OJSC ALROSA

INTERNATIONAL ACCOUNTING STANDARD No. 34

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2014

CONTENTS

(in millions of US$, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Notes	30 June 2014	31 December 2013
Assets			
Non-current Assets			
Goodwill		43	44
Property, plant and equipment	6	7,810	6,578
Investments in associates and joint ventures	4	120	139
Available-for-sale investments		7	7
Long-term accounts receivable	8	139	105
Restricted cash		4	8
Total Non-current Assets		**8,123**	**6,881**
Current Assets			
Inventories	7	1,723	1,852
Prepaid income tax		17	3
Current accounts receivable	8	508	491
Cash and cash equivalents	5	934	283
Assets of disposal group classified as held for sale	4.1	-	1,333
Total Current Assets		**3,182**	**3,962**
Total Assets		**11,305**	**10,843**
Equity			
Share capital	9	398	398
Share premium		433	433
Retained earnings and other reserves	9	4,323	4,079
Equity attributable to owners of OJSC ALROSA		**5,154**	**4,910**
Non-Controlling Interest in Subsidiaries		**(26)**	**(37)**
Total Equity		**5,128**	**4,873**
Liabilities			
Non-current Liabilities			
Long-term debt	10	3,437	2,514
Provision for pension obligations	14	330	371
Other provisions		117	121
Deferred tax liabilities		225	100
Total Non-current Liabilities		**4,109**	**3,106**
Current Liabilities			
Short-term debt and current portion of long-term debt	11	847	1,720
Trade and other payables	12	677	733
Income tax payable		88	54
Other taxes payable	13	133	145
Dividends payable	9	323	16
Liabilities of disposal group classified as held for sale	4.1	-	196
Total Current Liabilities		**2,068**	**2,864**
Total Liabilities		**6,177**	**5,970**
Total Equity and Liabilities		**11,305**	**10,843**

Signed on 22 September 2014 by the following members of management:

Российская Федерация * Республика Саха (Якутия) * г. Мирный * Акционерная компания «АЛРОСА» (открытое акционерное общество)

Ilya P. Ryashchin
Acting president

Elena L. Timonina
Chief accountant

(in millions of US$, unless otherwise stated)

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

		Three months ended		Six months ended	
	Notes	**30 June 2014**	**30 June 2013**	**30 June 2014**	**30 June 2013**
Revenue	15	1,368	1,351	2,986	2,648
Cost of sales	16	(632)	(610)	(1,425)	(1,265)
Royalty	13	(9)	(10)	(17)	(20)
Gross profit		**727**	**731**	**1,544**	**1,363**
General and administrative expenses	17	(85)	(86)	(142)	(148)
Selling and marketing expenses	18	(20)	(15)	(38)	(37)
Other operating income	19	7	91	10	101
Other operating expenses	20	(133)	(139)	(255)	(303)
Operating profit		**496**	**582**	**1,119**	**976**
Finance (costs)/income, net	21	132	(239)	(219)	(352)
Share of net profit of associates and joint ventures	4	9	3	17	12
Profit before income tax		**637**	**346**	**917**	**636**
Income tax	13	(149)	(82)	(257)	(167)
Profit for the period		**488**	**264**	**660**	**469**
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations, net of tax	9	(33)	63	20	59
Total items that will not be reclassified to profit or loss		**(33)**	**63**	**20**	**59**
Items that will be reclassified to profit or loss:					
Currency translation differences, net of tax		302	(181)	(97)	(314)
Total items that will be reclassified to profit or loss		**302**	**(181)**	**(97)**	**(314)**
Other comprehensive income/(loss) for the period		**269**	**(118)**	**(77)**	**(255)**
Total comprehensive income for the period		**757**	**146**	**583**	**214**
Profit attributable to:					
Owners of OJSC ALROSA		483	252	644	452
Non-controlling interest		5	12	16	17
Profit for the period		**488**	**264**	**660**	**469**
Total comprehensive income attributable to:					
Owners of OJSC ALROSA		752	134	567	197
Non-controlling interest		5	12	16	17
Total comprehensive income for the period		**757**	**146**	**583**	**214**
Basic and diluted earnings per share for profit attributable to the owners of OJSC ALROSA (in US$)	9	0.07	0.03	0.09	0.06

(in millions of US$, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

		Six months ended	
	Notes	30 June 2014	30 June 2013
Net Cash Inflow from Operating Activities	22	**1,016**	**779**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(428)	(480)
Proceeds from sales of property, plant and equipment		14	2
Interest received	21	13	3
Proceeds from sale of available-for-sale investments		-	-
Dividends received from associates and joint ventures		19	10
Net proceeds from disposal of subsidiaries	4.3, 4.4	45	20
Reclassification to assets held for sale		-	(3)
Acquisition of OJSC Nizhne-Lenskoe, net of cash acquired	4.2	-	(121)
Net Cash Outflow from Investing Activities		**(337)**	**(569)**
Cash Flows from Financing Activities			
Repayments of loans		(2,365)	(1,061)
Loans received		2,424	1,340
(Purchase)/sale of treasury shares		(1)	6
Acquisition of non-controlling interest in OJSC Nizhne-Lenskoe	4.2	-	(105)
Proceeds from sale of non-controlling interest in subsidiary		-	8
Interest paid		(120)	(158)
Dividends paid		(17)	(26)
Net Cash (Outflow)/Inflow from Financing Activities		**(79)**	**4**
Net Increase in Cash and Cash Equivalents		**600**	**214**
Cash and cash equivalents at the beginning of the period*		318	206
Exchange gains on cash and cash equivalents		1	2
Translation difference		15	(29)
Cash and Cash Equivalents at the End of the Period	5	**934**	**393**

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

(in millions of US$, 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 reser-ves	Currency translation difference	Retained earnings	Total	Non-control-ling interest	Total equity
Balance at 1 January 2013	**7,213,444,600**	**398**	**433**	**(8)**	**(249)**	**(43)**	**3,813**	**4,344**	**(46)**	**4,298**
Comprehensive income										
Profit for the period		-	-	-	-	-	452	452	17	469
Other comprehensive income		-	-	-	59	(314)	-	(255)	-	(255)
Total comprehensive income for the period		**-**	**-**	**-**	**59**	**(314)**	**452**	**197**	**17**	**214**
Transactions with owners										
Dividends (Note 9)		-	-	-	-	-	(245)	(245)	-	(245)
Acquisition of OJSC Nizhne-Lenskoe (Note 4.2)		-	-	-	-	-	-	-	116	116
Purchase of non-controlling interest		-	-	-	11	-	-	11	(107)	(96)
Sale of own shares	6,116,700	-	-	-	-	-	5	5	-	5
Dividends paid to the owners of non-controlling interest		-	-	-	-	-	-	-	(13)	(13)
Total transactions with owners	**6,116,700**	**-**	**-**	**-**	**11**	**-**	**(240)**	**(229)**	**(4)**	**(233)**
Balance at 30 June 2013	**7,219,561,300**	**398**	**433**	**(8)**	**(179)**	**(357)**	**4,025**	**4,312**	**(33)**	**4,279**
Balance at 1 January 2014	**7,360,112,830**	**398**	**433**	**-**	**(237)**	**(342)**	**4,658**	**4,910**	**(37)**	**4,873**
Comprehensive income										
Profit for the period		-	-	-	-	-	644	644	16	660
Other comprehensive income		-	-	-	20	(97)	-	(77)	-	(77)
Total comprehensive income for the period		**-**	**-**	**-**	**20**	**(97)**	**644**	**567**	**16**	**583**
Transactions with owners										
Dividends (Note 9)		-	-	-	-	-	(322)	(322)	-	(322)
Purchase of own shares	(1,266,400)	-	-	-	-	-	(1)	(1)	-	(1)
Dividends paid to the owners of non-controlling interest		-	-	-	-	-	-	-	(5)	(5)
Total transactions with owners	**(1,266,400)**	**-**	**-**	**-**	**-**	**-**	**(323)**	**(323)**	**(5)**	**(328)**
Balance at 30 June 2014	**7,358,846,430**	**398**	**433**	**-**	**(217)**	**(439)**	**4,979**	**5,154**	**(26)**	**5,128**

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 presentation currency of the Group is the United States dollar ("US$") since the Company's management considers presentation of the financial statements in US$ to be important for the users of the financial statements. 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 results and financial positions of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated to the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each statement of income and cash flows are translated at average quarterly exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses and cash flows are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

2. BASIS OF PRESENTATION (CONTINUED)

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. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 45,83 and 44.97 as at 30 June 2014 and 31 December 2013, respectively. The average official US dollar to RR exchange rate for three and six months ended 30 June 2014 were 35.02 and 35.08, respectively (for three and six months ended 30 June 2013: 31.66 and 31.05, 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.

(in millions of US $, 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 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 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	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 US$'mln 121. 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.

(in millions of US $, unless otherwise stated)

4. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

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

Property, plant and equipment	419
Inventories	90
Available-for-sale investments	1
Investments in associates	14
Trade and other receivables	21
Deferred tax liability	(58)
Borrowings	(131)
Trade and other payables	(119)
Fair value of acquired net assets	**237**
Non-controlling interest measured as proportionate share of acquired net assets	**(116)**
Total purchase consideration	**121**

On 5 June 2013 the Group acquired an additional 49.0 per cent. interest in OJSC Nizhne-Lenskoe for a total cash consideration of US$'mln 105. 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 US$'mln 193. Consideration receivable included cash consideration of US$'mln 159 and outstanding loans in the amount of US$'mln 36 issued by the Group to OJSC MMC Timir before disposal of controlling interest. Consideration receivable was reduced by the amount of transaction costs incurred by the Group in the amount of US$'mln 2.

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.

The details of assets and liabilities of OJSC MMC Timir at the date of deconsolidation were as follows:

Property, plant and equipment	175
Available-for-sale investments	1
Trade and other receivables	2
Cash	2
Deferred tax asset	3
Net assets of deconsolidated subsidiary	**183**
Investment in joint venture recognised at fair value	**72**
Consideration receivable	**193**
Gain on disposal	**82**

(in millions of US $, unless otherwise stated)

4. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

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 US$'mln 46.

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	38
Inventories	3
Trade and other receivables	11
Trade and other payables	(10)
Net assets at the date of disposal	**42**
Consideration receivable	**46**
Gain on disposal	**4**

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	64	67
Catoca Mining Company Ltd.	Angola	32.8	32.8	38	52
Other	Russia	20-50	20-50	18	20
Total carrying value of investment				**120**	**139**

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.

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.	9	4	18	13
OJSC MMC Timir	-	(1)	(1)	(1)
Total Group's share of net profit of associates and joint ventures	**9**	**3**	**17**	**12**

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 US$'mln 32 before taxation in the amount of US$'mln 3. 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 US$'mln 2.

In May 2013 Catoca declared dividends for the year ended 31 December 2012; the Group's share of these dividends amounted to US$'mln 44 before taxation in the amount of US$'mln 4. 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 US$'mln 5.

(in millions of US $, unless otherwise stated)

5. CASH AND CASH EQUIVALENTS

	30 June 2014	31 December 2013
Cash in banks and on hand	297	167
Deposit accounts	637	116
Total cash and cash equivalents	**934**	**283**

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).

6. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	TOTAL
As at 1 January 2013			
Cost	9,375	1,601	10,976
Accumulated depreciation and impairment losses	(3,543)	(34)	(3,577)
Net book value at 1 January 2013	**5,832**	**1,567**	**7,399**
Changes during six months ended 30 June 2013:			
Foreign exchange differences	7	-	7
Additions	127	412	539
Additions through acquisition of OJSC Nizhne-Lenskoe (note 4.2)	419	-	419
Transfers	129	(129)	-
Reclassification to assets held for sale – at cost (note 4.1)	(1,059)	(266)	(1,325)
Reclassification to assets held for sale – accumulated depreciation (note 4.1)	25	-	25
Disposal of subsidiaries – at cost	(223)	-	(223)
Disposal of subsidiaries – accumulated depreciation	11		11
Other disposals – at cost	(78)	(11)	(89)
Other disposals – accumulated depreciation	39	-	39
Change in estimate of provision for land recultivation	(3)	-	(3)
Depreciation charge for the period	(246)	-	(246)
Translation difference	(404)	(117)	(521)
As at 30 June 2013	**4,576**	**1,456**	**6,032**
Cost	8,028	1,487	9,515
Accumulated depreciation and impairment losses	(3,452)	(31)	(3,483)
Net book value at 30 June 2013	**4,576**	**1,456**	**6,032**
As at 1 January 2014			
Cost	8,443	1,778	10,221
Accumulated depreciation and impairment losses	(3,612)	(31)	(3,643)
Net book value at 1 January 2014	**4,831**	**1,747**	**6,578**
Changes during six months ended 30 June 2014:			
Foreign exchange differences	4	-	4
Additions	179	312	491
Transfers	374	(374)	-
Reclassification from assets held for sale – at cost (note 4.1)	1,148	73	1,221
Reclassification from assets held for sale – accumulated depreciation (note 4.1)	(34)	-	(34)
Disposal of subsidiaries – at cost (note 4.4)	(43)	(21)	(64)
Disposal of subsidiaries – accumulated depreciation (note 4.4)	26		26
Other disposals – at cost	(88)	(11)	(99)
Other disposals – accumulated depreciation	63	-	63
Change in estimate of provision for land recultivation	(1)	-	(1)
Impairment of property, plant and equipment	-	-	-
Depreciation charge for the period	(252)	-	(252)
Translation difference	(76)	(47)	(123)
As at 30 June 2014	**6,131**	**1,679**	**7,810**
Cost	9,855	1,709	11,564
Accumulated depreciation and impairment losses	(3,724)	(30)	(3,754)
Net book value at 30 June 2014	**6,131**	**1,679**	**7,810**

(in millions of US $, unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Capitalised borrowing costs

During six months ended 30 June 2014 borrowing costs totalling US$'mln 2 (six months ended 30 June 2013: US$'mln 2) 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.

7. INVENTORIES

	30 June 2014	31 December 2013
Diamonds	604	960
Mining and construction materials	556	493
Ores and sands mined	469	299
Consumable supplies	94	100
Total inventories	**1,723**	**1,852**

8. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	30 June 2014	31 December 2013
Loans issued	63	88
Consideration receivable for disposed controlling interest in OJSC MMC Timir	57	-
Receivables from associates and joint ventures (note 24)	10	9
Advances to suppliers	2	1
Long-term VAT recoverable	1	1
Notes receivable	-	3
Other long-term receivables	6	3
Total long-term accounts receivable	**139**	**105**

Current accounts receivable	30 June 2014	31 December 2013
VAT recoverable	124	134
Advances to suppliers	119	41
Receivables from associates (note 24)	57	50
Loans issued	55	63
Consideration receivable for disposed controlling interest in OJSC MMC Timir	31	91
Trade receivables for supplied diamonds	12	24
Prepaid taxes, other than income tax	2	5
Other trade receivables	108	83
Total current accounts receivable	**508**	**491**

As at 30 June 2014 part of consideration receivable for disposed controlling interest in OJSC MMC Timir in the amount of US$'mln 57 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 US$'mln 152 and US$'mln 153 as at 30 June 2014 and 31 December 2013, respectively.

(in millions of US $, unless otherwise stated)

9. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals US$'mln 398 as at 30 June 2014 and 31 December 2013 and consists of 7,364,965,630 ordinary shares, including treasury shares, at US$ 0.01 par value share. In addition as at 30 June 2014 and 31 December 2013 share capital includes hyperinflation adjustment totalling US$'mln 324, 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 2014 the statutory profit of the Company as reported in the published statutory reporting forms was US$'mln 689 (for the six months ended 30 June 2013: US$'mln 490). 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

	Purchase of non-controlling interest	Available-for-sale investments	Recognition of accumulated actuarial (loss)/gain	Total other reverves
Balance as at 1 January 2013	**(22)**	**1**	**(228)**	**(249)**
Actuarial gain on post employment benefit obligations	-	-	59	59
Purchase of non-controlling interest	11	-	-	11
Balance at 30 June 2013	**(11)**	**1**	**(169)**	**(179)**
Balance as at 1 January 2014	**(10)**	**1**	**(228)**	**(237)**
Actuarial gain on post employment benefit obligations	-	-	20	20
Balance as at 30 June 2014	**(10)**	**1**	**(208)**	**(217)**

Dividends

On 28 June 2014 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2013 totalling US$'mln 322. Dividends per share amounted to US$ 0.04.

On 29 June 2013 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2012 totalling US$'mln 250, including dividends on shares held by subsidiaries of the Group totalling US$'mln 5. Dividends per share amounted to US$ 0.03.

(in millions of US $, unless otherwise stated)

9. LONG-TERM DEBT

	30 June 2014	31 December 2013
Bank loans:		
US$ denominated fixed rate	1,525	285
US$ denominated floating rate	600	600
RR denominated fixed rate	-	-
	2,125	**885**
Eurobonds	1,500	1,500
RR denominated non-convertible bonds	596	612
Finance lease obligation	14	18
Other RR denominated fixed rate loans	25	36
	4,260	**3,051**
Less: current portion of long-term debt (note 11)	(823)	(537)
Total long-term debt	**3,437**	**2,514**

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

As at 30 June 2014 the fair value of Eurobonds and RR denominated non-convertibe bonds comprised US$'mln 1,628 and US$'mln 607, respectively (31 December 2013: US$'mln 1,532 and US$'mln 624, respectively).

(in millions of US $, unless otherwise stated)

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

	30 June 2014	31 December 2013
Bank loans:		
US$ denominated floating rate	-	500
US$ denominated fixed rate	-	630
RR denominated fixed rate	4	4
	4	**1,134**
Other RR denominated fixed rate loans	20	49
	24	**1,183**
Add: current portion of long-term debt (note 10)	823	537
Total short-term debt and current portion of long-term debt	**847**	**1,720**

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.

11. TRADE AND OTHER PAYABLES

	30 June 2014	31 December 2013
Accrual for employee flights and holidays	226	214
Trade payables	170	178
Wages and salaries	96	168
Advances from customers	57	20
Current portion of provision for social obligation	42	34
Interest payable	30	30
Current accounts of third parties in MAK Bank LLC	14	53
Other payables and accruals	42	36
Total trade and other payables	**677**	**733**

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	49	51
Property tax	33	29
Extraction tax	20	20
Value added tax	16	22
Personal income tax (employees)	10	15
Other taxes and accruals	5	8
Total taxes payable, other than income tax	**133**	**145**

(in millions of US $, unless otherwise stated)

12. 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	26	28	51	58
Other taxes and accruals	5	3	8	8
Total	**31**	**31**	**59**	**66**

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 US$'mln 34 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	144	86	264	171
Adjustments recognised in the period for current tax of prior periods	12	-	18	-
Deferred tax benefit	(7)	(4)	(25)	(4)
Total income tax expense	**149**	**82**	**257**	**167**

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	575	615
Fair value of plan assets	(275)	(276)
Pension obligations for the funded plan	300	339
Present value of unfunded obligation	30	32
Net liability	**330**	**371**

(in millions of US $, 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	**655**	**(222)**	**433**
Current service cost	3	-	3
Interest expense/(income)	11	(3)	8
	14	**(3)**	**11**
Remeasurements:			
Return on plan assets, excluding amount included in interest expense/(income)	(73)	(5)	(78)
	(73)	**(5)**	**(78)**
Contributions paid by employer	-	(51)	(51)
Benefit payments	(4)	4	-
	(4)	**(47)**	**(51)**
Translation difference	(29)	12	(17)
As at 30 June 2013	**563**	**(265)**	**298**

	Present value of obligation	Fair value of plan assets	Total
As at 31 March 2014	**542**	**(246)**	**296**
Current service cost	3	-	3
Past service cost	(4)	-	(4)
Interest expense/(income)	12	(5)	7
	11	**(5)**	**6**
Remeasurements:			
Return on plan assets, excluding amount included in interest expense/(income)	-	7	7
Loss from change in financial assumptions	21	-	21
	21	**7**	**28**
Contributions paid by employer	-	(18)	(18)
Benefit payments	(3)	3	-
	(3)	**(15)**	**(18)**
Translation difference	34	(16)	18
As at 30 June 2014	**605**	**(275)**	**330**

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	**666**	**(237)**	**429**
Current service cost	7	-	7
Interest expense/(income)	23	(8)	15
	30	**(8)**	**22**
Remeasurements:			
Return on plan assets, excluding amount included in interest expense/(income)	-	(1)	(1)
Gain from change in financial assumptions	(74)	-	(74)
	(74)	**(1)**	**(75)**
Contributions paid by employer	-	(53)	(53)
Benefit payments	(14)	14	-
	(14)	**(39)**	**(53)**
Translation difference	(45)	20	(25)
As at 30 June 2013	**563**	**(265)**	**298**

(in millions of US $, unless otherwise stated)

14. PROVISION FOR PENSION OBLIGATION (CONTINUED)

	Present value of obligation	Fair value of plan assets	Total
As at 1 January 2014	**647**	**(276)**	**371**
Current service cost	6	-	6
Past service cost	(4)	-	(4)
Interest expense/(income)	24	(10)	14
	26	**(10)**	**16**
Remeasurements:			
Return on plan assets, excluding amount included in interest expense/(income)	-	12	12
Gain from change in financial assumptions	(37)	-	(37)
	(37)	**12**	**(25)**
Contributions paid by employer	-	(21)	(21)
Benefit payments	(13)	13	-
	(13)	**(8)**	**(21)**
Translation difference	(18)	7	(11)
As at 30 June 2014	**605**	**(275)**	**330**

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	1,076	1,040	2,379	2,031
Domestic	148	148	301	340
Revenue from diamonds for resale	4	3	14	12
Total revenue from diamond sales	**1,228**	**1,191**	**2,694**	**2,383**
Other revenue:				
Gas	43	35	94	57
Social infrastructure	23	22	62	48
Transport	36	41	60	65
Trading	11	23	18	25
Construction	1	4	2	5
Other	26	35	56	65
Total revenue	**1,368**	**1,351**	**2,986**	**2,648**

Export duties totalling US$'mln 70 and US$'mln 159 for the three and six months ended 30 June 2014, respectively (three and six months ended 30 June 2013: US$'mln 69 and US$'mln 136, respectively) were netted against revenue from diamond export sales.

(in millions of US $, 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	255	251	479	502
Depreciation	104	112	212	218
Extraction tax	89	79	186	159
Fuel and energy	89	98	171	202
Materials	70	92	103	126
Transport	18	19	57	34
Services	33	17	53	38
Cost of diamonds for resale	4	1	14	10
Impairment of inventories	-	-	3	3
Other	-	1	2	1
Movement in inventory of diamonds, ores and sands	(30)	(60)	145	(28)
Total cost of sales	**632**	**610**	**1,425**	**1,265**

Wages, salaries and other staff costs include payments to social funds in the amount of US$'mln 64 and US$'mln 126 for the three and six months ended 30 June 2014, respectively (for the three and six months ended 30 June 2013: US$'mln 60 and US$'mln 115, respectively).

Depreciation totalling US$'mln 20 and US$'mln 37 for the three and six months ended 30 June 2014, respectively (for the three and six months ended 30 June 2013: US$'mln 7 and US$'mln 24, respectively) and wages, salaries and other staff costs totalling US$'mln 47 and US$'mln 87 for the three and six months ended 30 June 2014, respectively (for the three and six months ended 30 June 2013: US$'mln 18 and US$'mln 41, 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	47	44	85	76
Services and other administrative expenses	33	37	53	66
Impairment of accounts receivable	5	5	4	6
Total general and administrative expenses	**85**	**86**	**142**	**148**

Wages, salaries and other staff costs include payments to social funds in the amount of US$'mln 5 and US$'mln 12 for the three and six months ended 30 June 2014, respectively (for the three and six months ended 30 June 2013: US$'mln 5 and US$'mln 10, 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	10	9	19	19
Services and other selling and marketing expenses	10	6	19	18
Total selling and marketing expenses	**20**	**15**	**38**	**37**

Wages, salaries and other staff costs include payments to social funds in the amount of US$'mln 2 and US$'mln 4 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 US$'mln 2 and US$'mln 5, respectively).

(in millions of US $, 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)	4	82	4	82
Other	3	9	6	19
Total other operating income	**7**	**91**	**10**	**101**

20. OTHER OPERATING EXPENSES

	Three months ended		Six months ended	
	30 June 2014	**30 June 2013**	**30 June 2014**	**30 June 2013**
Exploration expenses	42	49	98	131
Social costs	42	33	62	55
Taxes other than income tax, extraction tax and payments to social funds (Note 13)	31	31	59	66
Loss/(gain) on disposal of property, plant and equipment	12	(1)	19	18
Other	6	27	17	33
Total other operating expenses	**133**	**139**	**255**	**303**

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	18	13	28	23
Charity	19	14	25	22
Hospital expenses	2	2	3	2
Education	1	1	2	2
Other	2	3	4	6
Total social costs	**42**	**33**	**62**	**55**

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	10	-	13	3
Interest expense:				
Eurobonds	(31)	(30)	(62)	(61)
Bank loans	(18)	(17)	(33)	(31)
RR denominated non-convertible bonds	(13)	(23)	(25)	(48)
European commercial paper	-	(1)	-	(4)
Other	(9)	(2)	(16)	(4)
Unwinding of discount of future provisions	(1)	(3)	(4)	(5)
Exchange (loss)/gain, net	194	(163)	(92)	(202)
Total finance (costs)/income, net	**132**	**(239)**	**(219)**	**(352)**

(in millions of US $, unless otherwise stated)

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	**917**	**636**
Adjustments for:		
Share of net profit of associates and joint ventures (note 4)	(17)	(12)
Interest income (note 21)	(13)	(3)
Interest expense (note 21)	140	153
Loss on disposal of property, plant and equipment (note 20)	19	18
Depreciation (notes 6, 16)	215	223
Gain on disposal of subsidiaries (note 19)	(4)	(82)
Adjustment for inventory used in construction	(34)	(22)
Withdrawals from/(payments to) restricted cash account	4	(2)
Unrealised foreign exchange effect on non-operating items	84	214
Net operating cash flows before changes in working capital	**1,311**	**1,123**
Net decrease/(increase) in inventories	87	(29)
Net increase in receivables, excluding dividends receivable and consideration receivable for disposed controlling interest in OJSC MMC Timir	(41)	(70)
Net increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(50)	(54)
Net (decrease)/increase in taxes payable, excluding income tax	(14)	9
Cash inflows from operating activity	**1,293**	**979**
Income tax paid	(277)	(200)
Net cash inflows from operating activities	**1,016**	**779**

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 US$’mln 203 (31 December 2013: US$’mln 150).

(in millions of US $, unless otherwise stated)

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 US$'mln 94 (31 December 2013: US$'mln 94).

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**
Statement of financial position		
Short-term accounts receivable	101	66
Short-term accounts payable	23	16
Loans received by the Group	685	775
Loans issued by the Group	11	20
Deposits, cash and cash equivalents	678	154

(in millions of US $, unless otherwise stated)

24. RELATED PARTY TRANSACTIONS (CONTINUED)

	Three months ended		Six months ended	
Financial statements line item	**30 June 2014**	**30 June 2013**	**30 June 2014**	**30 June 2013**
Statement of profit or loss and other comprehensive income				
Sales of diamonds	37	66	84	129
Other sales	39	39	91	51
Electricity and heating expenses	(22)	(19)	(73)	(69)
Other purchases	(64)	(47)	(75)	(59)
Interest income	6	2	8	4
Interest expense	(8)	(7)	(15)	(14)

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 US$’mln 5 and US$’mln 17, respectively (three and six months ended 30 June 2013: US$’mln 13 and US$’mln 17, respectively).

Associates and joint ventures

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

Long-term accounts receivable	**30 June 2014**	**31 December 2013**
OJSC MMC Timir, loans issued	10	9
Total long-term accounts receivable	**10**	**9**

Current accounts receivable	**30 June 2014**	**31 December 2013**
Catoca, dividends receivable	33	23
OJSC MMC Timir, loans issued	24	26
Other	-	1
Total current accounts receivable	**57**	**50**

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.

(in millions of US $, unless otherwise stated)

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 30 June 2014	Diamonds segment	Transportation	Social infrastructure	Construction activity	Trading	Electricity production	Other activities	Total
Revenue	1,298	43	28	20	12	22	78	1,501
Intersegment revenue	-	(7)	(6)	(18)	-	(18)	(17)	(66)
Cost of sales, incl.	348	42	44	21	8	15	73	551
depreciation	68	4	-	4	1	4	17	98
Gross margin	**950**	**1**	**(16)**	**(1)**	**4**	**7**	**5**	**950**

Three months ended 30 June 2013	Diamonds segment	Transportation	Social infrastructure	Construction activity	Trading	Electricity production	Other activities	Total
Revenue	1,260	72	22	37	23	22	67	1,503
Intersegment revenue	-	(31)	-	(33)	-	(18)	(21)	(103)
Cost of sales, incl.	415	76	39	38	2	16	59	645
depreciation	86	5	-	2	-	5	11	109
Gross margin	**845**	**(4)**	**(17)**	**(1)**	**21**	**6**	**8**	**858**

Six months ended 30 June 2014	Diamonds segment	Transportation	Social infrastructure	Construction activity	Trading	Electricity production	Other activities	Total
Revenue	2,853	72	73	35	21	56	184	3,294
Intersegment revenue	-	(12)	(11)	(30)	(2)	(48)	(56)	(159)
Cost of sales, incl.	908	81	98	36	14	34	148	1,319
depreciation	144	7	1	4	2	8	31	197
Gross margin	**1,945**	**(9)**	**(25)**	**(1)**	**7**	**22**	**36**	**1,975**

Six months ended 30 June 2013	Diamonds segment	Transportation	Social infrastructure	Construction activity	Trading	Electricity production	Other activities	Total
Revenue	2,519	104	48	55	25	57	153	2,961
Intersegment revenue	-	(38)	(1)	(50)	-	(48)	(51)	(188)
Cost of sales, incl.	875	122	82	56	2	36	110	1,283
depreciation	165	10	-	4	-	8	19	206
Gross margin	**1,644**	**(18)**	**(34)**	**(1)**	**23**	**21**	**43**	**1,678**

(in millions of US $, 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	**1,501**	**1,503**	**3,294**	**2,961**
Elimination of intersegment revenue	(66)	(103)	(159)	(188)
Reclassification of export duties [1]	(70)	(69)	(159)	(136)
Other adjustments and reclassifications	3	20	10	11
Revenue as per statement of profit or loss and other comprehensive income	**1,368**	**1,351**	**2,986**	**2,648**

[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	**551**	**644**	**1,319**	**1,283**
Adjustment for depreciation of property, plant and equipment [1]	7	4	16	12
Elimination of intersegment purchases	(49)	(103)	(128)	(188)
Accrued provision for pension obligation [2]	(18)	(42)	(18)	(40)
Reclassification of extraction tax [3]	89	90	186	165
Adjustment for inventories [4]	69	54	113	95
Accrual for employee flights and holidays [5]	1	(2)	2	2
Accrual for the part of expected annual bonus	21	-	21	-
Other adjustments	(2)	(3)	(2)	6
Reclassification of exploration expenses [6]	(27)	(22)	(57)	(33)
Other reclassifications	(10)	(10)	(27)	(37)
Cost of sales as per statement of profit or loss and other comprehensive income	**632**	**610**	**1,425**	**1,265**

[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 2014	**30 June 2013**	**30 June 2014**	**30 June 2013**
Belgium	633	622	1,485	1,262
Russian Federation	283	307	582	607
India	171	195	391	379
Israel	161	139	299	232
United Arab Emirates	58	36	102	60
China	40	38	82	68
Belarus	4	-	9	6
Angola	4	4	8	8
Armenia	1	4	2	7
Other countries	13	6	26	19
Total revenue	**1,368**	**1,351**	**2,986**	**2,648**

(in millions of US $, 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	7,893	6,666
Angola	82	89
Other countries	6	14
Total non-current assets (other than financial instruments)	**7,981**	**6,769**

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				31 December 2013			
	Level 1	Level 2	Level 3	**Total carrying value**	Level 1	Level 2	Level 3	**Total carrying value**
Available-for-sale investments	-	-	7	**7**	-	-	7	**7**
Total	**-**	**-**	**7**	**7**	**-**	**-**	**7**	**7**

(in millions of US $, 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	-	-	63	63
Other long-term receivables	-	-	6	6
Total assets	**-**	**-**	**69**	**69**
Long-term debt				
Loans from banks	-	2,125	-	2,125
Eurobonds	1,500	-	-	1,500
RR denominated non-convertible bonds	596	-	-	596
Finance lease obligation	-	-	14	14
Other RR denominated fixed rate loans	-	25	-	25
Total non-current liabilities	**2,096**	**2,150**	**14**	**4,260**
Short-term debt and other payables				
Loans from banks	-	4	-	4
Other RR denominated fixed rate loans	-	20	-	20
Total current liabilities	**-**	**24**	**-**	**24**
Total liabilities	**2,096**	**2,174**	**14**	**4,284**

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	-	-	88	88
Notes receivable	-	-	3	3
Other long-term receivables	-	-	3	3
Total assets	**-**	**-**	**94**	**94**
Long-term debt				
Loans from banks	-	885	-	885
Eurobonds	1,500	-	-	1,500
RR denominated non-convertible bonds	612	-	-	612
Finance lease obligation	-	-	18	18
Other RR denominated fixed rate loans	-	36	-	36
Total non-current liabilities	**2,112**	**921**	**18**	**3,051**
Short-term debt and other payables				
Loans from banks	-	1,134	-	1,134
Other RR denominated fixed rate loans	-	49	-	49
Total current liabilities	**-**	**1,183**	**-**	**1,183**
Total liabilities	**2,112**	**2,104**	**18**	**4,234**

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.