OJSC ALROSA

INTERNATIONAL ACCOUNTING STANDARD No. 34

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2014

(in millions of Russian roubles, unless otherwise stated)

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(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Financial Position (unaudited)

	Notes	31 March 2014	31 December 2013
Assets			
Non-current Assets			
Goodwill		1,439	1,439
Property, plant and equipment	6	219,333	215,277
Investments in associates and joint ventures	4	5,010	4,558
Available-for-sale investments		246	243
Long-term accounts receivable	8	2,900	3,436
Restricted cash		194	249
Total Non-current Assets		**229,122**	**225,202**
Current Assets			
Inventories	7	54,124	60,611
Prepaid income tax		50	106
Current accounts receivable	8	14,740	16,067
Cash and cash equivalents	5	16,143	9,270
Assets of disposal group classified as held for sale	4.1	43,692	43,615
Total Current Assets		**128,749**	**129,669**
Total Assets		**357,871**	**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	144,709	136,901
Equity attributable to owners of OJSC ALROSA		**167,606**	**159,800**
Non-Controlling Interest in Subsidiaries		**40**	**(339)**
Total Equity		**167,646**	**159,461**
Liabilities			
Non-current Liabilities			
Long-term debt	10	87,852	82,296
Provision for pension obligations	14	10,556	12,157
Other provisions		3,994	3,968
Deferred tax liabilities		2,594	3,282
Total Non-current Liabilities		**104,996**	**101,703**
Current Liabilities			
Short-term debt and current portion of long-term debt	11	49,079	56,295
Trade and other payables	12	22,246	24,001
Income tax payable		2,832	1,776
Other taxes payable	13	4,898	4,758
Dividends payable		49	461
Liabilities of disposal group classified as held for sale	4.1	6,125	6,416
Total Current Liabilities		**85,229**	**93,707**
Total Liabilities		**190,225**	**195,410**
Total Equity and Liabilities		**357,871**	**354,871**

Signed on 11 June 2014 by the following members of management:

Fedor B. Andreev
President

Elena L. Timonina
Chief accountant

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

(in millions of Russian roubles, unless otherwise stated)

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

		Three months ended	
	Notes	**31 March 2014**	**31 March 2013**
Revenue	15	56,291	39,459
Cost of sales	16	(27,881)	(19,935)
Royalty	13	(302)	(302)
Gross profit		**28,108**	**19,222**
General and administrative expenses	17	(1,994)	(1,905)
Selling and marketing expenses	18	(643)	(668)
Other operating income		723	313
Other operating expenses	19	(4,294)	(4,977)
Operating profit		**21,900**	**11,985**
Finance income	20	617	1,163
Finance costs	21	(12,964)	(4,601)
Share of net profit of associates and joint ventures	4	291	286
Profit before income tax		**9,844**	**8,833**
Income tax	13	(3,785)	(2,575)
Profit for the period		**6,059**	**6,258**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations, net of tax		1,840	(113)
Total items that will not be reclassified to profit or loss		**1,840**	**(113)**
Items that will be reclassified to profit or loss:			
Currency translation differences, net of tax		350	(905)
Total items that will be reclassified to profit or loss		**350**	**(905)**
Other comprehensive income / (loss) for the period		**2,190**	**(1,018)**
Total comprehensive income for the period		**8,249**	**5,240**
Profit attributable to:			
Owners of OJSC ALROSA		5,680	6,094
Non-controlling interest		379	164
Profit for the period		**6,059**	**6,258**
Total comprehensive income attributable to:			
Owners of OJSC ALROSA		7,870	5,076
Non-controlling interest		379	164
Total comprehensive income for the period		**8,249**	**5,240**
Basic and diluted earnings per share for profit attributable to the owners of OJSC ALROSA (in Roubles)		**0.77**	**0.79**

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

	Notes	Three months ended 31 March 2014	Three months ended 31 March 2013
Net Cash Inflow from Operating Activities	22	**28,425**	**14,546**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(8,338)	(6,579)
Proceeds from sales of property, plant and equipment		484	27
Proceeds from sale of non-controlling share in subsidiary		-	226
Disposals from purchase of available-for-sale investments		(3)	(2)
Interest received		114	98
Dividends received from associates		317	-
Acquisition of OAO Nizhne-Lenskoe less cash acquired on acquisition of subsidiary	4.2	-	(3,659)
Net Cash Outflow from Investing Activities		**(7,426)**	**(9,889)**
Cash Flows from Financing Activities			
Repayments of loans		(46,375)	(21,511)
Loans received		33,942	25,318
Proceeds/(disposals) from sale/(purchase) of treasury shares		(65)	206
Interest paid		(1,001)	(2,060)
Dividends paid		(413)	(476)
Net Cash (Outflow) / Inflow from Financing Activities		**(13,912)**	**1,477**
Net Increase in Cash and Cash Equivalents		**7,087**	**6,134**
Cash and cash equivalents at the beginning of the period*		10,408	6,242
Exchange gains on cash and cash equivalents		193	11
Cash and Cash Equivalents at the End of the Period*		**17,688**	**12,387**

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

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

		Attributable to owners of OJSC ALROSA							
	Number of shares outstanding	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2012	**7,213,444,600**	**12,473**	**10,431**	**(254)**	**(8,651)**	**117,014**	**131,013**	**(448)**	**130,565**
Comprehensive income									
Profit for the period		-	-	-	-	6,094	6,094	164	6,258
Other comprehensive income		-	-	-	(1,018)	-	(1,018)	-	(1,018)
Total comprehensive income for the period		**-**	**-**	**-**	**(1,018)**	**6,094**	**5,076**	**164**	**5,240**
Transactions with owners									
Acquisition of OJSC Nizhne-lenskoe		-	-	-	-	-	-	3,526	3,526
Sale / (purchase) of non-controlling interest		-	-	-	255	-	255	(39)	216
Sale of treasury shares	6,312,000	-	-	11	-	195	206	-	206
Total transactions with owners		**-**	**-**	**11**	**255**	**195**	**461**	**3,487**	**3,948**
Balance at 31 March 2013	**7,219,756,600**	**12,473**	**10,431**	**(243)**	**(9,414)**	**123,303**	**136,550**	**3,203**	**139,753**
Balance at 31 December 2013	**7,360,112,830**	**12,473**	**10,431**	**(5)**	**(7,241)**	**144,142**	**159,800**	**(339)**	**159,461**
Comprehensive income									
Profit for the period		**-**	**-**	**-**	**-**	**5,680**	**5,680**	**379**	**6,059**
Other comprehensive income		-	-	-	2,190	-	2,190	-	2,190
Total comprehensive income for the period		**-**	**-**	**-**	**2,190**	**5,680**	**7,870**	**379**	**8,249**
Transactions with owners									
Purchase of treasury shares	(1,851,900)	-	-	(2)	-	(62)	(64)	-	(64)
Total transactions with owners		**-**	**-**	**(2)**	**-**	**(62)**	**(64)**	**-**	**(64)**
Balance as at 31 March 2014	**7,358,260,930**	**12,473**	**10,431**	**(7)**	**(5,051)**	**149,760**	**167,606**	**40**	**167,646**

1. ACTIVITIES

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

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

As at 31 December 2012 Company's principal shareholders were the governments of the Russian Federation (50.9 per cent. of shares) and the Republic of Sakha (Yakutia) (32.0 per cent. of shares). On 28 October 2013, as a result of the international offering of the Company's 1,181,332,741 existing ordinary shares Governments of the Russian Federation and the Republic of Sakha (Yakutia) each sold 515,547,593 Company's shares, as a result of this transaction their shares in the Company reduced to 43.9 per cent. and 25.0 per cent., respectively, and remained on that level as at 31 March 2014. In addition, in the course of this transaction one of the Group's subsidiaries sold 150,237,555 of the Company's shares which were previously recognised in the Group's consolidated financial statements as treasury shares.

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

2. BASIS OF PRESENTATION

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 35.69 and 32.73 as at 31 March 2014 and 31 December 2013, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 49.05 and 44.97 as at 31 March 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.

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

In 2014 the Group has adopted all IFRS, amendments and interpretations which are effective as at 1 January 2014 and which are relevant to its operations. The adoption of these standards and amendments did not impact the condensed consolidated interim financial information of the Group.

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 by the Group.

(in millions of Russian roubles, unless otherwise stated)

4. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

Name	Principal activity	Country of Incorporation	Notes	Percentage of ownership interest held	
				31 March 2014	31 December 2013
ALROSA Finance S.A.	Financial services	Luxembourg		100.0	100.0
CJSC Irelyakhneft	Oil production	Russia		100.0	100.0
OJSC ALROSA-Gaz	Gas production	Russia		100.0	100.0
ALROSA-VGS LLC	Capital construction	Russia		100.0	100.0
OJSC Almazy Anabara	Diamonds production	Russia		100.0	100.0
CJSC Geotransgaz	Gas production	Russia	4.1	100.0	100.0
Urengoy Gaz Company Ltd.	Gas production	Russia	4.1	100.0	100.0
OJSC Nizhne-Lenskoe	Diamonds production	Russia	4.2	100.0	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

As at 31 March 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.

As at 31 March 2014 and 31 December 2013 the assets and liabilities related to CJSC Geotransgaz and Urengoy Gaz Company Ltd. (the "Gas companies") have been presented as held for sale following Supervisory Council approval of the decision to dispose of these operations. The completion date of the transaction is expected to be before the year end. The Gas companies assets and liabilities are a disposal group. However, the Gas companies are not discontinued operations at 30 September 2013, as they do not represent a major line of business of the Group.

Gas companies contributed revenue of RUR'mln 1,791 and net income of RUR'mln 366 to the Group for the three months ended 31 March 2014. Gas companies contributed revenue of RUR'mln 668 and net loss of RUR'mln 218 to the Group for the three months ended 31 March 2013.

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

	31 March 2014
Assets classified as held for sale	
Property, plant and equipment	41,131
Inventories	315
Trade and other receivables	701
Cash and cash equivalents	1,545
Total assets of the disposal group classified as held for sale	**43,692**
Liabilities classified as held for sale	
Trade and other payables	596
Deferred tax liability	5,529
Total liabilities of the disposal group classified as held for sale	**6,125**
Total net assets of the disposal group classified as held for sale	**37,567**

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 Gas companies, CJSC Irelyakhneft, OJSC ALROSA-Gaz and related assets to Rosneft for an aggregate sale price of approximately US$1.38 billion. Disposal of Gas companies is to be completed by 30 April 2014. If disposal is not completed by this date the parties should negotiate additional terms for the completion of the deal. As at 31 March 2014 the management of ALROSA believed that the completion was probable. Rosneft's obligations to acquire CJSC Irelyakhneft and OJSC ALROSA-Gaz are contingent on the completion of the acquisition of Gas Companies. As at 31 March 2014 there were still a number of uncertainties related to possible disposal of CJSC Irelyakhneft and OJSC ALROSA-Gaz, accordingly their assets and liabilities were not classified as held for sale in this condensed consolidated interim financial information.

(in millions of Russian roubles, unless otherwise stated)

4.2. Acquisition of OJSC Nizhne-Lenskoe

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

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

Property, plant and equipment	12,726
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. OJSC Nizhne-Lenskoe contributed revenue of RR’mln 3,978 and net profit of RR’mln 872 to the Group for the three months ended 31 March 2014. OJSC Nizhne-Lenskoe contributed revenue of RR’mln 70 and net loss of RR’mln 213 to the Group for the period from the date of acquisition to 31 March 2013.

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

Associates and joint ventures

Name	**Country of Incorporation**	**Percentage of ownership interest held at**		**Carrying value of investment at**		**Group’s share of net profit/(loss) for 3 months ended**	
		31 March 2014	**31 December 2013**	**31 March 2014**	**31 December 2013**	**31 March 2014**	**31 March 2013**
OJSC MMC Timir	Russia	49.0	49.0	2,177	2,190	(13)	-
Catoca Mining Company Ltd	Angola	32.8	32.8	2,161	1,704	303	274
OJSC Almazergienbank	Russia	22.8	22.8	442	442		-
Other	Russia	20-50	20-50	230	222	1	12
Total carrying value of investment				**5,010**	**4,558**	**291**	**286**

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

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

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

Catoca Mining Company Ltd. (“Catoca”) is a diamond-mining venture located in Angola. Currency translation gain recognised in the condensed consolidated interim statement of profit and loss and other comprehensive income for the three months ended 31 March 2014 in respect of investment in Catoca totalled RR’mln 154. Currency translation gain recognised in the condensed consolidated interim statement of profit and loss and other comprehensive income for the three months ended 31 March 2013 in respect of investment in Catoca totalled RR’mln 44.

(in millions of Russian roubles, unless otherwise stated)

5. CASH AND CASH EQUIVALENTS

	31 March 2014	31 December 2013
Cash in banks and on hand	11,593	5,468
Deposit accounts	4,550	3,802
Total cash and cash equivalents	**16,143**	**9,270**

At 31 March 2014 the weighted average interest rate on the cash balances of the Group was 2.19 per cent. (31 December 2013: 2.61 per cent.).

6. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	TOTAL
As at 31 December 2012			
Cost	284,745	48,631	333,376
Accumulated depreciation and impairment losses	(107,602)	(1,028)	(108,630)
Net book value as at 31 December 2012	**177,143**	**47,603**	**224,746**
Three months ended 31 March 2013			
Net book value as at 31 December 2012	177,143	47,603	224,746
Foreign exchange differences	57	-	57
Additions	860	6,152	7,012
Additions through acquisition of OAO Nizhne-Lenskoe (note 4.2)	12,716	10	12,726
Transfers	1,872	(1,872)	-
Other disposals – at cost	(1,321)	(182)	(1,503)
Other disposals – accumulated depreciation	407	-	407
Depreciation charge for the period	(3,736)	-	(3,736)
Net book value as at 31 March 2013	**187,998**	**51,711**	**239,709**
As at 31 March 2013			
Cost	298,929	52,739	351,668
Accumulated depreciation and impairment losses	(110,931)	(1,028)	(111,959)
Net book value as at 31 March 2013	**187,998**	**51,711**	**239,709**
As at 31 December 2013			
Cost	276,341	58,191	334,532
Accumulated depreciation and impairment losses	(118,227)	(1,028)	(119,255)
Net book value as at 31 December 2013	**158,114**	**57,163**	**215,277**
Three months ended 31 March 2014			
Net book value as at 31 December 2013	158,114	57,163	215,277
Foreign exchange differences	299	-	299
Additions	3,823	4,867	8,690
Transfers	4,670	(4,670)	-
Disposal of assets held for sale - at cost (note 4.1)	(8)	(168)	(176)
Disposal of assets held for sale - accumulated depreciation (note 4.1)	318	-	318
Other disposals – at cost	(1,170)	(99)	(1,269)
Other disposals – accumulated depreciation	760	-	760
Change in estimate of provision for land recultivation	(28)	-	(28)
Depreciation charge for the period	(4,538)	-	(4,538)
Net book value as at 31 March 2014	**162,240**	**57,093**	**219,333**
As at 31 March 2014			
Cost	283,927	58,121	342,048
Accumulated depreciation and impairment losses	(121,687)	(1,028)	(122,715)
Net book value as at 31 March 2014	**162,240**	**57,093**	**219,333**

Capitalised borrowing costs

As at 31 March 2014 borrowing costs totalling RR'mln 20 (as at 31 March 2013: RR'mln 21) were capitalised in property, plant and equipment. In accordance with transitional rules of revised IAS 23 "Borrowing costs", borrowing costs are capitalised for projects commencing after 1 January 2009.

(in millions of Russian roubles, unless otherwise stated)

7. INVENTORIES

	31 March 2014	31 December 2013
Diamonds	21,769	31,411
Ores and concentrates	13,274	9,795
Mining and construction materials	15,894	16,145
Consumable supplies	3,187	3,260
Total inventories	**54,124**	**60,611**

8. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 March 2014	31 December 2013
Loans issued	2,442	2,891
Receivables from associates and joint ventures (note 24)	284	284
Notes receivable	-	108
Long-term advances to suppliers	58	47
Long-term VAT recoverable	28	28
Other long-term receivables	88	78
Total long-term accounts receivable	**2,900**	**3,436**

Current accounts receivable	31 March 2014	31 December 2013
Consideration receivable for disposed controlling interest in OJSC MMC Timir	2,970	2,970
Prepaid taxes, other than income tax	2,502	2,878
Loans issued	1,912	2,067
VAT recoverable	1,608	1,685
Receivables from associates and joint ventures (note 24)	1,308	1,647
Advances to suppliers	1,046	1,347
Trade receivables for supplied diamonds	205	795
Other trade receivables	3,189	2,678
Total current accounts receivable	**14,740**	**16,067**

Trade and other receivables are presented net of impairment provision of RR'mln 4,917 and RR'mln 4,909 as at 31 March 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 31 March 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 31 March 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.

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 three months ended 31 March 2014 the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 6,114 (for the three months ended 31 March 2013 – RR'mln 5,466). 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 31 March 2014 and 31 December 2013 subsidiaries of the Group held 6,704,700 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 7,358,381,459 weighted average shares outstanding for the three months ended 31 March 2014 (for the three months ended 31 March 2013 – 7,212,067,885). There are no dilutive financial instruments outstanding.

(in millions of Russian roubles, unless otherwise stated)

Other reserves

	Currency translation	Purchase of non-controlling interest	Available-for-sale investments	Recognition of accumulated actuarial (loss) / gain	Total other reverves
Balance at 31 December 2012	**(928)**	**(542)**	**41**	**(7,222)**	**(8,651)**
Currency translation differences	(905)	-	-	-	(905)
Sale/purchase of non-controlling interest	-	255	-	-	255
Actuarial loss on post employment benefit obligation	-	-	-	(113)	(113)
Balance at 31 March 2013	**(1,833)**	**(287)**	**41**	**(7,335)**	**(9,414)**
Balance at 31 December 2013	**88**	**(169)**	**41**	**(7,201)**	**(7,241)**
Currency translation differences	350	-	-	-	350
Actuarial gain on post employment benefit obligations	-	-	-	1,840	1,840
Balance at 31 March 2014	**438**	**(169)**	**41**	**(5,361)**	**(5,051)**

Dividends

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

10. LONG-TERM DEBT

	31 March 2014	31 December 2013
Bank loans:		
US$ denominated floating rate	21,412	19,638
US$ denominated fixed rate	10,171	9,328
RR denominated fixed rate	8	8
	31,591	**28,974**
Eurobonds	53,524	49,088
RR denominated non-convertible bonds	20,044	20,044
Finance lease obligation	594	584
Other RR denominated fixed rate loans	927	1,187
	106,680	**99,877**
Less: current portion of long-term debt (see note 11)	(18,828)	(17,581)
Total long-term debt	**87,852**	**82,296**

As at 31 March 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:

	31 March 2014	31 December 2013
Bank loans:		
US$ denominated floating rate	3.9%	3.9%
US$ denominated fixed rate	4.8%	4.8%
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	7.0%	6.4%

(in millions of Russian roubles, unless otherwise stated)

Eurobonds

	Three months ended	
	31 March 2014	**31 March 2013**
Balance at the beginning of the period	**49,088**	**45,548**
Amortisation of discount	3	3
Exchange losses	4,433	1,066
Balance at the end of the period	**53,524**	**46,617**

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

	31 March 2014	**31 December 2013**
Bank loans:		
US$ denominated floating rate	8,565	16,365
US$ denominated fixed rate	20,699	20,619
RR denominated fixed rate	80	115
	29,344	**37,099**
Other RR denominated fixed rate loans	907	1,615
	30,251	**38,714**
Add: current portion of long-term debt (note 10)	18,828	17,581
Total short-term debt and current portion of long-term debt	**49,079**	**56,295**

The average effective interest rates were as follows:

	31 March 2014	**31 December 2013**
Banks loans:		
US$ denominated floating rate	1.3%	1.7%
US$ denominated fixed rate	1.7%	2.3%
RR denominated fixed rate	11.8%	11.1%
Other RR denominated fixed rate loans	0.8%	1.1%

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

12. TRADE AND OTHER PAYABLES

	31 March 2014	**31 December 2013**
Accrual for employee flights and holidays	8,046	6,995
Trade payables	5,324	5,815
Wages and salaries	2,995	5,514
Interest payable	2,140	998
Current portion of provision for social obligation	1,122	1,122
Advances from customers	1,036	643
Current accounts of third parties in MAK Bank LLC	505	1,751
Payables to associates and joint ventures	18	7
Other payables and accruals	1,060	1,156
Total trade and other payables	**22,246**	**24,001**

13. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

	31 March 2014	**31 December 2013**
Payments to social funds	1,609	1,662
Extraction tax	1,097	964
Property tax	1,008	658
Personal income tax (employees)	437	732
Value added tax	426	475
Other taxes and accruals	321	267
Total taxes payable, other than income tax	**4,898**	**4,758**

(in millions of Russian roubles, unless otherwise stated)

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

	Three months ended	
	31 March 2014	**31 March 2013**
Property tax	892	929
Other taxes and accruals	105	140
Total taxes other than income tax expense	**997**	**1,069**

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	
	31 March 2014	**31 March 2013**
Current tax expense	4,220	2,587
Adjustments recognised in the period for current tax of prior periods	244	-
Deferred tax expense	(679)	(12)
Total income tax expense	**3,785**	**2,575**

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:

	31 March 2014	**31 December 2013**
Present value of funded obligations	18,358	20,122
Fair value of plan assets	(8,770)	(9,017)
Deficit of the funded plans	9,588	11,105
Present value of unfunded obligation	968	1,052
Liability in the condensed consolidated interim statement of financial position	**10,556**	**12,157**

Changes in the present value of funded and unfunded pension obligations and plan assets for the three months ended 31 March 2014 and the three months ended 31 March 2013 are as follows:

	Present value of obligation	**Fair value of plan assets**	**Total**
As at 01 January 2013	**20,231**	**(7,188)**	**13,043**
Current service cost	107	-	107
Interest expense / (income)	357	(128)	229
	464	**(128)**	**336**
Remeasurements:			
Return on plan assets, excluding amount included in interest expense / (income)	-	113	113
	-	**113**	**113**
Contributions paid by employer	-	(28)	(28)
Benefit payments	(322)	322	-
	(322)	**294**	**(28)**
As at 31 March 2013	**20,373**	**(6,909)**	**13,464**

(in millions of Russian roubles, unless otherwise stated)

	Present value of obligation	Fair value of plan assets	Total
As at 31 December 2013	**21,174**	**(9,017)**	**12,157**
Current service cost	106	-	106
Interest expense / (income)	424	(180)	244
	530	**(180)**	**350**
Remeasurements:			
Return on plan assets, excluding amount included in interest expense / (income)	-	180	180
Gain from changes in financial actuarial assumptions	(2,020)	-	(2,020)
	(2,020)	**180**	**(1,840)**
Contributions paid by employer	-	(111)	(111)
Benefit payments	(358)	358	-
	(358)	**247**	**(111)**
As at 31 March 20134	**19,326**	**(8,770)**	**10,556**

The significant actuarial assumptions are as follows:

	31 March 2014	31 December 2013
Discount rate (nominal)	8.8%	8.0%
Future salary increases (nominal)	7.0%	7.0%
Future pension increases (nominal)	5.5%	5.5%

15. REVENUE

	Three months ended	
	31 March 2014	**31 March 2013**
Revenue from diamond sales:		
Export	45,802	30,140
Domestic	5,371	5,833
Revenue from diamonds for resale	358	287
Total revenue from diamond sales	**51,531**	**36,260**
Other revenue:		
Transport	853	745
Social infrastructure	746	782
Trading	254	58
Construction	69	28
Sales of gas	1,791	668
Other	1,047	918
Total revenue	**56,291**	**39,459**

Export duties totalling RR'mln 3,117 for the three months ended 31 March 2014 (three months ended 31 March 2013: RR'mln 2,032) were netted against revenue from diamond export sales.

16. COST OF SALES

	Three months ended	
	31 March 2014	**31 March 2013**
Wages, salaries and other staff costs	7,876	7,642
Depreciation	3,806	3,211
Extraction tax	3,411	2,431
Fuel and energy	2,879	3,175
Transport	1,368	460
Materials	1,157	1,035
Services	686	650
Cost of diamonds for resale	357	267
Impairment of inventories	122	102
Other	56	7
Movement in inventory of diamonds, ores and concentrates	6,163	955
Total cost of sales	**27,881**	**19,935**

(in millions of Russian roubles, unless otherwise stated)

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 2,191 for the three months ended 31 March 2014 (for the three months ended 31 March 2013 in the amount of RR'mln 1,671).

Depreciation totalling RR'mln 601 for the three months ended 31 March 2014 (for the three months ended 31 March 2013: RR'mln 525) and wages, salaries and other staff costs totalling RR'mln 1,411 for the three months ended 31 March 2014 (for the three months ended 31 March 2013: RR'mln 708) were incurred by the Group's construction divisions and were capitalised in the respective periods.

17. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended	
	31 March 2014	**31 March 2013**
Wages, salaries and other staff costs	1,318	985
Services and other administrative expenses	698	880
(Reversal of impairment) / impairment of accounts receivable	(22)	40
Total general and administrative expenses	**1,994**	**1,905**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 231 for the three months ended 31 March 2014 (for the three months ended 31 March 2013 in the amount of RR'mln 155).

18. SELLING AND MARKETING EXPENSES

	Three months ended	
	31 March 2014	**31 March 2013**
Wages, salaries and other staff costs	326	296
Services and other selling and marketing expenses	317	372
Total selling and marketing expenses	**643**	**668**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 139 for the three months ended 31 March 2014 (for the three months ended 31 March 2013 in the amount of RR'mln 72).

19. OTHER OPERATING EXPENSES

	Three months ended	
	31 March 2014	**31 March 2013**
Exploration expenses	1,958	2,485
Taxes other than income tax, extraction tax and payments to social funds (note 13)	997	1,069
Social costs	679	668
Loss on disposal of property, plant and equipment	261	575
Other	399	180
Total other operating expenses	**4,294**	**4,977**

Social costs consist of:

	Three months ended	
	31 March 2014	**31 March 2013**
Maintenance of local infrastructure	347	305
Charity	226	245
Hospital expenses	25	15
Education	22	19
Other	59	84
Total social costs	**679**	**668**

(in millions of Russian roubles, unless otherwise stated)

20. FINANCE INCOME

	Three months ended	
	31 March 2014	**31 March 2013**
Exchange gains	503	1,065
Interest income	114	98
Total finance income	**617**	**1,163**

21. FINANCE COSTS

	Three months ended	
	31 March 2014	**31 March 2013**
Interest expense:		
Eurobonds	1,079	928
RR denominated non-convertible bonds	435	757
Bank loans	534	430
European commercial paper	-	97
Other	256	66
Unwinding of discount of future provisions	92	55
Exchange losses	10,568	2,268
Total finance costs	**12,964**	**4,601**

22. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash flows from operations:

	Three months ended	
	31 March 2014	**31 March 2013**
Profit before income tax	**9,844**	**8,833**
Adjustments for:		
Share of net profit of associates and joint ventures (note 4)	(291)	(286)
Interest income (note 20)	(114)	(98)
Interest expense (note 21)	2,396	2,333
Loss on disposal of property, plant and equipment (note 19)	261	575
Depreciation	3,937	3,211
Adjustment for inventory used in construction	(487)	(400)
Adjustment for non-cash financing activity	(6)	5
Proceeds from / (payments to) restricted cash account	55	(10)
Unrealised foreign exchange effect on non-operating items	10,188	859
Net operating cash flows before changes in working capital	**25,783**	**15,022**
Net increase in inventories	6,607	2,482
Net increase in receivables, excluding dividends receivable and consideration receivable for disposed controlling interest in OJSC MMC Timir	1,620	695
Net decrease in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(2,319)	(1,350)
Net increase in taxes payable, excluding income tax	190	600
Cash inflows from operating activity	**31,881**	**17,449**
Income tax paid	(3,456)	(2,903)
Net cash inflows from operating activities	**28,425**	**14,546**

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.

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

(b) Taxes

Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and / or the overall operations of the Group.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

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

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

As at 31 March 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 31 March 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 31 March 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 31 March 2014 the Group has contractual commitments for capital expenditures of RR'mln 4,766 (31 December 2013: RR'mln 4,898).

(f) Restoration, rehabilitation and environmental costs

Under its license agreements, the Group is not responsible for any significant restoration, rehabilitation and environmental expenditures that may be incurred subsequent to the cessation of production at each mine, apart from the obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. The Group recognised a provision for these future expenses in the amount of RR'mln 3,107 as at 31 March 2014 (RR'mln 3,076 as at 31 December 2013).

(in millions of Russian roubles, unless otherwise stated)

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 31 March 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 31 March 2014 8.0 per cent. of the Company's shares were owned by administrations of 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 were 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 and loss and other comprehensive income, the condensed consolidated interim statement of cash flows and in notes 13, 15, 16 and 22.

Parties under control of the Government

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

As at 31 March 2014 the accounts payable to the parties under Governmental control totalled RR'mln 529 (31 December 2013: RR'mln 518). As at 31 March 2014 the accounts receivable from the parties under Governmental control (excluding loans issued) totalled RR'mln 2,166 (31 December 2013: RR'mln 2,165). As at 31 March 2014 and 31 December 2013 the accounts receivable from the parties under Governmental control and accounts payable to the parties under Governmental control were non-interest bearing, had a maturity within one year and were denominated in Russian Roubles.

During the three months ended 31 March 2014 and 31 March 2013 the Group had the following significant transactions with the parties under Governmental control:

	Three months ended	
	31 March 2014	**31 March 2013**
Sales of diamonds	1,666	1,903
Electricity and heating expenses	2,163	1,940
Other sales	1,367	1,116
Other purchases	375	371

As at 31 March 2014 and 31 December 2013 the Group has no contractual commitments to sell goods or services to the parties under control of the Government. As at 31 March 2014 the Group has contractual commitments to purchase goods and services from the parties under control of the Government in the amount of approximately RR'mln 3,087 (31 December 2013: RR'mln 4,467).

As at 31 March 2014 the amount of loans received by the Group from the entities under Governmental control totalled RR'mln 29,798 (31 December 2013: RR'mln 25,366). During the three months ended 31 March 2014 interest expense accrued in respect to the loans received by the Group from the entities under Governmental control totalled RR'mln 257 (three months ended 31 March 2013: RR'mln 222).

As at 31 March 2014 the amount of loans issued by the Group to the entities under Governmental control totalled RR'mln 528 (31 December 2013: RR'mln 724). During the three months ended 31 March 2014 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR'mln 19 (three months ended 31 March 2013: RR'mln 22).

(in millions of Russian roubles, unless otherwise stated)

Acquisition of OJSC Nizhne-Lenskoe from the Government of Republic of Sakha (Yakutia) is disclosed in note 4.

Key management compensation

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

Before 25 April 2013 the Management Board consisted of 20 members. On 25 April 2013 the Company's Supervisory Council made a decision to reduce the number of Management Board members to 13. As at 31 March 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 months ended 31 March 2014 totalling RR'mln 428 (three months ended 31 March 2013: RR'mln 123).

Associates and joint ventures

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

Long-term accounts receivable	**31 March 2014**	**31 December 2013**
OJSC MMC Timir, loans issued	284	284
Total long-term accounts receivable	**284**	**284**

Current accounts receivable	**31 March 2014**	**31 December 2013**
Catoca, dividends and other receivables	456	785
OJSC MMC Timir, loans issued	840	840
Other	12	22
Total current accounts receivable	**1,308**	**1,647**

During the three months ended 31 March 2014 Catoca paid dividends for the Group in cash in the amount of RR'mln 317 (three months ended 31 March 2013: RR'mln nil). The Group recognised exchange gain related to dividends receivable from Catoca in the amount of RR'mln 28 for the three months ended 31 March 2014 (for the three months ended 31 March 2013 the Groud did non recognised any exchange gain related to dividends receivable from Catoca).

As at 31 March 2014 and 31 December 2013 the Group has no any contractual commitments to sell or purchase goods and services to / from its associates and joint ventures.

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 and loss is analysed by the CODM on entity by entity basis. The following items are analysed on the Group level and are not allocated between segments for the purposes of the analysis:

(in millions of Russian roubles, unless otherwise stated)

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

The following reportable segments were identified:

- Diamonds segment - production and sales of diamonds;
- Transportation;
- Social infrastructure;
- Construction activity;
- Trading;
- Electricity production; and
- Other activities.

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

Three months ended 31 March 2014	**Diamonds segment**	**Transportation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Revenue	54,648	1,024	963	542	304	1,210	3,714	62,405
Intersegment revenue	-	(171)	(169)	(457)	(73)	(1,068)	(1,268)	(3,206)
Cost of sales, incl.	19,669	1,380	1,906	540	216	673	2,596	26,980
depreciation	2,684	108	34	14	18	134	505	3,497
Gross margin	**34,979**	**(356)**	**(943)**	**2**	**88**	**537**	**1,118**	**35,425**
Three months ended 31 March 2013								
Revenue	38,292	973	803	542	57	1,052	2,628	44,347
Intersegment revenue	-	(228)	(21)	(514)	-	(916)	(912)	(2,591)
Cost of sales, incl.	14,005	1,412	1,301	553	10	610	1,553	19,444
depreciation	2,417	141	10	48	-	99	243	2,958
Gross margin	**24,287**	**(439)**	**(498)**	**(11)**	**47**	**442**	**1,075**	**24,903**

Reconciliation of revenue is presented below:

	Three months ended	
	31 March 2014	**31 March 2013**
Segment revenue	**62,405**	**44,347**
Elimination of intersegment revenue	(3,206)	(2,591)
Reclassification of export duties [1]	(3,117)	(2,032)
Other adjustments and reclassifications	209	(265)
Revenue as per statement of profit and loss and other comprehensive income	**56,291**	**39,459**

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

(in millions of Russian roubles, unless otherwise stated)

Reconciliation of cost of sales including depreciation is presented below:

	Three months ended	
	31 March 2014	**31 March 2013**
Segment cost of sales	**26,981**	**19,444**
Adjustment for depreciation of property, plant and equipment [1]	308	253
Elimination of intersegment purchases	(2,783)	(2,591)
Accrued provision for pension obligation [2]	(5)	71
Reclassification of extraction tax [3]	3,411	2,274
Adjustment for inventories [4]	1,557	1,245
Accrual for employee flights and holidays [5]	46	133
Other adjustments	-	262
Reclassification of exploration expenses [6]	(1,037)	(335)
Other reclassifications	(597)	(821)
Cost of sales as per statement of profit and loss and other comprehensive income	**27,881**	**19,935**

[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	
	31 March 2014	**31 March 2013**
Belgium	29,927	19,478
Russian Federation	9,964	9,139
India	7,742	5,606
Israel	4,853	2,830
United Arab Emirates	1,547	720
China	1,467	918
United States of America	325	308
Belarus	161	177
Angola	140	132
Switzerland	74	48
Armenia	41	98
Other countries	50	5
Total revenue	**56,291**	**39,459**

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

	31 March 2014	**31 December 2013**
Russian Federation	222,609	218,170
Angola	2,970	2,900
Other countries	477	447
Total non-current assets (other than financial instruments)	**226,056**	**221,517**

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

(in millions of Russian roubles, unless otherwise stated)

- 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

	At 31 March 2014				**At 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	-	-	246	**246**	-	-	243	**243**
Total	**-**	**-**	**246**	**246**	**-**	**-**	**243**	**243**

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

As at 31 March 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**
Trade and other receivables				
Current accounts receivable	-	-	9,584	9,584
Loans issued	-	-	2,442	2,442
Receivables from associates	-	-	284	284
Other long-term receivables	-	-	88	88
Total assets	**-**	**-**	**12,398**	**12,398**
Long-term debt				
Loans from banks	-	31,591	-	31,591
Eurobonds	53,524	-	-	53,524
RR denominated non-convertible bonds	20,044	-	-	20,044
Finance lease obligation	-	-	594	594
RR denominated fixed rate loans	-	927	-	927
Total non-current liabilities	**73,568**	**32,518**	**594**	**106,680**
Short-term debt				
Loans from banks	-	29,344	-	29,344
RR denominated fixed rate loans	-	907	-	907
Total current liabilities	**-**	**30,251**	**-**	**30,251**
Total liabilities	**73,568**	**62,769**	**594**	**136,931**

(in millions of Russian roubles, unless otherwise stated)

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
Trade and other receivables				
Current accounts receivable	-	-	10,157	10,157
Loans issued	-	-	2,891	2,891
Receivables from associates	-	-	284	284
Notes receivable	-	-	108	108
Other long-term receivables	-	-	78	78
Total assets	**-**	**-**	**13,518**	**13,518**
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
RR denominated fixed rate loans	-	1,187	-	1,187
Total non-current liabilities	**69,132**	**30,161**	**584**	**99,877**
Short-term debt				
Loans from banks	-	37,099	-	37,099
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**

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.

27. SUBSEQUENT EVENTS

Sale of Gas companies

As at 11 June 2014 the sale of Gas assets to Rosneft was not completed. Management of the Company and management of Rosneft are working on additional terms for the completion of the deal.

Sale of CJSC Irelyakhneft

On 31 May 2014 the Company sold 100% of shares in CJSC Irelyakhneft for a total cash consideration of RR'bln 1.8.

Dividends

On 24 April 2014 the Company's Supervisory Council recommended the annual shareholders' meeting which is scheduled for 28 June 2014 to approve dividends for the year ended 31 December 2013 in the amount of RR'mln 10,826 (RR 1.47 per share).

Borrowings

During the period between 1 April 2014 and 11 June 2014 the Group received US$ denominated fixed rate loans from several banks in the amount of US$ mln 1,440, which should be repaid during the period of 24 to 36 months. During the same period the Group repaid bank loans in the amount of US$ mln 1,020 in accordance with the terms of the respective loan agreements.