PJSC ALROSA

INTERNATIONAL ACCOUNTING STANDARD No. 34

CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION FOR THE THREE AND SIX MONTHS
ENDED 30 JUNE 2015 AND
REVIEW REPORT

CONTENTS

Report on Review of Condensed Consolidated Interim Financial Information

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Public Joint Stock Company AK ALROSA and its subsidiaries (the "Group") as of 30 June 2015, and the related condensed consolidated interim statements of profit or loss and other comprehensive income for the three month and six month periods then ended and cash flows and changes in equity for the six month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

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

AO PricewaterhouseCoopers Audit

27 August 2015

Moscow, Russian Federation

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(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Notes	30 June 2015	31 December 2014
Assets			
Non-current assets			
Goodwill		1,439	1,439
Property, plant and equipment	6	276,855	271,618
Investments in associates and joint ventures	4	4,982	6,219
Deferred tax asset		1,640	1,912
Available-for-sale investments		209	379
Long-term accounts receivable	8	3,280	2,489
Restricted cash		-	100
Total non-current assets		**288,405**	**284,156**
Current assets			
Inventories	7	68,429	63,488
Prepaid income tax		1,007	3,716
Current accounts receivable	8	18,159	15,196
Cash and cash equivalents	5	43,237	21,693
Total current assets		**130,832**	**104,093**
Total assets		**419,237**	**388,249**
Equity			
Share capital	9	12,473	12,473
Share premium		10,431	10,431
Treasury shares	9	(13)	-
Retained earnings and other reserves	9	146,260	114,147
Equity attributable to owners of PJSC ALROSA		**169,151**	**137,051**
Non-Controlling Interest in Subsidiaries		415	123
Total equity		**169,566**	**137,174**
Liabilities			
Non-current liabilities			
Long-term debt	10	149,629	176,358
Provision for pension obligations	14	8,451	5,793
Other provisions		5,131	4,347
Deferred tax liabilities		10,931	11,301
Total non-current liabilities		**174,142**	**197,799**
Current liabilities			
Short-term debt and current portion of long-term debt	11	34,406	20,802
Trade and other payables	12	23,147	24,003
Income tax payable		1,918	2,716
Other taxes payable	13	5,155	5,287
Dividends payable	9	10,903	468
Total current liabilities		**75,529**	**53,276**
Total liabilities		**249,671**	**251,075**
Total equity and liabilities		**419,237**	**388,249**

Signed on 27 August 2015 by the following members of management:

Andrey V. Zharkov
President

Svetlana V. Linnik
Chief accountant

(in millions of Russian roubles, 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 2015**	**30 June 2014**	**30 June 2015**	**30 June 2014**
Revenue	15	57,288	47,939	131,868	104,789
Cost of sales	16	(26,885)	(22,273)	(54,880)	(50,271)
Royalty	13	(303)	(303)	(605)	(605)
Gross profit		**30,100**	**25,363**	**76,383**	**53,913**
General and administrative expenses	17	(2,807)	(2,969)	(5,213)	(4,963)
Selling and marketing expenses	18	(709)	(713)	(1,486)	(1,356)
Other operating income	19	267	253	422	366
Other operating expenses	20	(4,868)	(5,113)	(10,323)	(8,789)
Operating profit		**21,983**	**16,821**	**59,783**	**39,171**
Finance (costs)/income, net	21	7,723	5,213	(1,413)	(7,660)
Share of net profit of associates and joint ventures	4	713	302	1,163	593
Profit before income tax		**30,419**	**22,336**	**59,533**	**32,104**
Income tax	13	(5,252)	(5,202)	(12,135)	(8,987)
Profit for the period		**25,167**	**17,134**	**47,398**	**23,117**
Other comprehensive (loss)/income					
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations, net of tax	9	(1,285)	(1,170)	(2,877)	670
Total items that will not be reclassified to profit or loss		**(1,285)**	**(1,170)**	**(2,877)**	**670**
Items that will be reclassified to profit or loss:					
Currency translation differences, net of tax	9	(316)	(138)	(280)	212
Total items that will be reclassified to profit or loss		**(316)**	**(138)**	**(280)**	**212**
Total other comprehensive (loss)/income for the period		**(1,601)**	**(1,308)**	**(3,157)**	**882**
Total comprehensive income for the period		**23,566**	**15,826**	**44,241**	**23,999**
Profit attributable to:					
Owners of PJSC ALROSA		25,012	16,963	46,568	22,567
Non-controlling interest		155	171	830	550
Profit for the period		**25,167**	**17,134**	**47,398**	**23,117**
Total comprehensive income attributable to:					
Owners of PJSC ALROSA		23,411	15,655	43,411	23,449
Non-controlling interest		155	171	830	550
Total comprehensive income for the period		**23,566**	**15,826**	**44,241**	**23,999**
Basic and diluted earnings per share for profit attributable to the owners of PJSC ALROSA (in Roubles)	9	3.40	2.31	6.33	3.07

(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014
Net cash inflow from operating activities	22	**51,004**	**36,766**
Cash flows from investing activities			
Purchase of property, plant and equipment		(15,568)	(16,206)
Proceeds from sales of property, plant and equipment		157	479
Interest received	21	1,699	451
Proceeds from sale of available-for-sale investments		139	14
Dividends received from associates and joint ventures		1,661	666
Proceeds from disposal of subsidiaries, net of cash disposed of		(444)	1,585
Net cash outflow from investing activities		**(12,356)**	**(13,011)**
Cash flows from financing activities			
Repayments of loans		(28,605)	(82,960)
Loans received		19,872	84,991
Purchase of treasury shares		(559)	(39)
Interest paid		(6,498)	(4,211)
Dividends paid		(857)	(587)
Net cash outflow from financing activities		**(16,647)**	**(2,806)**
Net increase in cash and cash equivalents		**22,001**	**20,949**
Cash and cash equivalents at the beginning of the period	5	21,693	10,408
Exchange gains on cash and cash equivalents		(457)	49
Cash and cash equivalents at the end of the period	5	**43,237**	**31,406**

(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

		Attributable to owners of PJSC ALROSA							
	Number of shares outstanding	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves (note 9)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2014	**7,360,112,830**	**12,473**	**10,431**	**(5)**	**(7,241)**	**144,142**	**159,800**	**(339)**	**159,461**
Comprehensive income									
Profit for the period		-	-	-	-	22,567	22,567	550	23,117
Other comprehensive income		-	-	-	882	-	882	-	882
Total comprehensive income for the period		**-**	**-**	**-**	**882**	**22,567**	**23,449**	**550**	**23,999**
Transactions with owners									
Dividends (note 9)		-	-	-	-	(10,818)	(10,818)	-	(10,818)
Purchase of own shares	(1,266,400)	-	-	(2)	-	(37)	(39)	-	(39)
Dividends of subsidiaries to non-controlling shareholders		-	-	-	-	-	-	(178)	(178)
Total transactions with owners	**(1,266,400)**	**-**	**-**	**(2)**	**-**	**(10,855)**	**(10,857)**	**(178)**	**(11,035)**
Balance at 30 June 2014	**7,358,846,430**	**12,473**	**10,431**	**(7)**	**(6,359)**	**155,854**	**172,392**	**33**	**172,425**
Balance at 1 January 2015	**7,364,965,630**	**12,473**	**10,431**	**-**	**(1,419)**	**115,566**	**137,051**	**123**	**137,174**
Comprehensive income/(loss)									
Profit for the period		-	-	-	-	46,568	46,568	830	47,398
Other comprehensive income/(loss)		-	-	-	(3,157)	-	(3,157)	-	(3,157)
Total comprehensive income/(loss) for the period		**-**	**-**	**-**	**(3,157)**	**46,568**	**43,411**	**830**	**44,241**
Transactions with owners									
Dividends (note 9)		-	-	-	-	(10,816)	(10,816)	-	(10,816)
Purchase of own shares	(7,657,200)	-	-	(13)	-	(546)	(559)	-	(559)
Change of non-controlling interest		-	-	-	64	-	64	(64)	-
Dividends of subsidiaries to non-controlling shareholders		-	-	-	-	-	-	(474)	(474)
Total transactions with owners	**(7,657,200)**	**-**	**-**	**(13)**	**64**	**(11,362)**	**(11,311)**	**(538)**	**(11,849)**
Balance at 30 June 2015	**7,357,308,430**	**12,473**	**10,431**	**(13)**	**(4,512)**	**150,772**	**169,151**	**415**	**169,566**

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

1. ACTIVITIES

The core activities of Public 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. In 2011 the Company was reorganized to Open Joint Stock Company. On 25 June 2015 the Company's annual shareholders' meeting approved reorganisation of the Company from Open Joint Stock Company to Public Joint Stock Company due to change in legislation.

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 2015 and 31 December 2014 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 2014 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, useful life of property, plant and equipment, 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 55.52 and 56.26 as at 30 June 2015 and 31 December 2014 respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 61.52 and 68.34 as at 30 June 2015 and 31 December 2014, respectively.

(in millions of Russian roubles, unless otherwise stated)

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 2014 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 2015:

- Amendment to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 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 2014, 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. No new standards, amendments and interpretations to existing standards were issued during the six months ended 30 June 2015.

4. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

				Percentage of ownership interest held	
Name	**Principal activity**	**Place of business**	**Notes**	**30 June 2015**	**31 December 2014**
ALROSA Finance S.A.	Financial services	Luxembourg		100.0	100.0
OJSC ALROSA-Gaz	Gas production	Russia		100.0	100.0
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		100.0	100.0
Urengoy Gaz Company Ltd.	Gas production	Russia		100.0	100.0
OJSC Nizhne-Lenskoe	Diamonds production	Russia		100.0	100.0
OJSC Viluyskaya GES-3	Electricity production	Russia		99.7	99.7
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		87.5	87.5
Hydroshikapa S.A.R.L	Electricity production	Angola		55.0	55.0
MAK Bank LLC	Banking activity	Russia	4.1	-	84.7

As at 30 June 2015 and 31 December 2014 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

4.1. Disposal of MAK Bank LLC

In February 2015, the Group sold 84.7 per cent interest in MAK Bank LLC for a total cash consideration of RR'mln 201.

(in millions of Russian roubles, unless otherwise stated)

4. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

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

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

4.2. Disposal of CJSC Irelyakhneft

In June 2014, the Group sold a 100 per cent. interest in CJSC Irelyakhneft for a total cash consideration of RR'mln 1,600. As a result of the transaction the Group lost an ability to control financial and operating activities of CJSC Irelyakhneft.

The details of assets and liabilities related to CJSC Irelyakhneft at the date of disposal were as follows:

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

4.3. Associates and joint ventures

			Percentage of ownership interest held at		**Carrying value of investment at**	
Name	**Principal activity**	**Place of business**	**30 June 2015**	**31 December 2014**	**30 June 2015**	**31 December 2014**
CJSC MMC Timir	Iron-ore production	Russia	49.0	49.0	2,152	2,179
Catoca Mining Company Ltd.	Diamonds production	Angola	32.8	32.8	2,163	3,413
OJSC Almazergienbank	Banking	Russia	20.0	20.0	425	425
Other		Russia	20-50	20-50	242	202
Total carrying value of investment					**4,982**	**6,219**

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

As at 30 June 2015 and 31 December 2014 the percentage of ownership interest of the Group in its associates is equal to the percentage of voting interest.

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

	Three months ended		**Six months ended**	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Catoca Mining Company Ltd.	728	316	1,142	619
CJSC MMC Timir	(13)	(15)	(26)	(28)
Other	(2)	1	47	2
Total Group's share of net profit of associates and joint ventures	**713**	**302**	**1,163**	**593**

(in millions of Russian roubles, unless otherwise stated)

4. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

Catoca Mining Company Ltd. ("Catoca") is a diamond-mining venture located in Angola. In May 2015 Catoca declared dividends for the year ended 31 December 2014; the Group's share of these dividends amounted to RR'mln 2,068 before taxation in the amount of RR'mln 207. Currency translation loss recognised in the other comprehensive income for the six months ended 30 June 2015 in respect of investment in Catoca totalled RR'mln 324. In May 2014 Catoca declared dividends for the year ended 31 December 2013; the Group's share of these dividends amounted to RR'mln 1,139 before taxation in the amount of RR'mln 114. Currency translation gain recognised in the other comprehensive income for the six months ended 30 June 2014 in respect of investment in Catoca totalled RR'mln 82.

5. CASH AND CASH EQUIVALENTS

	30 June 2015	31 December 2014
Deposit accounts	38,067	14,302
Cash in banks and on hand	5,170	7,391
Total cash and cash equivalents	**43,237**	**21,693**

Deposit accounts at 30 June 2015 and 31 December 2014 are mainly held to meet short-term cash needs and have various original maturities but can be withdrawn on request without restrictions.

6. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	TOTAL
As at 1 January 2014			
Cost	276,340	58,191	334,531
Accumulated depreciation and impairment losses	(118,226)	(1,028)	(119,254)
Net book value at 1 January 2014	**158,114**	**57,163**	**215,277**
Changes during six months ended 30 June 2014:			
Foreign exchange differences	94	-	94
Additions	6,279	10,972	17,251
Transfers	13,104	(13,104)	-
Reclassification from assets held for sale – at cost	40,211	2,540	42,751
Reclassification from assets held for sale – accumulated depreciation	(1,199)	-	(1,199)
Disposal of subsidiaries – at cost (note 4.2)	(1,498)	(725)	(2,223)
Disposal of subsidiaries – accumulated depreciation (note 4.2)	899	-	899
Other disposals – at cost	(3,105)	(380)	(3,485)
Other disposals – accumulated depreciation	2,184	-	2,184
Change in estimate of provision for land recultivation	(27)	-	(27)
Impairment of property, plant and equipment	-	3	3
Depreciation charge for the period	(8,856)	-	(8,856)
As at 30 June 2014			
Cost	331,447	57,494	388,941
Accumulated depreciation and impairment losses	(125,247)	(1,025)	(126,272)
Net book value at 30 June 2014	**206,200**	**56,469**	**262,669**
As at 1 January 2015			
Cost	355,100	51,545	406,645
Accumulated depreciation and impairment losses	(133,999)	(1,028)	(135,027)
Net book value as at 1 January 2015	**221,101**	**50,517**	**271,618**

(in millions of Russian roubles, unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Operating assets	Assets under construction	TOTAL
Changes during six months ended 30 June 2015:			
Foreign exchange differences	(51)	-	(51)
Additions	4,832	11,484	16,316
Transfers	6,808	(6,808)	-
Disposal of subsidiaries – at cost (note 4.1)	(929)	-	(929)
Disposal of subsidiaries – accumulated depreciation (note 4.1)	248	-	248
Other disposals – at cost	(3,913)	(371)	(4,284)
Other disposals – accumulated depreciation	3,503	-	3,503
Change in estimate of provision for land recultivation	697	-	697
Depreciation charge for the period	(10,263)	-	(10,263)
As at 30 June 2015			
Cost	362,544	55,850	418,394
Accumulated depreciation and impairment losses	(140,511)	(1,028)	(141,539)
Net book value at 30 June 2015	**222,033**	**54,822**	**276,855**

Capitalised borrowing costs

During six months ended 30 June 2015 borrowing costs totalling RR'mln 85 (six months ended 30 June 2014: RR'mln 66) were capitalised in property, plant and equipment. For the six months ended 30 June 2015 the capitalisation rate applied to qualifying assets was 6.09 per cent per annum (six months ended 30 June 2014: 6.07 per cent per annum). 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 2015	31 December 2014
Diamonds	27,266	32,100
Ores and sands mined	18,974	10,004
Mining and repair materials	18,994	18,452
Consumable supplies	3,195	2,932
Total inventories	**68,429**	**63,488**

8. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	30 June 2015	31 December 2014
Consideration receivable for disposed controlling interest in CJSC MMC Timir	1,205	773
Loans issued	855	1,319
Receivables from related parties (note 24)	676	-
Advances to suppliers	181	157
VAT recoverable	15	15
Other receivables	348	225
Total long-term accounts receivable	**3,280**	**2,489**

(in millions of Russian roubles, unless otherwise stated)

8. TRADE AND OTHER RECEIVABLES (CONTINUED)

Current accounts receivable	30 June 2015	31 December 2014
Advances to suppliers	5,459	1,184
VAT recoverable	3,969	4,027
Receivables from related parties (note 24)	2,289	3,278
Consideration receivable for disposed controlling interest in CJSC MMC Timir	782	991
Trade receivables for supplied diamonds	629	157
Loans issued	433	1,236
Prepaid taxes, other than income tax	140	1,010
Other trade receivables	4,458	3,313
Total current accounts receivable	**18,159**	**15,196**

Trade and other receivables are presented net of impairment provision of RR’mln 865 and RR’mln 1,113 as at 30 June 2015 and 31 December 2014, respectively.

9. SHAREHOLDERS’ EQUITY

Share capital

Share capital authorised, issued and paid in totals RR’mln 12,473 as at 30 June 2015 and 31 December 2014 and consists of 7,364,965,630 ordinary shares, including treasury shares, at RR 0.5 par value share. In addition as at 30 June 2015 and 31 December 2014 share capital includes hyperinflation adjustment totalling RR’mln 8,790, which was calculated in accordance with requirements of IAS 29 “Financial Reporting in Hyperinflationary Economies” and relates to the reporting periods prior to 1 January 2003.

Distributable profits

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

Treasury shares

As at 30 June 2015 subsidiaries of the Group held 7,657,200 ordinary shares of the Company (31 December 2014: nil). The Group’s 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 PJSC ALROSA by the weighted average number of shares outstanding during the period, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares. There were 7,359,350,821 and 7,361,771,191 weighted average shares outstanding for the three and six months ended 30 June 2015, respectively (for the three and six months ended 30 June 2014: 7,358,846,430 and 7,358,616,528 shares, respectively). There are no dilutive financial instruments outstanding.

(in millions of Russian roubles, unless otherwise stated)

9. SHAREHOLDERS' EQUITY (CONTINUED)

Other reserves

	Currency translation	Purchase of non-controlling interest	Available-for-sale investments	Recognition of accumulated actuarial (loss)/gain	Total other reverves
Balance as at 1 January 2014	**88**	**(169)**	**41**	**(7,201)**	**(7,241)**
Actuarial gain on post employment benefit obligations	-	-	-	670	670
Currency translation differences	212	-	-	-	212
Balance as at 30 June 2014	**300**	**(169)**	**41**	**(6,531)**	**(6,359)**
Balance as at 1 January 2015	**395**	**(87)**	**41**	**(1,768)**	**(1,419)**
Actuarial loss on post employment benefit obligations	-	-	-	(2,877)	(2,877)
Sale of non-controlling interest	-	64	-	-	64
Currency translation differences	(280)	-	-	-	(280)
Balance as at 30 June 2015	**115**	**(23)**	**41**	**(4,645)**	**(4,512)**

Dividends

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

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

10. LONG-TERM DEBT

	30 June 2015	31 December 2014
Bank loans:		
US$ denominated fixed rate	84,674	85,794
US$ denominated floating rate	33,314	33,755
RR denominated fixed rate	35	36
	118,023	**119,585**
US$ denominated Eurobonds	55,524	56,258
RR denominated non-convertible bonds	10,000	20,044
Finance lease obligation	353	488
Other RR denominated fixed rate loans	31	348
	183,931	**196,723**
Less: current portion of long-term debt (note 11)	(34,302)	(20,365)
Total long-term debt	**149,629**	**176,358**

As at 30 June 2015 the fair value of long-term bank loans, finance lease obligation and other loans comprised RR'mln 110,944 (31 December 2014: RR'mln 114,028).

As at 30 June 2015 and 31 December 2014 there were no long-term loans or bonds secured with the assets of the Group.

(in millions of Russian roubles, unless otherwise stated)

10. LONG-TERM DEBT (CONTINUED)

The average effective annual interest rates on long-term borrowings were as follows:

	30 June 2015	31 December 2014
Bank loans:		
US$ denominated fixed rate	4.1%	4.2%
US$ denominated floating rate	6.4%	6.3%
RR denominated fixed rate	9.0%	9.2%
US$ denominated Eurobonds	7.8%	7.8%
RR denominated non-convertible bonds	8.9%	8.9%
Finance lease obligation	11.5%	11.5%

Bonds

On 23 June 2015 the Group repaid Series 20-23 Russian Ruble denominated non-convertible bonds in the amount of RR'mln 10,000 placed at Moscow Exchange on June 2010.

Movements of issued Eurobonds during six months ended 30 June 2015 and 30 June 2014 were as follows:

	Six months ended	
	30 June 2015	30 June 2014
Balance at the beginning of the period	**56,258**	**49,088**
Amortisation of discount	2	3
Exchange (gain)/loss	(736)	1,352
Balance at the end of the period	**55,524**	**50,443**

As at 30 June 2015 the fair value of Eurobonds and RR denominated non-convertibe bonds comprised RR'mln 58,092 and RR'mln 9,923, respectively (31 December 2014: RR'mln 53,235 and RR'mln 19,637, respectively).

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

	30 June 2015	31 December 2014
Bank loans:		
RR denominated fixed rate	50	100
	50	**100**
Other RR denominated fixed rate loans	54	337
	104	**437**
Add: current portion of long-term debt (note 10)	34,302	20,365
Total short-term debt and current portion of long-term debt	**34,406**	**20,802**

On 13 January 2015 the Group obtained a short-term loan the US$'mln 300 from AO UniCreditBank, that was repaid in full on 16 March 2015.

The average effective annual interest rates on short-term loans were as follows:

	30 June 2015	31 December 2014
Banks loans:		
RR denominated fixed rate	15.0%	12.4%

As at 30 June 2015 the fair value of short-term bank and other loans was not materially different from their carrying value.

As at 30 June 2015 and 31 December 2014 there were no short-term loans secured with the assets of the Group.

(in millions of Russian roubles, unless otherwise stated)

12. TRADE AND OTHER PAYABLES

	30 June 2015	31 December 2014
Accrual for employee flights and holidays	7,943	7,427
Trade payables	5,710	5,508
Wages and salaries	4,345	5,954
Advances from customers	1,629	753
Interest payable	1,354	1,324
Current portion of provision for social obligation	901	996
Payables to associates	11	19
Current accounts of third parties in MAK Bank LLC	-	847
Other payables and accruals	1,254	1,175
Total trade and other payables	**23,147**	**24,003**

In accordance with Russian legislation, the most Group's 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 2015	31 December 2014
Payments to social funds	2,103	1,897
Property tax	1,072	1,134
Extraction tax	1,043	648
Personal income tax (employees)	383	830
Value added tax	348	245
Other taxes and accruals	206	533
Total taxes payable, other than income tax	**5,155**	**5,287**

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 2015	30 June 2014	30 June 2015	30 June 2014
Property tax	948	898	1,902	1,790
Other taxes and accruals	47	190	464	295
Total	**995**	**1,088**	**2,366**	**2,085**

In accordance with Resolution № 795 of the Government of the Russian Federation dated 23 December 2006, in addition to the taxes noted above, the Group is obliged to pay 6.5 per cent on the value of diamonds sold for export in the form of an export duty (note 15).

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

Income tax expense comprises the following:

	Three months ended		Six months ended	
	30 June 2015	30 June 2014	30 June 2015	30 June 2014
Current tax expense	4,806	5,043	11,995	9,263
Adjustments recognised in the period for current tax of prior periods	(46)	403	61	647
Deferred tax expense/(benefit)	492	(244)	79	(923)
Total income tax expense	**5,252**	**5,202**	**12,135**	**8,987**

(in millions of Russian roubles, unless otherwise stated)

14. PROVISION FOR PENSION OBLIGATION

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

	30 June 2015	31 December 2014
Present value of funded obligations	17,328	14,547
Fair value of plan assets	(9,835)	(9,510)
Pension obligations for the funded plan	7,493	5,037
Present value of unfunded obligation	958	756
Net liability	**8,451**	**5,793**

Changes in the present value of funded and unfunded pension obligations and plan assets for the three months ended 30 June 2014 and three months ended 30 June 2015 are as follows:

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

	Present value of obligation	Fair value of plan assets	Total
As at 31 March 2015	**16,745**	**(9,799)**	**6,946**
Current service cost	55	-	55
Past service cost	(2)	-	(2)
Interest expense/(income)	492	(308)	184
	545	**(308)**	**237**
Remeasurements:			
Return on plan assets, excluding amount included in interest expense/(income)	-	298	298
Loss from change in financial assumptions	1,125	-	1,125
	1,125	**298**	**1,423**
Contributions paid by employer	-	(151)	(151)
Benefit payments	(129)	125	(4)
	(129)	**(26)**	**(155)**
As at 30 June 2015	**18,286**	**(9,835)**	**8,451**

(in millions of Russian roubles, unless otherwise stated)

14. PROVISION FOR PENSION OBLIGATION (CONTINUED)

Changes in the present value of funded and unfunded pension obligations and plan assets for the six months ended 30 June 2014 and six months ended 30 June 2015 are as follows:

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

	Present value of obligation	Fair value of plan assets	Total
As at 1 January 2015	**15,303**	**(9,510)**	**5,793**
Current service cost	103	-	103
Past service cost	(2)	-	(2)
Interest expense/(income)	986	(615)	371
	1,087	**(615)**	**472**
Remeasurements:			
Return on plan assets, excluding amount included in interest expense/(income)	-	652	652
Loss from change in financial assumptions	2,405	-	2,405
	2,405	**652**	**3,057**
Contributions paid by employer	-	(863)	(863)
Benefit payments	(509)	501	(8)
	(509)	**(362)**	**(871)**
As at 30 June 2015	**18,286**	**(9,835)**	**8,451**

The significant actuarial assumptions are as follows:

	30 June 2015	31 December 2014
Discount rate (nominal)	10.9%	13.0%
Future salary increases (nominal)	8.3%	8.3%
Future pension increases (nominal)	6.5%	6.5%

(in millions of Russian roubles, unless otherwise stated)

15. REVENUE

	Three months ended		Six months ended	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Revenue from diamond sales:				
Export	46,945	37,685	109,302	83,487
Domestic	4,865	5,196	11,305	10,567
Revenue from diamonds for resale	203	150	514	508
Total revenue from diamond sales	**52,013**	**43,031**	**121,121**	**94,562**
Other revenue:				
Gas	1,321	1,519	2,968	3,419
Social infrastructure	1,079	800	2,335	2,156
Transport	1,338	1,258	2,243	2,111
Other	1,537	1,331	3,201	2,541
Total revenue	**57,288**	**47,939**	**131,868**	**104,789**

Export duties totalling RR'mln 3,133 and RR'mln 7,325 for the three and six months ended 30 June 2015, respectively (three and six months ended 30 June 2014: RR'mln 2,448 and RR'mln 5,565, respectively) were netted against revenue from diamond export sales.

16. COST OF SALES

	Three months ended		Six months ended	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Wages, salaries and other staff costs	10,320	8,942	20,910	16,818
Extraction tax	4,343	3,104	11,024	6,515
Depreciation	4,942	3,653	9,459	7,459
Fuel and energy	3,790	3,128	8,556	6,008
Materials	2,536	2,437	4,667	4,088
Services	1,103	1,234	2,074	2,031
Transport	497	632	1,069	1,511
Cost of diamonds for resale	203	142	515	499
Provision for obsolete inventory	107	(11)	240	111
Other	276	47	502	103
Movement in inventory of diamonds, ores and sands	(1,232)	(1,035)	(4,136)	5,128
Total cost of sales	**26,885**	**22,273**	**54,880**	**50,271**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 2,259 and RR'mln 4,496 for the three and six months ended 30 June 2015, respectively (for the three and six months ended 30 June 2014: RR'mln 2,239 and RR'mln 4,430, respectively).

Depreciation totalling RR'mln 453 and RR'mln 723 for the three and six months ended 30 June 2015, respectively (for the three and six months ended 30 June 2014: RR'mln 715 and RR'mln 1,313, respectively) and wages, salaries and other staff costs totalling RR'mln 1,146 and RR'mln 1,934 for the three and six months ended 30 June 2015, respectively (for the three and six months ended 30 June 2014: RR'mln 1,658 and RR'mln 3,069, respectively) were capitalised in the respective periods.

(in millions of Russian roubles, unless otherwise stated)

17. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Wages, salaries and other staff costs	1,703	1,643	3,259	2,961
Services and other administrative expenses	724	1,164	1,589	1,862
Impairment of accounts receivable	380	162	365	140
Total general and administrative expenses	**2,807**	**2,969**	**5,213**	**4,963**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 221 and RR'mln 560 for the three and six months ended 30 June 2015, respectively (for the three and six months ended 30 June 2014: RR'mln 179 and RR'mln 410, respectively).

18. SELLING AND MARKETING EXPENSES

	Three months ended		Six months ended	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Wages, salaries and other staff costs	401	350	821	676
Services and other selling and marketing expenses	308	363	665	680
Total selling and marketing expenses	**709**	**713**	**1,486**	**1,356**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 90 and RR'mln 182 for the three and six months ended 30 June 2015, respectively (for the three and six months ended 30 June 2014 in the amount of RR'mln 75 and RR'mln 144, respectively).

19. OTHER OPERATING INCOME

	Three months ended		Six months ended	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Gain on disposal of subsidiaries (note 4.2)	-	142	-	142
Other	267	111	422	224
Total other operating income	**267**	**253**	**422**	**366**

20. OTHER OPERATING EXPENSES

	Three months ended		Six months ended	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Exploration expenses	1,874	1,385	4,005	3,251
Taxes other than income tax, extraction tax and payments to social funds (note 13)	995	1,088	2,366	2,085
Social costs	1,143	1,444	2,188	2,123
Loss from exchange differences	308	576	526	50
Loss on disposal and write-off of property, plant and equipment	376	409	468	670
Loss on disposal of subsidiaries (note 4.1)	-	-	155	-
Other	172	211	615	610
Total other operating expenses	**4,868**	**5,113**	**10,323**	**8,789**

(in millions of Russian roubles, unless otherwise stated)

20. OTHER OPERATING EXPENSES (CONTINUED)

Social costs consist of:

	Three months ended		Six months ended	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Charity	505	655	971	881
Maintenance of local infrastructure	422	616	895	963
Hospital expenses	75	74	106	99
Education	50	29	81	51
Other	91	70	135	129
Total social costs	**1,143**	**1,444**	**2,188**	**2,123**

21. FINANCE INCOME AND COSTS

	Three months ended		Six months ended	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Interest income	1,539	337	2,576	451
Interest expense:				
Eurobonds	(1,014)	(1,073)	(2,227)	(2,152)
Bank loans	(1,331)	(625)	(3,093)	(1,159)
RR denominated non-convertible bonds	(408)	(448)	(844)	(883)
Other	(181)	(323)	(475)	(579)
Unwinding of discount of future provisions	(363)	(32)	(466)	(124)
Exchange gain/(loss), net	9,481	7,377	3,116	(3,214)
Total finance (costs)/income, net	**7,723**	**5,213**	**(1,413)**	**(7,660)**

22. CASH GENERATED FROM OPERATING ACTIVITIES

Reconciliation of profit before tax to cash flows from operating activities:

	Six months ended	
	30 June 2015	**30 June 2014**
Profit before income tax	**59,533**	**32,104**
Adjustments for:		
Share of net profit of associates and joint ventures (note 4)	(1,163)	(593)
Interest income (note 21)	(2,576)	(451)
Interest expense (note 21)	7,108	4,897
Loss on disposal and write-off of property, plant and equipment (note 20)	468	670
Depreciation (notes 6, 16)	9,541	7,543
Loss/(gain) on disposal of subsidiaries (notes 19, 20)	155	(142)
Adjustment for non-cash financing activity	735	(19)
Proceeds from restricted cash account	4	126
Unrealised foreign exchange effect on non-operating items	(2,579)	2,980
Net operating cash flows before changes in working capital	**71,226**	**47,115**
Net (increase)/decrease in inventories	(5,118)	3,074
Net increase in receivables, excluding dividends receivable and consideration receivable for disposed controlling interest in CJSC MMC Timir	(3,819)	(1,444)
Net decrease in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(1,205)	(1,775)
Net decrease in taxes payable, excluding income tax	(98)	(480)
Cash inflows from operating activities	**60,986**	**46,490**
Income tax paid	(9,982)	(9,724)
Net cash inflows from operating activities	**51,004**	**36,766**

23. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment of the Russian Federation

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market, including relatively high inflation and high interest rates. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

The recent political and economic turmoil witnessed in the region, in particular the developments in Ukraine, have had and may continue to have a negative impact on the Russian economy, including weakening of the Russian Rouble, higher interest rates, reduced liquidity and making it harder to raise international funding. These events, including current and future possible international sanctions against Russian companies and individuals and the related uncertainty and volatility of the financial markets, may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation may differ from management's expectations.

Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

(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 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.

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

As at 30 June 2015 and 31 December 2014 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 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 2015 and 31 December 2014 no provision for tax liabilities had been recorded.

23. CONTINGENCIES, COMMITMENTS AND OTHER RISKS (CONTINUED)

(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 2015.

(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, assets and operations of the Group are partially insured.

(e) Capital commitments

As at 30 June 2015 the Group has contractual commitments for capital expenditures of RR'mln 7,903 (31 December 2014: RR'mln 7,243).

(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 2015 the Group recognised a provision for these future expenses in the amount of RR'mln 4,566 (31 December 2014: RR'mln 3,722).

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 2015 68.9 per cent of the Company's issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia).

Also as at 30 June 2015 8.0 per cent of the Company's shares were owned by administrations or 8 districts of the Republic of Sakha (Yakutia). Following the General Meeting of Shareholders in June 2015, the 15 seats on the Supervisory Board include 11 representatives of the Russian Federation and the Republic of Sakha (Yakutia) (including one – the Chair of the Management Board), three independent directors according to the Russian Corporate Law (two of them were nominated by the Government of the Russian Federation, one was nominated by foreign minority shareholders), and one representative of the discricts of the Republic of Sakha (Yakutia). Governmental, federal and local economic and social policies affect the Group's financial position, results of operations and cash flows.

Tax balances are disclosed in the 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.

(in millions of Russian roubles, unless otherwise stated)

24. RELATED PARTY TRANSACTIONS (CONTINUED)

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:

Consolidated Statement of Financial Position	**30 June 2015**	**31 December 2014**
Short-term accounts receivable	3,977	1,556
Short-term accounts payable	796	1,517
Loans received by the Group	38,119	38,674
Loans issued by the Group	3	183
Deposits, cash and cash equivalents	8,528	16,414

	Three months ended		**Six months ended**	
Consolidated Statement of profit or loss and other comprehensive income	**30 June 2015**	**30 June 2014**	**30 June 2015**	**30 June 2014**
Sales of diamonds	2,030	1,289	4,207	2,955
Other sales	1,787	1,380	3,891	3,222
Electricity and heating purchases	(1,635)	(783)	(4,172)	(2,561)
Other purchases	(2,110)	(2,230)	(2,753)	(2,605)
Interest income	598	200	1,289	268
Interest expense	(568)	(277)	(1 221)	(534)

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.

As at 30 June 2015 and 31 December 2014 the Management Board consisted of 12 members. As at 30 June 2015 one of the Management Board members was also a member of the Supervisory Council. Management Board members are entitled to salary, bonuses, voluntary medical insurance and other short-term employee benefits. Salary and bonus compensation paid to members of the Management Board is determined by the terms of “Remuneration Policy for the members of the Management Board of PJSC ALROSA” approved by the Company’s Supervisory Council on 11 December 2014.

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 could be eligible for non-state pension after retirement according to the Policy on “Non-state pension provisions of the employees of PJSC ALROSA”.

Key management received short-term benefits for the three and six months ended 30 June 2015 totalling RR’mln 131 and RR’ mln 530, respectively (three and six months ended 30 June 2014: RR’mln 168 and RR’ mln 596, respectively).

(in millions of Russian roubles, unless otherwise stated)

24. RELATED PARTY TRANSACTIONS (CONTINUED)

Associates and joint ventures

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

Long-term accounts receivable	**30 June 2015**	**31 December 2014**
CJSC MMC Timir, loans issued and other receivable	676	-
Total long-term accounts receivable	**676**	**-**

Current accounts receivable	**30 June 2015**	**31 December 2014**
Catoca, dividends and other receivable	2,247	2,067
CJSC MMC Timir, other receivable	14	1,124
Other	28	87
Total current accounts receivable	**2,289**	**3,278**

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 costs;
- 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 by the Management Board:

- Diamonds segment - production and sales of diamonds;
- Transportation;
- Social infrastructure;
- Gas;
- Other activities, including segments fall below the quantitative threshold to be reportable.

(in millions of Russian roubles, 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 2015	**Diamonds segment**	**Transpor-tation**	**Social infra-structure**	**Gas**	**Other activities**	**Total**
Revenue	55,146	1,644	814	1,470	2,048	61,122
Intersegment revenue	-	(307)	(120)	(154)	(813)	(1,394)
Cost of sales, including	16,337	1,692	1,779	1,044	1,978	22,830
depreciation	3,133	137	149	170	400	3,989
Gross margin	**38,809**	**(48)**	**(965)**	**426**	**70**	**38,292**

Three months ended 30 June 2014	**Diamonds segment**	**Transpor-tation**	**Social infra-structure**	**Gas**	**Other activities**	**Total**
Revenue	45,479	1,508	974	1,671	2,934	52,566
Intersegment revenue	-	(250)	(193)	(149)	(1,720)	(2,312)
Cost of sales, including	12,174	1,488	1,540	748	3,350	19,300
depreciation	2,375	153	2	216	664	3,410
Gross margin	**33,305**	**20**	**(566)**	**923**	**(416)**	**33,266**

Six months ended 30 June 2015	**Diamonds segment**	**Transpor-tation**	**Social infra-structure**	**Gas**	**Other activities**	**Total**
Revenue	128,446	2,753	2,622	3,464	3,884	141,169
Intersegment revenue	-	(510)	(287)	(495)	(1,376)	(2,668)
Cost of sales, including	32,542	3,191	3,922	2,264	3,658	45,577
depreciation	6,222	265	292	365	820	7,955
Gross margin	**95,904**	**(438)**	**(1,300)**	**1,200**	**226**	**95,592**

Six months ended 30 June 2014	**Diamonds segment**	**Transpor-tation**	**Social infra-structure**	**Gas**	**Other activities**	**Total**
Revenue	100,127	2,532	2,547	3,980	6,395	115,581
Intersegment revenue	-	(421)	(362)	(558)	(4,229)	(5,570)
Cost of sales, including	31,843	2,868	3,446	1,652	6,470	46,279
depreciation	5,060	261	36	487	1,064	6,908
Gross margin	**68,284**	**(336)**	**(899)**	**2,328**	**(75)**	**69,302**

Reconciliation of revenue is presented below:

	Three months ended		**Six months ended**	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Segment revenue	**61,122**	**52,566**	**141,169**	**115,581**
Elimination of intersegment revenue	(1,394)	(2,312)	(2,668)	(5,570)
Reclassification of export duties [1]	(3,133)	(2,448)	(7,325)	(5,565)
Other adjustments and reclassifications	693	133	692	343
Revenue as per statement of profit or loss and other comprehensive income	**57,288**	**47,939**	**131,868**	**104,789**

[1] Reclassification of export duties – export duties are netted against revenues from export of diamonds (note 15).

(in millions of Russian roubles, unless otherwise stated)

25 SEGMENT INFORMATION (CONTINUED)

Reconciliation of cost of sales including depreciation is presented below:

	Three months ended		Six months ended	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Segment cost of sales	**22,830**	**19,300**	**45,577**	**46,279**
Adjustment for depreciation of property, plant and equipment [1]	953	243	1,504	551
Elimination of intersegment purchases	(1,103)	(1,721)	(2,050)	(4,504)
Accrued provision for pension obligation [2]	(139)	(640)	(791)	(645)
Reclassification of extraction tax [3]	3,814	3,104	9,644	6,515
Adjustment for inventories [4]	706	2,411	1,477	3,968
Accrual for employee flights and holidays [5]	(136)	52	(85)	98
Accrual for the part of expected annual bonus	773	722	1,671	722
Other adjustments	293	(82)	(173)	(82)
Reclassification of exploration expenses [6]	(356)	(948)	(1,211)	(1,985)
Other reclassifications	(750)	(168)	(683)	(646)
Cost of sales as per statement of profit or loss and other comprehensive income	**26,885**	**22,273**	**54,880**	**50,271**

[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 employees' flights and holidays – recognition of employees' flights and holidays provision under collective labour agreements of the Group's entities
[6] Reclassification of exploration expenses – reclassification part of exploration expenses to other operating expenses

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

	Three months ended		Six months ended	
	30 June 2015	**30 June 2014**	**30 June 2015**	**30 June 2014**
Belgium	26,446	22,159	61,928	52,086
Russian Federation	9,954	9,914	21,595	20,436
India	8,283	5,978	18,877	13,721
Israel	6,608	5,630	14,845	10,483
China	2,919	1,384	6,864	2,850
United Arab Emirates	1,490	2,044	4,452	3,591
USA	552	325	784	650
UK	543	38	1 318	38
Belarus	192	135	450	296
Angola	194	133	446	272
Armenia	99	25	240	67
Other countries	8	174	69	299
Total revenue	**57,288**	**47,939**	**131,868**	**104,789**

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

	30 June 2015	**31 December 2014**
Russian Federation	279,835	276,513
Angola	4,174	4,796
Other countries	1,116	430
Total non-current assets (other than financial instruments)	**285,125**	**281,739**

(in millions of Russian roubles, unless otherwise stated)

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 2014. There have been no changes 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 2015				**31 December 2014**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale investments	40	-	169	**209**	188	-	191	**379**
Total	**40**	**-**	**169**	**209**	**188**	**-**	**191**	**379**

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

As at 30 June 2015 the Group had the following assets and liabilities not measured at fair value but for which fair value is disclosed, classified by the levels of the fair value hierarchy:

	Level 1	**Level 2**	**Level 3**	**Total**
Current and non-current financial assets				
Current and non-current accounts receivable	-	10,568	-	10,568
Loans issued	-	-	1,288	1,288
Cash and cash equivalents	-	43,237	-	43,237
Total financial assets	**-**	**53,805**	**1,288**	**55,093**
Current and non-current financial liabilities				
Loans from banks	-	118,073	-	118,073
Eurobonds	55,524	-	-	55,524
RR denominated non-convertible bonds	10,000	-	-	10,000
Financial accounts payable	-	8,329	-	8,329
Dividends payable	-	10,903	-	10,903
Finance lease obligation	-	-	353	353
Other RR denominated fixed rate loans	-	85	-	85
Total financial liabilities	**65,524**	**137,390**	**353**	**203,267**

(in millions of Russian roubles, unless otherwise stated)

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

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

	Level 1	Level 2	Level 3	Total
Current and non-current financial assets				
Current and non-current accounts receivable	-	8,894	-	8,894
Loans issued	-	-	2,555	2,555
Cash and cash equivalents	-	21,693	100	21,793
Total financial assets	**-**	**30,587**	**2,655**	**33,242**
Current and non-current financial liabilities				
Loans from banks	-	119,685	-	119,685
Eurobonds	56,258	-	-	56,258
RR denominated non-convertible bonds	20,044	-	-	20,044
Financial accounts payable	-	8,873	-	8,873
Finance lease obligation	-	-	488	488
Dividends payable	-	468	-	468
RR denominated fixed rate loans	-	685	-	685
Total financial liabilities	**76,302**	**129,711**	**488**	**206,501**

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

- Cash and cash equivalents, including restricted cash;
- Trade and other financial receivables;
- Other current financial assets;
- Trade and other financial liabilities;
- Finance lease obligation;
- Dividends payable.

The fair value of other financial assets and liabilities disclosed in the notes.

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.

27. EVENTS AFTER THE REPORTING PERIOD

On 29 July 2015 the Group repaid in advance the US$'mln 85 bank loan payable to VTB Bank (Austria) AG in April 2016.