 | 976 | 547 |
| European commercial paper | 45 | 405 | 142 | 451 |
| Other | 79 | 8 | 145 | 45 |
| Unwinding of discount of future provisions | 88 | 10 | 143 | 23 |
| Exchange losses | 5,715 | 11,770 | 6,815 | 6,496 |
| **Total finance costs** | **8,150** | **14,007** | **11,583** | **10,488** |

## 23. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash flows from operations:

| | **Six months ended 30 June 2013** | **Six months ended 30 June 2012** |
|---|---|---|
| Profit before income tax | 19,793 | 22,121 |
| Adjustments for: | | |
| Share of net profit of associates and joint ventures (note 4) | (393) | (546) |
| Interest income (note 21) | (104) | (142) |
| Interest expense (note 22) | 5,231 | 3,992 |
| Loss on disposal of property, plant and equipment (note 20) | 540 | 219 |
| Negative goodwill on acquisition of the Gas companies (note 19) | - | (1,995) |
| Depreciation (note 16) | 6,915 | 6,806 |
| Gain on disposal of OJSC MMC Timir (note 19) | (2,552) | - |
| Adjustment for inventory used in construction | (670) | (1,106) |
| Payments to restricted cash account | (62) | (74) |
| Unrealised foreign exchange effect on non-operating items | 6,248 | 5,255 |
| Net operating cash flows before changes in working capital | 34,946 | 34,530 |
| Net increase in inventories | (1,024) | (5,024) |
| Net increase in receivables, excluding dividends receivable and consideration receivable for disposed controlling interest in OJSC MMC Timir | (2,253) | (6,463) |
| Net decrease in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment | (1,665) | (996) |
| Net increase in taxes payable, excluding income tax | 250 | 1,213 |
| **Cash inflows from operating activity** | **30,254** | **23,260** |
| Income tax paid | (6,225) | (6,841) |
| **Net cash inflows from operating activities** | **24,029** | **16,419** |

## 24. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

### (a) Operating environment of the Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors.

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

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new 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 new transfer pricing legislation.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group’s transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and / or the overall operations of the Group.

As at 30 June 2013 and 31 December 2012 the Group had tax contingencies. These contingencies are estimates that result from uncertainties in interpretation of applicable legislation concerning deduction of certain expenses for income tax purposes and reimbursement of the related input VAT. Management is not able to reliably estimate the range of possible outcomes, but believes that under certain circumstances the magnitude of these tax contingencies may be significant for the Group. Management of the Group believes that the exposure in respect of these tax risks is not probable, therefore as at 30 June 2013 and 31 December 2012 no provision for tax liabilities had been recorded.

### (c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 30 June 2013.

### (d) Insurance

The Group is assessing its policies for insuring assets and operations. At present, apart from the full insurance of movements of diamond inventory from the production location to the customers, very few assets and operations of the Group are insured and, in the instances where assets are insured, the amounts generally are not sufficient to cover all costs associated with replacing the assets.

### (e) Capital commitments

As at 30 June 2013 the Group has contractual commitments for capital expenditures of RR’mln 5,343 (31 December 2012: RR’mln 7,602).

### (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. The Group recognised a provision for these future expenses in the amount of RR'mln 2,398 as at 30 June 2013 (RR'mln 2,416 as at 31 December 2012).

***(in millions of Russian roubles, unless otherwise stated)***

## 25. RELATED PARTY TRANSACTIONS

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

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

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

Governments of the Russian Federation and the Republic of Sakha (Yakutia) are the ultimate controlling parties of the Company. As at 30 June 2013 83.0 per cent. of the Company's issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Also as at 30 June 2013 8.0 per cent. of the Company's shares were owned by administrations or 8 districts of the Republic of Sakha (Yakutia). Following the General Meeting of Shareholders in June 2012, the 15 seats on the Supervisory Council include 12 representatives of the Russian Federation and the Republic of Sakha (Yakutia), including 4 independent directors nominated by the Government of the Russian Federation, 2 management representatives and 1 representative of districts of the Republic of Sakha (Yakutia). Governmental, federal and local economic and social policies affect the Group's financial position, results of operations and cash flows.

Tax balances are disclosed in the condensed consolidated interim statement of financial position and in notes 8 and 13. Tax transactions are disclosed in the condensed consolidated interim statement of profit and loss and other comprehensive income, the condensed consolidated interim statement of cash flows and in notes 13, 15, 16 and 23.

### *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.

As at 30 June 2013 the accounts payable to the parties under Governmental control totalled RR'mln 468 (31 December 2012: RR'mln 1,239). As at 30 June 2013 the accounts receivable from the parties under Governmental control (excluding loans issued) totalled RR'mln 984 (31 December 2012: RR'mln 1,832). As at 30 June 2013 and 31 December 2012 the accounts receivable from the parties under Governmental control and accounts payable to the parties under Governmental control were non-interest bearing, had a maturity within one year and were denominated in Russian Roubles.

During the three and six months ended 30 June 2013 and 30 June 2012 the Group had the following significant transactions with the parties under Governmental control:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Sales of diamonds | 2,079 | 5,432 | 3,982 | 9,258 |
| Electricity and heating expenses | 600 | 1,273 | 2,125 | 2,329 |
| Other sales | 1,103 | 745 | 2,219 | 1,300 |
| Other purchases | 1,474 | 388 | 1,845 | 668 |

As at 30 June 2013 and 31 December 2012 the Group has no contractual commitments to sell goods or services to the parties under control of the Government. As at 30 June 2013 the Group has contractual commitments to purchase goods and services from the parties under control of the Government in the amount of approximately RR'mln 2,151 (31 December 2012: RR'mln 4,290).

As at 30 June 2013 the amount of loans received by the Group from the entities under Governmental control totalled RR'mln 22,966 (31 December 2012: RR'mln 20,806). During the three and six months ended 30 June 2013 interest expense accrued in respect to the loans received by the Group from the entities under Governmental control totalled RR'mln 218 and RR'mln 440, respectively (three and six months ended 30 June 2012: RR'mln 113 and RR'mln 356, respectively).

***(in millions of Russian roubles, unless otherwise stated)***

As at 30 June 2013 the amount of loans issued by the Group to the entities under Governmental control totalled RR'mln 745 (31 December 2012: RR'mln 1,256). During the three and six months ended 30 June 2013 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR'mln 15 and RR'mln 37, respectively (three and six months ended 30 June 2012: RR'mln 29 and RR'mln 57, respectively).

Acquisitions of Gas companies from the entities affiliated with OJSC Bank VTB and OJSC Nizhne-Lenskoe from the Government of Republic of Sakha (Yakutia) are disclosed in note 4.

***Key management compensation***

The Supervisory Council of the Company consists of 15 members, including state and management representatives. 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. Representatives of management in the Supervisory Council of the Company are entitled to compensation for serving as members of the Management Board of the Company.

Before 25 April 2013 the Management Board consisted of 20 members. On 25 April 2013 the Company's Supervisory Council made a decision to reduce the number of Management Board members to 13. As at 30 June 2013 and 31 December 2012 two of the Management Board members are also members of the Supervisory Council. Management Board members are entitled to salary, bonuses, voluntary medical insurance and other short-term employee benefits. Salary and bonus compensation paid to members of the Management Board is determined by the terms of "Remuneration Policy for the members of the Management Board" approved by the Company's Supervisory Council on 18 March 2012.

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the Non-state pension fund Almaznaya Osen and a one-time payment from the Group at their retirement date.

Key management received short-term benefits for the three and six months ended 30 June 2013 totalling RR'mln 396 and RR' mln 519, respectively (three and six months ended 30 June 2012: RR'mln 504 and RR' mln 632, respectively).

***Associates and joint ventures***

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

| **Long-term accounts receivable** | **30 June 2013** | **31 December 2012** |
|---|---|---|
| OJSC MMC Timir, loans issued (note 4.3) | 284 | - |
| **Total long-term accounts receivable** | **284** | **-** |

| **Current accounts receivable** | **30 June 2013** | **31 December 2012** |
|---|---|---|
| Catoca, dividends receivable | 1,483 | 403 |
| OJSC MMC Timir, loans issued (note 4.3) | 838 | - |
| Other | 40 | 8 |
| **Total current accounts receivable** | **2,361** | **411** |

In May 2013 Catoca declared dividends for the year ended 31 December 2012; the Group's share of these dividends amounted to RR'mln 1,216. In May 2012 Catoca declared dividends for the year ended 31 December 2011; the Group's share of these dividends amounted to RR'mln 1,244. During the six months year ended 30 June 2013 Catoca paid dividends for the Group in cash in the amount of RR'mln 317. During the six months 30 June 2012 Catoca did not pay any dividends. The Group recognised exchange gain related to dividends receivable from Catoca in the amount of RR'mln 56 for the six months ended 30 June 2013 (for the six months ended 30 June 2012 in the amount of RR'mln 128).

As at 30 June 2013 and 31 December 2012 the Group has no any contractual commitments to sell or purchase goods and services to / from its associates and joint ventures.

## 26. SEGMENT INFORMATION

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

The Group's primary activity is the 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.

***(in millions of Russian roubles, unless otherwise stated)***

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 and loss is analysed by the CODM on entity by entity basis. 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 and joint ventures;
- 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;
- Social infrastructure;
- Construction activity;
- Trading;
- Electricity production; and
- Other activities.

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

| **Three months ended 30 June 2013** | **Diamonds segment** | **Transpor-tation** | **Social infrastructure** | **Construction activity** | **Trading** | **Electricity production** | **Other activities** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Revenue | 39,898 | 2,281 | 701 | 1,160 | 730 | 700 | 2,126 | 47,596 |
| Intersegment revenue | - | (976) | (4) | (1,033) | - | (581) | (660) | (3,254) |
| Cost of sales, incl. | 13,140 | 2,393 | 1,232 | 1,208 | 53 | 494 | 1,879 | 20,399 |
| depreciation | 2,714 | 147 | 10 | 52 | 1 | 150 | 350 | 3,424 |
| **Gross margin** | **26,758** | **(112)** | **(531)** | **(48)** | **677** | **206** | **247** | **27,197** |
| **Three months ended 30 June 2012** | | | | | | | | |
| Revenue | 37,714 | 1,427 | 560 | 94 | 454 | 480 | 1,346 | 42,075 |
| Intersegment revenue | - | (75) | - | - | (66) | (383) | (384) | (908) |
| Cost of sales, incl. | 10,133 | 1,511 | 2,026 | 61 | 85 | 423 | 449 | 14,688 |
| depreciation | 2,344 | 124 | 121 | 27 | 1 | 127 | 108 | 2,852 |
| **Gross margin** | **27,581** | **(84)** | **(1,466)** | **33** | **369** | **57** | **897** | **27,387** |
| **Six months ended 30 June 2013** | | | | | | | | |
| Revenue | 78,190 | 3,254 | 1,504 | 1,702 | 787 | 1,752 | 4,754 | 91,943 |
| Intersegment revenue | - | (1,204) | (25) | (1,547) | - | (1,497) | (1,572) | (5,845) |
| Cost of sales, incl. | 27,145 | 3,805 | 2,533 | 1,761 | 63 | 1,104 | 3,432 | 39,843 |
| depreciation | 5,131 | 288 | 20 | 100 | 1 | 249 | 593 | 6,382 |
| **Gross margin** | **51,045** | **(551)** | **(1,029)** | **(59)** | **724** | **648** | **1,322** | **52,100** |
| **Six months ended 30 June 2012** | | | | | | | | |
| Revenue | 74,015 | 2,365 | 1,402 | 141 | 637 | 1,292 | 2,079 | 81,931 |
| Intersegment revenue | - | (75) | - | - | (144) | (1,069) | (592) | (1,880) |
| Cost of sales, incl. | 20,922 | 2,869 | 3,612 | 115 | 184 | 940 | 1,664 | 30,306 |
| depreciation | 4,615 | 248 | 240 | 48 | 3 | 254 | 179 | 5,587 |
| **Gross margin** | **53,093** | **(504)** | **(2,210)** | **26** | **453** | **352** | **415** | **51,625** |

***(in millions of Russian roubles, unless otherwise stated)***

Reconciliation of revenue is presented below:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| **Segment revenue** | **47,596** | **42,075** | **91,943** | **81,931** |
| Elimination of intersegment revenue | (3,254) | (908) | (5,845) | (1,880) |
| Reclassification of export duties [1] | (2,192) | (1,728) | (4,224) | (3,495) |
| Other adjustments and reclassifications | 620 | (110) | 355 | (27) |
| **Revenue as per statement of profit and loss and other comprehensive income** | **42,770** | **39,329** | **82,229** | **76,529** |

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

Reconciliation of cost of sales including depreciation is presented below:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| **Segment cost of sales** | **20,399** | **14,687** | **39,843** | **30,306** |
| Adjustment for depreciation of property, plant and equipment [1] | 124 | 191 | 377 | 1,219 |
| Elimination of intersegment purchases | (3,254) | (908) | (5,845) | (1,880) |
| Accrued provision for pension obligation [2] | (1,336) | (210) | (1,265) | (514) |
| Reclassification of extraction tax [3] | 2,853 | 1,792 | 5,127 | 3,769 |
| Adjustment for inventories [4] | 1,709 | 202 | 2,954 | 599 |
| Accrual for employee flights and holidays [5] | (57) | (338) | 76 | 64 |
| Other adjustments | (102) | 17 | 160 | 34 |
| Reclassification of exploration expenses [6] | (682) | (197) | (1,017) | (954) |
| Other reclassifications | 52 | 644 | (769) | 1,146 |
| **Cost of sales as per statement of profit and loss and other comprehensive income** | **19,706** | **15,880** | **39,641** | **33,789** |

[1] Adjustment for depreciation - adjustment of depreciation figure recognised in statutory financial statements which is different from that in IFRS financial statements due to the differences in book values of property, plant and equipment and methods of depreciation calculation
[2] Accrued provision for pension obligation – recognition of pension obligation in accordance with IAS 19
[3] Reclassification of extraction tax – reclassification from general and administrative expenses
[4] Adjustment for inventories – treatment of extraction tax as direct expenses for financial statements prepared under IFRS, with a corresponding record in inventory figure and other adjustments
[5] Accrual for employee flights and holidays – recognition of employee flights and holidays reserve under collective labour agreement of the Company
[6] Reclassification of exploration expenses – reclassification to other operating expenses

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

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| Belgium | 19,696 | 15,682 | 39,174 | 32,653 |
| Russian Federation | 9,713 | 13,665 | 18,852 | 23,610 |
| India | 6,159 | 5,380 | 11,765 | 11,085 |
| Israel | 4,411 | 2,581 | 7,241 | 4,973 |
| China | 1,210 | 668 | 2,128 | 1,554 |
| United Arab Emirates | 1,154 | 778 | 1,874 | 1,458 |
| Angola | 116 | - | 248 | 123 |
| Armenia | 124 | 95 | 222 | 219 |
| Belarus | 4 | 203 | 181 | 389 |
| Other countries | 183 | 277 | 544 | 465 |
| **Total revenue** | **42,770** | **39,329** | **82,229** | **76,529** |

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

| | **30 June 2013** | **31 December 2012** |
|---|---|---|
| Russian Federation | 199,957 | 225,755 |
| Angola | 2,491 | 2,351 |
| Other countries | 287 | 273 |
| **Total non-current assets (other than financial instruments)** | **202,735** | **228,379** |

***(in millions of Russian roubles, unless otherwise stated)***

## 27. FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows: quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1), inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2), inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

As at 30 June 2013 the Group had the following assets and liabilities that are measured at fair value:

| | 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 |
|---|---|---|---|---|
| **Available-for-sale investments** | | | | |
| Equity securities | - | - | 313 | 313 |
| **Total assets** | **-** | **-** | **313** | **313** |
| **Long-term debt** | | | | |
| Loans from banks | - | 29,130 | - | 29,130 |
| Eurobonds | 49,055 | - | - | 49,055 |
| RR denominated non-convertible bonds | 20,614 | - | | 20,614 |
| **Total non-current liabilities** | **69,669** | **29,130** | **-** | **98,799** |
| **Short-term debt** | | | | |
| Loans from banks | - | 28,066 | - | 28,066 |
| European commercial paper | 8,775 | - | - | 8,775 |
| Finance lease obligation | - | - | 850 | 850 |
| RR denominated fixed rate loans | - | 5,121 | - | 5,121 |
| **Total current liabilities** | **8,775** | **33,187** | **850** | **42,812** |
| **Total liabilities** | **78,444** | **62,317** | **850** | **141,611** |

As at 31 December 2012 the Group had the following assets and liabilities that are measured at fair value:

| | 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 |
|---|---|---|---|---|
| **Available-for-sale investments** | | | | |
| Equity securities | - | - | 104 | 104 |
| **Total assets** | **-** | **-** | **104** | **104** |
| **Long-term debt** | | | | |
| Loans from banks | - | 24,307 | - | 24,307 |
| Eurobonds | 45,548 | - | - | 45,548 |
| RR denominated non-convertible bonds | 36,000 | - | - | 36,000 |
| **Total non-current liabilities** | **81,548** | **24,307** | **-** | **105,855** |
| **Short-term debt** | | | | |
| Loans from banks | - | 2,582 | - | 2,582 |
| European commercial paper | 9,138 | - | - | 9,138 |
| Finance lease obligation | - | - | 454 | 454 |
| RR denominated fixed rate loans | - | 4,672 | - | 4,672 |
| **Total current liabilities** | **9,138** | **7,254** | **454** | **16,846** |
| **Total liabilities** | **90,686** | **31,561** | **454** | **122,701** |

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