

OJSC ALROSA

INTERNATIONAL ACCOUNTING STANDARD No. 34

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION FOR THE SIX MONTHS
ENDED 30 JUNE 2014 AND REVIEW REPORT**



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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 2014, and the related condensed consolidated interim statements of profit or loss and other comprehensive income for the three month and six month periods then ended and cash flows and 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

29 August 2014
Moscow, Russian Federation



CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Notes	30 June 2014	31 December 2013
Assets			
Non-current Assets			
Goodwill		1,439	1,439
Property, plant and equipment	6	262,669	215,277
Investments in associates and joint ventures	4	4,034	4,558
Available-for-sale investments		241	243
Long-term accounts receivable	8	4,658	3,436
Restricted cash		123	249
Total Non-current Assets		273,164	225,202
Current Assets			
Inventories	7	57,938	60,611
Prepaid income tax		582	106
Current accounts receivable	8	17,072	16,067
Cash and cash equivalents	5	31,406	9,270
Assets of disposal group classified as held for sale	4.1	-	43,615
Total Current Assets		106,998	129,669
Total Assets		380,162	354,871
Equity			
Share capital	9	12,473	12,473
Share premium		10,431	10,431
Treasury shares	9	(7)	(5)
Retained earnings and other reserves	9	149,495	136,901
Equity attributable to owners of OJSC ALROSA		172,392	159,800
Non-Controlling Interest in Subsidiaries		33	(339)
Total Equity		172,425	159,461
Liabilities			
Non-current Liabilities			
Long-term debt	10	115,593	82,296
Provision for pension obligations	14	11,114	12,157
Other provisions		3,935	3,968
Deferred tax liabilities		7,552	3,282
Total Non-current Liabilities		138,194	101,703
Current Liabilities			
Short-term debt and current portion of long-term debt	11	28,489	56,295
Trade and other payables	12	22,764	24,001
Income tax payable		2,961	1,776
Other taxes payable	13	4,461	4,758
Dividends payable	9	10,868	461
Liabilities of disposal group classified as held for sale	4.1	-	6,416
Total Current Liabilities		69,543	93,707
Total Liabilities		207,737	195,410
Total Equity and Liabilities		380,162	354,871

Signed on 29 August 2014 by the following members of management:

Fedor B. Andreev
President



Elena L. Timonina
Chief accountant



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

	Notes	Three months ended		Six months ended	
		30 June 2014	30 June 2013	30 June 2014	30 June 2013
Revenue	15	47,939	42,770	104,789	82,229
Cost of sales	16	(22,181)	(19,276)	(50,087)	(39,211)
Royalty	13	(303)	(303)	(605)	(605)
Gross profit		25,455	23,191	54,097	42,413
General and administrative expenses	17	(2,969)	(2,718)	(4,963)	(4,623)
Selling and marketing expenses	18	(713)	(472)	(1,356)	(1,140)
Other operating income	19	253	2,840	366	3,153
Other operating expenses	20	(4,629)	(4,390)	(8,923)	(9,367)
Operating profit		17,397	18,451	39,221	30,436
Finance (costs)/income, net	21	4,637	(7,598)	(7,710)	(11,036)
Share of net profit of associates and joint ventures	4	302	107	593	393
Profit before income tax		22,336	10,960	32,104	19,793
Income tax	13	(5,202)	(2,602)	(8,987)	(5,177)
Profit for the period		17,134	8,358	23,117	14,616
Other comprehensive income					
<i>Items that will not be reclassified to profit or loss:</i>					
Remeasurement of post-employment benefit obligations, net of tax	9	(1,170)	1,982	670	1,869
Total items that will not be reclassified to profit or loss		(1,170)	1,982	670	1,869
<i>Items that will be reclassified to profit or loss:</i>					
Currency translation differences, net of tax	9	(138)	1,583	212	678
Total items that will be reclassified to profit or loss		(138)	1,583	212	678
Other comprehensive income/(loss) for the period		(1,308)	3,565	882	2,547
Total comprehensive income for the period		15,826	11,923	23,999	17,163
Profit attributable to:					
Owners of OJSC ALROSA		16,963	7,993	22,567	14,087
Non-controlling interest		171	365	550	529
Profit for the period		17,134	8,358	23,117	14,616
Total comprehensive income attributable to:					
Owners of OJSC ALROSA		15,655	11,558	23,449	16,634
Non-controlling interest		171	365	550	529
Total comprehensive income for the period		15,826	11,923	23,999	17,163
Basic and diluted earnings per share for profit attributable to the owners of OJSC ALROSA (in Roubles)	9	2.31	1.11	3.07	1.95

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
(UNAUDITED)**

	Notes	Six months ended	
		30 June 2014	30 June 2013
Net Cash Inflow from Operating Activities	22	35,587	24,029
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(15,027)	(14,928)
Proceeds from sales of property, plant and equipment		479	66
Interest received	21	451	104
Proceeds from sale of available-for-sale investments		14	-
Dividends received from associates and joint ventures		666	317
Net proceeds from disposal of subsidiaries	4,3,4,4	1,585	623
Reclassification to assets held for sale		-	(99)
Acquisition of OJSC Nizhne-Lenskoe, net of cash acquired	4.2	-	(3,661)
Net Cash Outflow from Investing Activities		(11,832)	(17,578)
Cash Flows from Financing Activities			
Repayments of loans		(82,960)	(32,708)
Loans received		84,991	41,401
(Purchase)/sale of treasury shares		(39)	185
Acquisition of non-controlling interest in OJSC Nizhne-Lenskoe	4.2	-	(3,330)
Proceeds from sale of non-controlling interest in subsidiary		-	256
Interest paid		(4,211)	(4,912)
Dividends paid		(587)	(803)
Net Cash (Outflow)/Inflow from Financing Activities		(2,806)	89
Net Increase in Cash and Cash Equivalents		20,949	6,540
Cash and cash equivalents at the beginning of the period*		10,408	6,242
Exchange gains on cash and cash equivalents		49	62
Cash and Cash Equivalents at the End of the Period	5	31,406	12,844

* including cash and cash equivalents included within Assets of disposal group classified as held for sale.


OJSC ALROSA
Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014
(in millions of Russian roubles, unless otherwise stated)
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)**

	Number of shares outstanding	Attributable to owners of OJSC ALROSA						Non- controlling interest	Total equity
		Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total		
Balance at 1 January 2013	7,213,444,600	12,473	10,431	(254)	(8,651)	117,014	131,013	(448)	130,565
Comprehensive income									
Profit for the period		-	-	-	-	14,087	14,087	529	14,616
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)		-	-	-	-	(8,013)	(8,013)	-	(8,013)
Acquisition of OJSC Nizhne-Lenskoe (Note 4.2)		-	-	-	-	-	-	3,526	3,526
Purchase of non-controlling interest		-	-	-	360	-	360	(3,424)	(3,064)
Sale of own shares	6,116,700	-	-	11	-	174	185	-	185
Dividends paid to the owners of non-controlling interest		-	-	-	-	-	-	(404)	(404)
Total transactions with owners	6,116,700	-	-	11	360	(7,839)	(7,468)	(302)	(7,770)
Balance at 30 June 2013	7,219,561,300	12,473	10,431	(243)	(5,744)	123,262	140,179	(221)	139,958
Balance at 1 January 2014	7,360,112,830	12,473	10,431	(5)	(7,241)	144,142	159,800	(339)	159,461
Comprehensive income									
Profit for the period		-	-	-	-	22,567	22,567	550	23,117
Other comprehensive income		-	-	-	882	-	882	-	882
Total comprehensive income for the period		-	-	-	882	22,567	23,449	550	23,999
Transactions with owners									
Dividends (Note 9)		-	-	-	-	(10,818)	(10,818)	-	(10,818)
Purchase of own shares	(1,266,400)	-	-	(2)	-	(37)	(39)	-	(39)
Dividends paid to the owners of non-controlling interest		-	-	-	-	-	-	(178)	(178)
Total transactions with owners	(1,266,400)	-	-	(2)	-	(10,855)	(10,857)	(178)	(11,035)
Balance at 30 June 2014	7,358,846,430	12,473	10,431	(7)	(6,359)	155,854	172,392	33	172,425



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 in the Republic of Sakha (Yakutia), which is located within the Russian Federation.

The Group operates mining facilities in Mirny, Udachny, Aikhal, Nyurba and Anabar (located in Eastern Siberia) and Arkhangelsk. Licenses for the Group’s major diamond deposits expire between 2015 and 2031. Management believes the Group will be able to extend the licenses’ terms after they expire.

As at 30 June 2014 and 31 December 2013 Company’s principal shareholders are the governments of the Russian Federation (43.9 per cent. of shares) and the Republic of Sakha (Yakutia) (25.0 per cent. of shares).

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

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

2. BASIS OF PRESENTATION

The condensed consolidated interim financial 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 2013 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 33.63 and 32.73 as at 30 June 2014 and 31 December 2013, 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 2013 with the exception of income tax expense, which is recognised based on management's best estimate of the annual effective income tax rate expected for the full financial year.

New accounting developments

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2014:

- IFRIC 21 – Levies (issued on 20 May 2013 and effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning on or after 1 January 2014);
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 36 – Recoverable amount disclosures for non-financial assets (issued on 29 May 2013 and effective for annual periods beginning on or after 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period);
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting (issued on 27 June 2013 and effective for annual periods beginning on or after 1 January 2014).

These standards, amendments to standards and interpretations did not have a material impact on this condensed consolidated interim financial information.

Certain new standards, interpretations and amendments to standards and interpretations, as disclosed in the consolidated financial statements for the year ended 31 December 2013, have been issued but are not yet effective and have not been early adopted by the Group. The Group is currently considering the implications of these new accounting pronouncements, their impact on its consolidated financial statements and the timing of their adoption.

4. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

Name	Principal activity	Country of Incorporation	Notes	Percentage of ownership interest held	
				30 June 2014	31 December 2013
ALROSA Finance S.A.	Financial services	Luxembourg		100.0	100.0
Sunland Trading S.A.	Diamonds trading	Switzerland		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	100.0
OJSC Vilyuyskaya 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	87.6
MAK Bank LLC	Banking activity	Russia		84.7	84.7
Hydroshikapa S.A.R.L.	Electricity production	Angola		55.0	55.0
CJSC Irelyakhneft	Oil production	Russia	4.4	-	100.0

**4. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)**

As at 30 June 2014 and 31 December 2013 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.

On 27 September 2013, the Group signed an agreement with Rosneft Oil Company and certain of its affiliates (together “Rosneft”) for the sale of the CJSC Geotransgaz and Urengoy Gaz Company Ltd. (the “Gas companies”) to Rosneft for an aggregate sale price of approximately US\$’bln 1.38. Disposal of the Gas companies was expected to be completed by 30 April 2014.

Following the conclusion of this agreement and approval of the decision to dispose the Gas companies by the Company’s Supervisory Council as at 31 December 2013 the assets and liabilities related to the Gas companies have been presented as held for sale. However, the transaction was not completed due to inability of the parties to fulfil the terms of the existing agreement, accordingly as at 30 June 2014 the assets and liabilities related to the Gas companies are no longer presented as assets and liabilities held for sale as management does not believe that their disposal within twelve months after the reporting date is probable.

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 were as follows:

Property, plant and equipment	12,726
Inventories	2,707
Available-for-sale investments	25
Investments in associates	423
Trade and other receivables	635
Cash	9
Deferred tax liability	(1,765)
Borrowings	(3,958)
Trade and other payables	(3,606)
Fair value of acquired net assets	7,196
Non-controlling interest measured as proportionate share of acquired net assets	(3,526)
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.

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 consideration of RR’mln 6,001. Consideration receivable included cash consideration of RR’mln 4,950 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.

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

**OJSC ALROSA****Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014***(in millions of Russian roubles, unless otherwise stated)***4. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)****4.3. Disposal of controlling interest in OJSC MMC Timir (continued)**

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

4.4. Disposal of CJSC Irelyakhneft

In June 2014 the Group sold a 100 per cent interest in CJSC Irelyakhneft for a total cash consideration of RR'mln 1,600.

As a result of the transaction the Group lost an ability to control financial and operating activity of OJSC Irelyakhneft. The details of assets and liabilities related to OJSC Irelyakhneft at the date of disposal were as follows:

Property, plant and equipment	1,324
Inventories	90
Trade and other receivables	381
Cash	15
Trade and other payables	(352)
Net assets at the date of disposal	1,458
Consideration receivable	1,600
Gain on disposal	142

4.5 Associates and joint ventures

Name	Country of incorporation	Percentage of ownership interest held		Carrying value of investment	
		30 June 2014	31 December 2013	30 June 2014	31 December 2013
OJSC MMC Timir (Note 4.3)	Russia	49.0	49.0	2,162	2,190
Catoca Mining Company Ltd.	Angola	32.8	32.8	1,266	1,704
Other	Russia	20-50	20-50	606	664
Total carrying value of investment				4,034	4,558

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

As at 30 June 2014 and 31 December 2013 the percentage of ownership interest of the Group in its associates is equal to the percentage of voting interest.



OJSC ALROSA

Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014

(in millions of Russian roubles, unless otherwise stated)

4. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

4.5 Associates and joint ventures (continued)

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

	Three months ended		Six months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Catoca Mining Company Ltd.	316	134	619	408
OJSC MMC Timir	(15)	(16)	(28)	(16)
Other	1	(11)	2	1
Total Group's share of net profit of associates and joint ventures	302	107	593	393

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

In May 2014 Catoca declared dividends for the year ended 31 December 2013; the Group's share of these dividends amounted to RR'mln 1,139 before taxation in the amount of RR'mln 114. Currency translation gain recognised in the condensed consolidated other comprehensive income for the six months ended 30 June 2014 in respect of investment in Catoca totalled RR'mln 82.

In May 2013 Catoca declared dividends for the year ended 31 December 2012; the Group's share of these dividends amounted to RR'mln 1,351 before taxation in the amount of RR'mln 138. Currency translation gain recognised in the condensed consolidated other comprehensive income for the six months ended 30 June 2013 in respect of investment in Catoca totalled RR'mln 146.

5. CASH AND CASH EQUIVALENTS

	30 June 2014	31 December 2013
Cash in banks and on hand	9,993	5,468
Deposit accounts	21,413	3,802
Total cash and cash equivalents	31,406	9,270

As at 30 June 2014 the weighted average interest rate on the cash balances of the Group was 6.13 per cent. per annum (31 December 2013: 2.61 per cent. per annum).


OJSC ALROSA
Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014
(in millions of Russian roubles, unless otherwise stated)
6. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	TOTAL
As at 1 January 2013			
Cost	284,745	48,631	333,376
Accumulated depreciation and impairment losses	(107,602)	(1,028)	(108,630)
Net book value at 1 January 2013	177,143	47,603	224,746
Changes during six months ended 30 June 2013:			
Foreign exchange differences	244	-	244
Additions	4,003	12,806	16,809
Additions through acquisition of OJSC Nizhne-Lenskoe (note 4.2)	12,716	10	12,726
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	(2,412)	(347)	(2,759)
Other disposals – accumulated depreciation	1,197	-	1,197
Change in estimate of provision for land reclamation	(109)	-	(109)
Depreciation charge for the period	(7,652)	-	(7,652)
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 at 30 June 2013	149,668	47,633	197,301
As at 1 January 2014			
Cost	276,340	58,191	334,531
Accumulated depreciation and impairment losses	(118,226)	(1,028)	(119,254)
Net book value at 1 January 2014	158,114	57,163	215,277
Changes during six months ended 30 June 2014:			
Foreign exchange differences	94	-	94
Additions	6,279	10,972	17,251
Transfers	13,104	(13,104)	-
Reclassification from assets held for sale – at cost (note 4.1)	40,211	2,540	42,751
Reclassification from assets held for sale – accumulated depreciation (note 4.1)	(1,199)	-	(1,199)
Disposal of subsidiaries – at cost (note 4.4)	(1,498)	(725)	(2,223)
Disposal of subsidiaries – accumulated depreciation (note 4.4)	899	-	899
Other disposals – at cost	(3,105)	(380)	(3,485)
Other disposals – accumulated depreciation	2,184	-	2,184
Change in estimate of provision for land reclamation	(27)	-	(27)
Impairment of property, plant and equipment	-	3	3
Depreciation charge for the period	(8,856)	-	(8,856)
As at 30 June 2014			
Cost	331,447	57,494	388,941
Accumulated depreciation and impairment losses	(125,247)	(1,025)	(126,272)
Net book value at 30 June 2014	206,200	56,469	262,669

Capitalised borrowing costs

During six months ended 30 June 2014 borrowing costs totalling RR'mln 66 (six months ended 30 June 2013: RR'mln 73) were capitalised in property, plant and equipment. For the six months ended 30 June 2014 the capitalisation rate applied to qualifying assets was 6.07 per cent. p.a. (six months ended 30 June 2013: 7.36 per cent. p.a.). In accordance with transitional rules of revised IAS 23 "Borrowing costs", borrowing costs are capitalised for projects commencing after 1 January 2009.

**OJSC ALROSA****Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014***(in millions of Russian roubles, unless otherwise stated)***7. INVENTORIES**

	30 June 2014	31 December 2013
Diamonds	20,315	31,411
Mining and construction materials	18,684	16,145
Ores and sands mined	15,763	9,795
Consumable supplies	3,176	3,260
Total inventories	57,938	60,611

8. TRADE AND OTHER RECEIVABLES

	30 June 2014	31 December 2013
Long-term accounts receivable		
Loans issued	2,110	2,891
Consideration receivable for disposed controlling interest in OJSC MMC Timir	1,919	-
Receivables from associates and joint ventures (note 24)	331	284
Advances to suppliers	84	47
Long-term VAT recoverable	28	28
Notes receivable	-	108
Other long-term receivables	186	78
Total long-term accounts receivable	4,658	3,436

	30 June 2014	31 December 2013
Current accounts receivable		
VAT recoverable	4,183	4,396
Advances to suppliers	4,012	1,347
Receivables from associates (note 24)	1,918	1,647
Loans issued	1,852	2,067
Consideration receivable for disposed controlling interest in OJSC MMC Timir	1,028	2,970
Trade receivables for supplied diamonds	399	795
Prepaid taxes, other than income tax	72	167
Other trade receivables	3,608	2,678
Total current accounts receivable	17,072	16,067

As at 30 June 2014 part of consideration receivable for disposed controlling interest in OJSC MMC Timir in the amount of RR'mln 1,919 was reclassified to long-term accounts receivable following the agreement of the parties to extend payment terms.

Trade and other receivables are presented net of impairment provision of RR'mln 5,099 and RR'mln 4,995 as at 30 June 2014 and 31 December 2013, respectively.

9. SHAREHOLDERS' EQUITY***Share capital***

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 30 June 2014 and 31 December 2013 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 2014 and 31 December 2013 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.

**9. SHAREHOLDERS' EQUITY (CONTINUED)***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 2014 the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 24,174 (for the six months ended 30 June 2013: RR'mln 15,208). 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 2014 and 31 December 2013 subsidiaries of the Group held 6,119,200 and 4,852,800 ordinary shares of the Company, respectively. The Group management controls the voting rights of these shares.

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 7,358,846,430 and 7,358,616,528 weighted average shares outstanding for the three and six months ended 30 June 2014, respectively (for the three and six months ended 30 June 2013: 7,222,616,297 and 7,218,746,225, respectively). There are no dilutive financial instruments outstanding.

Other reserves

	Currency translation	Purchase of non-controlling interest	Available-for-sale investments	Recognition of actuarial (loss)/gain	Total other reserves
Balance as at 1 January 2013	(928)	(542)	41	(7,222)	(8,651)
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	(250)	(182)	41	(5,353)	(5,744)
Balance as at 1 January 2014	88	(169)	41	(7,201)	(7,241)
Actuarial gain on post employment benefit obligations	-	-	-	670	670
Currency translation differences	212	-	-	-	212
Balance as at 30 June 2014	300	(169)	41	(6,531)	(6,359)

Dividends

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

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 162. Dividends per share amounted to RR 1.11.



OJSC ALROSA

Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014

(in millions of Russian roubles, unless otherwise stated)

10. LONG-TERM DEBT

	30 June 2014	31 December 2013
Bank loans:		
US\$ denominated fixed rate	51,287	9,328
US\$ denominated floating rate	20,178	19,638
RR denominated fixed rate	7	8
	71,472	28,974
Eurobonds	50,443	49,088
RR denominated non-convertible bonds	20,044	20,044
Finance lease obligation	467	584
Other RR denominated fixed rate loans	853	1,187
	143,279	99,877
Less: current portion of long-term debt (note 11)	(27,686)	(17,581)
Total long-term debt	115,593	82,296

As at 30 June 2014 the fair value of bank loans was not materially different from their carrying value. As at 30 June 2014 and 31 December 2013 there were no long-term loans or bonds secured with the assets of the Group.

As at 30 June 2014 and at 31 December 2013 there were no long-term loans secured with the assets of the Group.

The average effective interest rates were as follows:

	30 June 2014	31 December 2013
Bank loans:		
US\$ denominated fixed rate	4.2%	4.8%
US\$ denominated floating rate	3.9%	3.9%
RR denominated fixed rate	14.9%	14.9%
Eurobonds	8.1%	8.1%
RR denominated non-convertible bonds	8.9%	8.9%
Finance lease obligation	11.5%	11.5%
Other RR denominated fixed rate loans	7.2%	6.4%

Eurobonds

Movements of Eurobonds during six months ended 30 June 2014 and 30 June 2013 were as follows:

	Six months ended	
	30 June 2014	30 June 2013
Balance at the beginning of the period	49,088	45,548
Amortisation of discount	3	3
Exchange losses	1,352	3,504
Balance at the end of the period	50,443	49,055

As at 30 June 2014 the fair value of Eurobonds and RR denominated non-convertible bonds comprised RR'mln 54,734 and RR'mln 20,414, respectively (31 December 2013: RR'mln 50,147 and RR'mln 20,412, respectively).

**OJSC ALROSA**

Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014
(in millions of Russian roubles, unless otherwise stated)

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

	30 June 2014	31 December 2013
Bank loans:		
US\$ denominated floating rate	-	16,365
US\$ denominated fixed rate	-	20,619
RR denominated fixed rate	125	115
	125	37,099
Other RR denominated fixed rate loans	678	1,615
	803	38,714
Add: current portion of long-term debt (note 10)	27,686	17,581
Total short-term debt and current portion of long-term debt	28,489	56,295

The average effective interest rates were as follows:

	30 June 2014	31 December 2013
Banks loans:		
US\$ denominated floating rate	-	1.7%
US\$ denominated fixed rate	-	2.3%
RR denominated fixed rate	11.0%	11.1%
Other RR denominated fixed rate loans	1.5%	1.1%

As at 30 June 2014 and 31 December 2013 there were no short-term loans secured with the assets of the Group.

12. TRADE AND OTHER PAYABLES

	30 June 2014	31 December 2013
Accrual for employee flights and holidays	7,607	6,995
Trade payables	5,701	5,815
Wages and salaries	3,235	5,514
Advances from customers	1,915	643
Current portion of provision for social obligation	1,416	1,122
Interest payable	1,006	998
Current accounts of third parties in MAK Bank LLC	468	1,751
Other payables and accruals	1,416	1,163
Total trade and other payables	22,764	24,001

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

13. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

	30 June 2014	31 December 2013
Payments to social funds	1,639	1,662
Property tax	1,094	964
Extraction tax	687	658
Value added tax	546	475
Personal income tax (employees)	328	732
Other taxes and accruals	167	267
Total taxes payable, other than income tax	4,461	4,758

**13. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES (CONTINUED)**

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

	Three months ended		Six months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Property tax	898	916	1,790	1,845
Other taxes and accruals	190	77	295	217
Total	1,088	993	2,085	2,062

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 2014	30 June 2013	30 June 2014	30 June 2013
Current tax expense	5,043	2,731	9,263	5,318
Adjustments recognised in the period for current tax of prior periods	403	-	647	-
Deferred tax benefit	(244)	(129)	(923)	(141)
Total income tax expense	5,202	2,602	8,987	5,177

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 2014	31 December 2013
Present value of funded obligations	19,343	20,122
Fair value of plan assets	(9,249)	(9,017)
Pension obligations for the funded plan	10,094	11,105
Present value of unfunded obligation	1,020	1,052
Net liability	11,114	12,157


OJSC ALROSA
Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014
(in millions of Russian roubles, unless otherwise stated)
14. PROVISION FOR PENSION OBLIGATION (CONTINUED)

Changes in the present value of funded and unfunded pension obligations and plan assets for the three months ended 30 June 2013 and three months ended 30 June 2014 are as follows:

	Present value of obligation	Fair value of plan assets	Total
As 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

	Present value of obligation	Fair value of plan assets	Total
As at 31 March 2014	19,326	(8,770)	10,556
Current service cost	103	-	103
Past service cost	(123)	-	(123)
Interest expense/(income)	422	(181)	241
	402	(181)	221
Remeasurements:			
Return on plan assets, excluding amount included in interest expense/(income)	-	231	231
Loss from change in financial assumptions	739	-	739
	739	231	970
Contributions paid by employer	-	(627)	(627)
Benefit payments	(98)	98	-
	(98)	(529)	(627)
Disposal of subsidiaries	(6)	-	(6)
As at 30 June 2014	20,363	(9,249)	11,114

Changes in the present value of funded and unfunded pension obligations and plan assets for the six months ended 30 June 2013 and six months ended 30 June 2014 are as follows:

	Present value of obligation	Fair value of plan assets	Total
As 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


OJSC ALROSA
Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014
(in millions of Russian roubles, unless otherwise stated)
14. PROVISION FOR PENSION OBLIGATION (CONTINUED)

	Present value of obligation	Fair value of plan assets	Total
As at 1 January 2014	21,174	(9,017)	12,157
Current service cost	209	-	209
Past service cost	(123)	-	(123)
Interest expense/(income)	846	(361)	485
	932	(361)	571
Remeasurements:			
Return on plan assets, excluding amount included in interest expense/(income)	-	411	411
Gain from change in financial assumptions	(1,281)	-	(1,281)
	(1,281)	411	(870)
Contributions paid by employer	-	(738)	(738)
Benefit payments	(456)	456	-
	(456)	(282)	(738)
Disposal of subsidiaries	(6)	-	(6)
As at 30 June 2014	20,363	(9,249)	11,114

The significant actuarial assumptions are as follows:

	30 June 2014	31 December 2013
Discount rate (nominal)	8.5%	8.0%
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 2014	30 June 2013	30 June 2014	30 June 2013
Revenue from diamond sales:				
Export	37,685	32,920	83,487	63,060
Domestic	5,196	4,690	10,567	10,523
Revenue from diamonds for resale	150	96	508	383
Total revenue from diamond sales	43,031	37,706	94,562	73,966
Other revenue:				
Gas	1,507	1,120	3,298	1,788
Social infrastructure	800	707	2,156	1,489
Transport	1,258	1,305	2,111	2,050
Trading	395	729	649	787
Construction	33	127	51	155
Other	915	1,076	1,962	1,994
Total revenue	47,939	42,770	104,789	82,229

Export duties totalling RR'mln 2,448 and RR'mln 5,565 for the three and six months ended 30 June 2014, respectively (three and six months ended 30 June 2013: RR'mln 2,192 and RR'mln 4,224, respectively) were netted against revenue from diamond export sales.

**OJSC ALROSA****Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014***(in millions of Russian roubles, unless otherwise stated)***16. COST OF SALES**

	Three months ended		Six months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Wages, salaries and other staff costs	8,942	7,959	16,818	15,601
Depreciation	3,653	3,548	7,459	6,759
Extraction tax	3,104	2,488	6,515	4,919
Fuel and energy	3,128	3,103	6,008	6,278
Materials	2,437	2,912	3,599	3,947
Transport	632	590	2,000	1,050
Services	1,142	523	1,847	1,173
Cost of diamonds for resale	142	16	499	283
Impairment of inventories	(11)	9	111	111
Other	47	24	103	31
Movement in inventory of diamonds, ores and sands	(1,035)	(1,896)	5,128	(941)
Total cost of sales	22,181	19,276	50,087	39,211

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 2,239 and RR'mln 4,430 for the three and six months ended 30 June 2014, respectively (for the three and six months ended 30 June 2013: RR'mln 1,907 and RR'mln 3,578, respectively).

Depreciation totalling RR'mln 715 and RR'mln 1,313 for the three and six months ended 30 June 2014, respectively (for the three and six months ended 30 June 2013: RR'mln 212 and RR'mln 737, respectively) and wages, salaries and other staff costs totalling RR'mln 1,658 and RR'mln 3,069 for the three and six months ended 30 June 2014, respectively (for the three and six months ended 30 June 2013: RR'mln 556 and RR'mln 1,264, 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 2014	30 June 2013	30 June 2014	30 June 2013
Wages, salaries and other staff costs	1,643	1,389	2,961	2,374
Services and other administrative expenses	1,164	1,156	1,862	2,036
Impairment of accounts receivable	162	173	140	213
Total general and administrative expenses	2,969	2,718	4,963	4,623

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 179 and RR'mln 410 for the three and six months ended 30 June 2014, respectively (for the three and six months ended 30 June 2013: RR'mln 154 and RR'mln 309, respectively).

18. SELLING AND MARKETING EXPENSES

	Three months ended		Six months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Wages, salaries and other staff costs	350	287	676	583
Services and other selling and marketing expenses	363	185	680	557
Total selling and marketing expenses	713	472	1,356	1,140

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 75 and RR'mln 144 for the three and six months ended 30 June 2014, respectively (for the three and six months ended 30 June 2013 in the amount of RR'mln 69 and RR'mln 141, respectively).

**OJSC ALROSA****Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014***(in millions of Russian roubles, unless otherwise stated)***19. OTHER OPERATING INCOME**

	Three months ended		Six months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Gain on disposal of subsidiaries (Notes 4.3, 4.4)	142	2,552	142	2,552
Other	111	288	224	601
Total other operating income	253	2,840	366	3,153

20. OTHER OPERATING EXPENSES

	Three months ended		Six months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Exploration expenses	1,477	1,560	3,435	4,045
Social costs	1,444	1,021	2,123	1,689
Taxes other than income tax, extraction tax and payments to social funds (Note 13)	1,088	993	2,085	2,062
Loss/(gain) on disposal of property, plant and equipment	409	(35)	670	540
Other	211	851	610	1,031
Total other operating expenses	4,629	4,390	8,923	9,367

Social costs consist of:

	Three months ended		Six months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Maintenance of local infrastructure	616	404	963	709
Charity	655	442	881	687
Hospital expenses	74	55	99	70
Education	29	25	51	44
Other	70	95	129	179
Total social costs	1,444	1,021	2,123	1,689

21. FINANCE INCOME AND COSTS

	Three months ended		Six months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Interest income	337	6	451	104
Interest expense:				
Eurobonds	(1,073)	(949)	(2,152)	(1,877)
Bank loans	(625)	(546)	(1,159)	(976)
RR denominated non-convertible bonds	(448)	(728)	(883)	(1,485)
European commercial paper	-	(45)	-	(142)
Other	(323)	(79)	(579)	(145)
Unwinding of discount of future provisions	(32)	(88)	(124)	(143)
Exchange (loss)/gain, net	6,801	(5,169)	(3,264)	(6,372)
Total finance (costs)/income, net	4,637	(7,598)	(7,710)	(11,036)

**22. CASH GENERATED FROM OPERATIONS**

Reconciliation of profit before tax to cash flows from operations:

	Six months ended	
	30 June 2014	30 June 2013
Profit before income tax	32,104	19,793
Adjustments for:		
Share of net profit of associates and joint ventures (note 4)	(593)	(393)
Interest income (note 21)	(451)	(104)
Interest expense (note 21)	4,897	4,768
Loss on disposal of property, plant and equipment (note 20)	670	540
Depreciation (notes 6, 16)	7,543	6,915
Gain on disposal of subsidiaries (note 19)	(142)	(2,552)
Adjustment for inventory used in construction	(1,179)	(670)
Adjustment for non-cash financing activity	(19)	-
Withdrawals from/(payments to) restricted cash account	126	(62)
Unrealised foreign exchange effect on non-operating items	2,980	6,711
Net operating cash flows before changes in working capital	45,936	34,946
Net decrease/(increase) in inventories	3,074	(1,024)
Net increase in receivables, excluding dividends receivable and consideration receivable for disposed controlling interest in OJSC MMC Timir	(1,444)	(2,253)
Net increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(1,775)	(1,665)
Net (decrease)/increase in taxes payable, excluding income tax	(480)	250
Cash inflows from operating activity	45,311	30,254
Income tax paid	(9,724)	(6,225)
Net cash inflows from operating activities	35,587	24,029

23. 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.

During the six months ended 30 June 2014, political and economic instability in Ukraine increased significantly. Possible deteriorating economic conditions may have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. Debtors of the Group may also become adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed or fulfil the obligations undertaken.

Management is unable to predict all developments which could have an impact on the industry and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes all necessary measures are being taken to support the sustainability and growth of the Group's business in the current circumstances.



23. CONTINGENCIES, COMMITMENTS AND OTHER RISKS (CONTINUED)

(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 2014 and 31 December 2013 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 2014 and 31 December 2013 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 2014.

(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 2014 the Group has contractual commitments for capital expenditures of RR'mln 6,829 (31 December 2013: RR'mln 4,898).

**23. CONTINGENCIES, COMMITMENTS AND OTHER RISKS (CONTINUED)****(f) Restoration, rehabilitation and environmental costs**

Under its license agreements, the Group is not responsible for any significant restoration, rehabilitation and environmental expenditures that may be incurred subsequent to the cessation of production at each mine, apart from the obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. As at 30 June 2014 the Group recognised a provision for these future expenses in the amount of RR'mln 3,172 (31 December 2013: RR'mln 3,076).

24. 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 major shareholders of the Company. As at 30 June 2014 68.9 per cent. of the Company's issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Also as at 30 June 2014 8.0 per cent. of the Company's shares were owned by administrations or 8 districts of the Republic of Sakha (Yakutia). Following the Extraordinary General Meeting of Shareholders in December 2013, the 15 seats on the Supervisory Council include 9 representatives of the Russian Federation (1 also is the Chairman of the Management Board) and the Republic of Sakha (Yakutia), 5 independent directors according to the Russian Corporate Law (3 of them are nominated by the Government of the Russian Federation, 1 was nominated by the Government of the Republic of Sakha (Yakutia), 1 was nominated by districts of the Republic of Sakha (Yakutia)) and 1 member of the Management Board. 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 or loss and other comprehensive income, the condensed consolidated interim statement of cash flows and in notes 22 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.

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

Financial statements line item	30 June 2014	31 December 2013
<i>Statement of financial position</i>		
Short-term accounts receivable	3,384	2,165
Short-term accounts payable	758	518
Loans received by the Group	23,037	25,366
Loans issued by the Group	359	668
Deposits, cash and cash equivalents	22,796	5,028

**OJSC ALROSA****Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014***(in millions of Russian roubles, unless otherwise stated)***24. RELATED PARTY TRANSACTIONS (CONTINUED)**

Financial statements line item	Three months ended		Six months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
<i>Statement of profit or loss and other comprehensive income</i>				
Sales of diamonds	1,289	2,079	2,955	3,982
Other sales	1,380	1,240	3,222	1,615
Electricity and heating expenses	(783)	(600)	(2,561)	(2,125)
Other purchases	(2,230)	(1,474)	(2,605)	(1,845)
Interest income	200	57	268	107
Interest expense	(277)	(218)	(534)	(440)

Acquisition of OJSC Nizhne-Lenskoe from the Government of Republic of Sakha (Yakutia) is disclosed in Note 4.2.

Transactions with the state also include taxes, levies and customs duties settlements and charges which are detailed in respective notes.

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 2014 and 31 December 2013 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 2014 totalling RR'mln 168 and RR' mln 596, respectively (three and six months ended 30 June 2013: RR'mln 396 and RR' mln 519, respectively).

Associates and joint ventures

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

	30 June 2014	31 December 2013
Long-term accounts receivable		
OJSC MMC Timir, loans issued	331	284
Total long-term accounts receivable	331	284
Current accounts receivable		
Catoca, dividends receivable	1,119	785
OJSC MMC Timir, loans issued	792	840
Other	7	22
Total current accounts receivable	1,918	1,647

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



25. SEGMENT INFORMATION

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

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

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

**25. SEGMENT INFORMATION (CONTINUED)**

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	Diamonds	Transportation	Social Infrastructure	Construction	Trading	Electricity	Other	Total
30 June 2014	segment	tation	structure	activity	production	activities		
Revenue	45,478	1,508	974	706	414	767	2,718	52,565
Intersegment revenue	-	(250)	(193)	(626)	(12)	(630)	(601)	(2,312)
Cost of sales, incl. depreciation	12,174	1,488	1,540	744	283	524	2,547	19,300
	2,375	153	2	142	18	134	586	3,410
Gross margin	33,304	20	(566)	(38)	131	243	171	33,265

Three months ended	Diamonds	Transportation	Social Infrastructure	Construction	Trading	Electricity	Other	Total
30 June 2013	segment	tation	structure	activity	production	activities		
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. depreciation	13,140	2,393	1,232	1,208	53	494	1,879	20,399
	2,714	147	10	52	1	150	350	3,424
Gross margin	26,758	(112)	(531)	(48)	677	206	247	27,197

Six months ended	Diamonds	Transportation	Social Infrastructure	Construction	Trading	Electricity	Other	Total
30 June 2014	segment	tation	structure	activity	production	activities		
Revenue	100,127	2,532	2,547	1,248	718	1,977	6,432	115,581
Intersegment revenue	-	(421)	(362)	(1,134)	(85)	(1,698)	(1,870)	(5,570)
Cost of sales, incl. depreciation	31,843	2,868	3,446	1,284	499	1,197	5,142	46,279
	5,060	261	36	156	36	268	1,091	6,908
Gross margin	68,284	(336)	(899)	(36)	219	780	1,290	69,302

Six months ended	Diamonds	Transportation	Social Infrastructure	Construction	Trading	Electricity	Other	Total
30 June 2013	segment	tation	structure	activity	production	activities		
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. depreciation	27,145	3,805	2,533	1,761	63	1,104	3,432	39,843
	5,131	288	20	100	1	249	593	6,382
Gross margin	51,045	(551)	(1,029)	(59)	724	648	1,322	52,100

**OJSC ALROSA****Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014***(in millions of Russian roubles, unless otherwise stated)***25. SEGMENT INFORMATION (CONTINUED)**

Reconciliation of revenue is presented below:

	Three months ended		Six months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Segment revenue	52,565	47,596	115,580	91,943
Elimination of intersegment revenue	(2,312)	(3,254)	(5,570)	(5,845)
Reclassification of export duties ¹	(2,448)	(2,192)	(5,565)	(4,224)
Other adjustments and reclassifications	134	620	344	355
Revenue as per statement of profit or loss and other comprehensive income	47,939	42,770	104,789	82,229

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 2014	30 June 2013	30 June 2014	30 June 2013
Segment cost of sales	19,300	20,399	46,279	39,843
Adjustment for depreciation of property, plant and equipment ¹	243	124	551	377
Elimination of intersegment purchases	(1,721)	(3,254)	(4,504)	(5,845)
Accrued provision for pension obligation ²	(640)	(1,336)	(645)	(1,265)
Reclassification of extraction tax ³	3,104	2,853	6,515	5,127
Adjustment for inventories ⁴	2,411	1,709	3,968	2,954
Accrual for employee flights and holidays ⁵	52	(57)	98	76
Accrual for the part of expected annual bonus	722	-	722	-
Other adjustments	(82)	(102)	(82)	160
Reclassification of exploration expenses ⁶	(948)	(682)	(1,985)	(1,017)
Other reclassifications	(260)	(378)	(830)	(1,199)
Cost of sales as per statement of profit or loss and other comprehensive income	22,181	19,276	50,087	39,211

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 calculation² Accrued provision for pension obligation – recognition of pension obligation in accordance with IAS 19³ Reclassification of extraction tax – reclassification from general and administrative expenses⁴ 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 adjustments⁵ Accrual for employee flights and holidays – recognition of employee flights and holidays reserve under collective labour agreement of the Company⁶ 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 2014	30 June 2013	30 June 2014	30 June 2013
Belgium	22,159	19,696	52,086	39,174
Russian Federation	9,914	9,713	20,436	18,852
India	5,978	6,159	13,721	11,765
Israel	5,630	4,411	10,483	7,241
United Arab Emirates	2,044	1,154	3,591	1,874
China	1,384	1,210	2,850	2,128
Belarus	135	4	296	181
Angola	133	116	272	248
Armenia	25	124	67	222
Other countries	537	183	987	544
Total revenue	47,939	42,770	104,789	82,229

**OJSC ALROSA****Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014***(in millions of Russian roubles, unless otherwise stated)***25. SEGMENT INFORMATION (CONTINUED)**

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

	30 June 2014	31 December 2013
Russian Federation	265,443	218,170
Angola	2,774	2,900
Other countries	278	447
Total non-current assets (other than financial instruments)	268,495	221,517

26. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the group's annual financial statements as at 31 December 2013. There have been no changes in the risk management department or in any risk management policies since the year end.

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

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

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

Recurring fair value measurements

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

	30 June 2014			Total carrying value	31 December 2013			Total carrying value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Available-for-sale investments	-	-	241	241	-	-	243	243
Total	-	-	241	241	-	-	243	243



OJSC ALROSA

Notes to the condensed consolidated interim financial information (unaudited) – 30 June 2014

(in millions of Russian roubles, unless otherwise stated)

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

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

As at 30 June 2014 the Group had the following assets and liabilities not measured at fair value but for which fair value is disclosed, classified by the levels of the fair value hierarchy:

	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non- observable inputs (Level 3)	Total
Current and non-current financial assets				
Loans issued	-	-	2,110	2,110
Other long-term receivables	-	-	186	186
Total assets	-	-	2,296	2,296
Long-term debt				
Loans from banks	-	71,472	-	71,472
Eurobonds	50,443	-	-	50,443
RR denominated non-convertible bonds	20,044	-	-	20,044
Finance lease obligation	-	-	467	467
Other RR denominated fixed rate loans	-	853	-	853
Total non-current liabilities	70,487	72,325	467	143,279
Short-term debt and other payables				
Loans from banks	-	125	-	125
Other RR denominated fixed rate loans	-	678	-	678
Total current liabilities	-	803	-	803
Total liabilities	70,487	73,128	467	144,082

As at 31 December 2013 the Group had the following assets and liabilities not measured at fair value but for which fair value is disclosed, classified by the levels of the fair value hierarchy:

	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non- observable inputs (Level 3)	Total
Current and non-current financial assets				
Loans issued	-	-	2,891	2,891
Notes receivable	-	-	108	108
Other long-term receivables	-	-	78	78
Total assets	-	-	3,077	3,077
Long-term debt				
Loans from banks	-	28,974	-	28,974
Eurobonds	49,088	-	-	49,088
RR denominated non-convertible bonds	20,044	-	-	20,044
Finance lease obligation	-	-	584	584
Other RR denominated fixed rate loans	-	1,187	-	1,187
Total non-current liabilities	69,132	30,161	584	99,877
Short-term debt and other payables				
Loans from banks	-	37,099	-	37,099
Other RR denominated fixed rate loans	-	1,615	-	1,615
Total current liabilities	-	38,714	-	38,714
Total liabilities	69,132	68,875	584	138,591



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

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

- Trade and other receivables;
- Other current financial assets;
- Cash and cash equivalents;
- Trade and other payables;
- Other current financial liabilities.

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

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