OJSC ALROSA

INTERNATIONAL ACCOUNTING STANDARD No. 34

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

CONTENTS

(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Notes	30 September 2014	31 December 2013
Assets			
Non-current Assets			
Goodwill		1,439	1,439
Property, plant and equipment	6	264,900	215,277
Investments in associates and joint ventures	4	4,802	4,558
Available-for-sale investments		242	243
Long-term accounts receivable	8	3,453	3,436
Restricted cash		107	249
Total Non-current Assets		**274,943**	**225,202**
Current Assets			
Inventories	7	67,370	60,611
Prepaid income tax		999	106
Current accounts receivable	8	15,044	16,067
Cash and cash equivalents	5	23,424	9,270
Assets of disposal group classified as held for sale	4.1	-	43,615
Total Current Assets		**106,837**	**129,669**
Total Assets		**381,780**	**354,871**
Equity			
Share capital	9	12,473	12,473
Share premium		10,431	10,431
Treasury shares	9	(3)	(5)
Retained earnings and other reserves	9	142,537	136,901
Equity attributable to owners of OJSC ALROSA		**165,438**	**159,800**
Non-Controlling Interest in Subsidiaries		**174**	**(339)**
Total Equity		**165,612**	**159,461**
Liabilities			
Non-current Liabilities			
Long-term debt	10	133,561	82,296
Provision for pension obligations	14	9,122	12,157
Other provisions		3,780	3,968
Deferred tax liabilities		8,338	3,282
Total Non-current Liabilities		**154,801**	**101,703**
Current Liabilities			
Short-term debt and current portion of long-term debt	11	30,878	56,295
Trade and other payables	12	24,051	24,001
Income tax payable		1,675	1,776
Other taxes payable	13	4,695	4,758
Dividends payable	9	68	461
Liabilities of disposal group classified as held for sale	4.1	-	6,416
Total Current Liabilities		**61,367**	**93,707**
Total Liabilities		**216,168**	**195,410**
Total Equity and Liabilities		**381,780**	**354,871**

Signed on 25 November 2014 by the following members of management:

Ilya P. Ryashchin
Acting president

Elena L. Timonina
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		Nine months ended	
	Notes	**30 September 2014**	**30 September 2013**	**30 September 2014**	**30 September 2013**
Revenue	15	42,118	39,149	146,907	121,378
Cost of sales	16	(21,845)	(20,124)	(71,932)	(59,335)
Royalty	13	(302)	(302)	(907)	(907)
Gross profit		**19,971**	**18,723**	**74,068**	**61,136**
General and administrative expenses	17	(2,823)	(1,989)	(7,786)	(6,612)
Selling and marketing expenses	18	(346)	(396)	(1,702)	(1,536)
Other operating income	19	594	114	960	3,267
Other operating expenses	20	(5,464)	(4,342)	(14,387)	(13,709)
Operating profit		**11,932**	**12,110**	**51,153**	**42,546**
Finance (costs)/income, net	21	(22,305)	(1,604)	(30,015)	(12,640)
Share of net profit of associates and joint ventures	4	644	280	1,237	673
Profit/(loss)before income tax		**(9,729)**	**10,786**	**22,375**	**30,579**
Income tax	13	(604)	(2,466)	(9,591)	(7,643)
Profit/(loss) for the period		**(10,333)**	**8,320**	**12,784**	**22,936**
Other comprehensive income/(loss)					
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations, net of tax	9	2,000	(444)	2,670	1,425
Total items that will not be reclassified to profit or loss		**2,000**	**(444)**	**2,670**	**1,425**
Items that will be reclassified to profit or loss:					
Currency translation differences, net of tax	9	1,286	(68)	1,498	610
Total items that will be reclassified to profit or loss		**1,286**	**(68)**	**1,498**	**610**
Other comprehensive income/(loss) for the period		**3,286**	**(512)**	**4,168**	**2,035**
Total comprehensive income/(loss) for the period		**(7,047)**	**7,808**	**16,952**	**24,971**
Profit/(loss) attributable to:					
Owners of OJSC ALROSA		(10,468)	8,155	12,099	22,242
Non-controlling interest		135	165	685	694
Profit/(loss) for the period		**(10,333)**	**8,320**	**12,784**	**22,936**
Total comprehensive income/(loss) attributable to:					
Owners of OJSC ALROSA		(7,182)	7,643	16,267	24,277
Non-controlling interest		135	165	685	694
Total comprehensive income/(loss) for the period		**(7,047)**	**7,808**	**16,952**	**24,971**
Basic and diluted earnings per share for profit/(loss) attributable to the owners of OJSC ALROSA (in Roubles)	9	(1.42)	1.13	1.64	3.08

(in millions of Russian roubles, unless otherwise stated)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

	Notes	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Net Cash Inflow from Operating Activities	22	**44,836**	**27,772**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(22,260)	(23,751)
Proceeds from sales of property, plant and equipment		1,045	98
Interest received	21	772	137
Acquisition of available-for-sale investments		(7)	-
Dividends received from associates and joint ventures		668	317
Net proceeds from disposal of subsidiaries	4.3, 4.4	1,585	2,108
Reclassification to assets held for sale		-	(532)
Acquisition of OJSC Nizhne-Lenskoe, net of cash acquired	4.2	-	(3,659)
Net Cash Outflow from Investing Activities		**(18,197)**	**(25,282)**
Cash Flows from Financing Activities			
Repayments of loans		(84,668)	(38,912)
Loans received		86,177	55,667
Sale/(Purchase) of treasury shares		126	(85)
Acquisition of non-controlling interest in OJSC Nizhne-Lenskoe	4.2	-	(3,330)
Proceeds from sale of non-controlling interest in subsidiary		72	238
Interest paid		(5,290)	(6,185)
Dividends paid		(11,208)	(8,861)
Net Cash Outflow from Financing Activities		**(14,791)**	**(1,468)**
Net Increase in Cash and Cash Equivalents		**11,848**	**1,022**
Cash and cash equivalents at the beginning of the period*		10,408	6,242
Exchange gains on cash and cash equivalents		1,168	40
Cash and Cash Equivalents at the End of the Period	5	**23,424**	**7,304**

* *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 1 January 2013	**7,213,444,600**	**12,473**	**10,431**	**(254)**	**(8,651)**	**117,014**	**131,013**	**(448)**	**130,565**
Comprehensive income									
Profit for the period		-	-	-	-	22,242	22,242	694	22,936
Other comprehensive income		-	-	-	2,035	-	2,035	-	2,035
Total comprehensive income for the period		**-**	**-**	**-**	**2,035**	**22,242**	**24,277**	**694**	**24,971**
Transactions with owners									
Dividends paid (Note 9)		-	-	-	-	(8,013)	(8,013)	-	(8,013)
Acquisition of OJSC Nizhne-Lenskoe (Note 4.2)		-	-	-	-	-	-	3,526	3,526
Purchase of non-controlling interest		-	-	-	342	-	342	(3,422)	(3,080)
Purchase of own shares	(1,048,025)	-	-	(1)	-	(83)	(84)	-	(84)
Dividends paid to the owners of non-controlling interest		-	-	-	-	-	-	(404)	(404)
Total transactions with owners		**-**	**-**	**(1)**	**342**	**(8,096)**	**(7,755)**	**(300)**	**(8,055)**
Balance at 30 September 2013	**7,212,396,575**	**12,473**	**10,431**	**(255)**	**(6,274)**	**131,160**	**147,535**	**(54)**	**147,481**
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		-	-	-	-	12,099	12,099	685	12,784
Other comprehensive income		-	-	-	4,168	-	4,168	-	4,168
Total comprehensive income for the period		**-**	**-**	**-**	**4,168**	**12,099**	**16,267**	**685**	**16,952**
Transactions with owners									
Sale of non-controlling interest		-	-	-	63	-	63	7	70
Sale of own shares	3,106,800	-	-	2	-	124	126	-	126
Dividends paid (Note 9)		-	-	-	-	(10,818)	(10,818)	-	(10,818)
Dividends paid to the owners of non-controlling interest		-	-	-	-	-	-	(179)	(179)
Total transactions with owners		**-**	**-**	**2**	**63**	**(10,694)**	**(10,629)**	**(172)**	**(10,801)**
Balance at 30 September 2014	**7,363,219,630**	**12,473**	**10,431**	**(3)**	**(3,010)**	**145,547**	**165,438**	**174**	**165,612**

1. ACTIVITIES

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

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

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

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

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

2. BASIS OF PRESENTATION

The condensed consolidated interim financial information is prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). This condensed consolidated interim financial information should be read together with the consolidated financial statements for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards ("IFRS").

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

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

The official US dollar ("US$") to RR exchange rates as determined by the Central Bank of the Russian Federation were 39.39 and 32.73 as at 30 September 2014 and 31 December 2013, 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 2013 with the exception of income tax expense, which is recognised based on management's best estimate of the annual effective income tax rate expected for the full financial year.

New accounting developments

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

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

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

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

4. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

Name	Principal activity	Country of Incorporation	Notes	Percentage of ownership interest held	
				30 September 2014	31 December 2013
ALROSA Finance S.A.	Financial services	Luxembourg		100.0	100.0
Sunland Trading S.A.	Diamonds trading	Switzerland		100.0	100.0
OJSC ALROSA-Gaz	Gas production	Russia		100.0	100.0
ALROSA-VGS LLC	Capital construction	Russia		100.0	100.0
OJSC Almazy Anabara	Diamonds production	Russia		100.0	100.0
CJSC Geotransgaz	Gas production	Russia	4.1	100.0	100.0
Urengoy Gaz Company Ltd.	Gas production	Russia	4.1	100.0	100.0
OJSC Nizhne-Lenskoe	Diamonds production	Russia	4.2	100.0	100.0
OJSC Viluyskaya GES-3	Electricity production	Russia		99.7	99.7
OJSC Severalmaz	Diamonds production	Russia		99.6	99.6
Arcos Belgium N.V.	Diamonds trading	Belgium		99.6	99.6
OJSC ALROSA-Nyurba	Diamonds production	Russia		87.6	87.6
MAK Bank LLC	Banking activity	Russia		84.7	84.7
Hydroshikapa S.A.R.L.	Electricity production	Angola		55.0	55.0
CJSC Irelyakhneft	Oil production	Russia	4.4	-	100.0

(in millions of Russian roubles, unless otherwise stated)

4. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

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

4.1. CJSC Geotransgaz and Urengoy Gaz Company Ltd.

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

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

4.2. Acquisition of OJSC Nizhne-Lenskoe

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

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

Property, plant and equipment	12,726
Inventories	2,707
Available-for-sale investments	25
Investments in associates	423
Trade and other receivables	635
Cash	9
Deferred tax liability	(1,765)
Borrowings	(3,958)
Trade and other payables	(3,606)
Fair value of acquired net assets	**7,196**
Non-controlling interest measured as proportionate share of acquired net assets	**(3,526)**
Total purchase consideration	**3,670**

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

4.3. Disposal of controlling interest in OJSC MMC Timir

On 2 April 2013 the Group and Evraz plc signed an agreement to sell a controlling 51.0 per cent. interest in OJSC MMC Timir to Evraz plc for a total consideration of RR'mln 6,001. Consideration receivable included cash consideration of RR'mln 4,950 and outstanding loans in the amount of RR'mln 1,122 issued by the Group to OJSC MMC Timir before disposal of controlling interest. Consideration receivable was reduced by the amount of transaction costs incurred by the Group in the amount of RR'mln 71.

As a result of the transaction the Company lost an ability to control financial and operating activity of OJSC MMC Timir. Accordingly OJSC MMC Timir was deconsolidated since 2 April 2013. The remaining 49.0 per cent. interest investment in OJSC MMC Timir was recorded at fair value as an investment in joint venture.

(in millions of Russian roubles, unless otherwise stated)

4. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

4.3. Disposal of controlling interest in OJSC MMC Timir (continued)

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

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

4.4. Disposal of CJSC Irelyakhneft

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

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

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

4.5 Associates and joint ventures

Name	**Country of incorporation**	**Percentage of ownership interest held**		**Carrying value of investment**	
		30 September 2014	**31 December 2013**	**30 September 2014**	**31 December 2013**
OJSC MMC Timir (Note 4.3)	Russia	49.0	49.0	2,128	2,190
Catoca Mining Company Ltd.	Angola	32.8	32.8	2,060	1,704
Other	Russia	20-50	20-50	614	664
Total carrying value of investment				**4,802**	**4,558**

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

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

(in millions of Russian roubles, unless otherwise stated)

4. GROUP STRUCTURE AND INVESTMENTS (CONTINUED)

4.5 Associates and joint ventures (continued)

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

	Three months ended		**Nine months ended**	
	30 September 2014	**30 September 2013**	**30 September 2014**	**30 September 2013**
Catoca Mining Company Ltd.	683	271	1 302	679
OJSC MMC Timir	(35)	(1)	(63)	(17)
Other	(4)	10	(2)	11
Total Group's share of net profit of associates and joint ventures	**644**	**280**	**1,237**	**673**

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

In May 2014 Catoca declared dividends for the year ended 31 December 2013; the Group's share of these dividends amounted to RR'mln 1,139 before taxation in the amount of RR'mln 114. Currency translation gain recognised in the condensed consolidated other comprehensive income for the nine months ended 30 September 2014 in respect of investment in Catoca totalled RR'mln 193.

In May 2013 Catoca declared dividends for the year ended 31 December 2012; the Group's share of these dividends amounted to RR'mln 1,351 before taxation in the amount of RR'mln 138. Currency translation gain recognised in the condensed consolidated other comprehensive income for the nine months ended 30 September 2013 in respect of investment in Catoca totalled RR'mln 123.

5. CASH AND CASH EQUIVALENTS

	30 September 2014	**31 December 2013**
Deposit accounts	15,328	3,802
Cash in banks and on hand	8,096	5,468
Total cash and cash equivalents	**23,424**	**9,270**

As at 30 September 2014 the weighted average interest rate on the cash balances of the Group was 2.09 per cent. per annum (31 December 2013: 2.61 per cent. per annum).

(in millions of Russian roubles, unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	TOTAL
As at 1 January 2013			
Cost	284,745	48,631	333,376
Accumulated depreciation and impairment losses	(107,602)	(1,028)	(108,630)
Net book value at 1 January 2013	**177,143**	**47,603**	**224,746**
Changes during nine months ended 30 September 2013:			
Foreign exchange differences	206	-	206
Additions	7,547	19,664	27,211
Additions through acquisition of OJSC Nizhne-Lenskoe (note 4.2)	12,716	10	12,726
Transfers	9,974	(9,974)	-
Reclassification to assets held for sale – at cost (note 4.1)	(38,457)	(4,059)	(42,516)
Reclassification to assets held for sale – accumulated depreciation (note 4.1)	998	-	998
Disposal of subsidiaries – at cost	(7,064)	(6)	(7,070)
Disposal of subsidiaries – accumulated depreciation	356	-	356
Other disposals – at cost	(2,601)	(433)	(3,034)
Other disposals – accumulated depreciation	1,768	-	1,768
Change in estimate of provision for land recultivation	(106)	-	(106)
Depreciation charge for the period	(11,862)	-	(11,862)
As at 30 September 2013	**150,618**	**52,805**	**203,423**
Cost	266,960	53,833	320,793
Accumulated depreciation and impairment losses	(116,342)	(1,028)	(117,370)
Net book value at 30 September 2013	**150,618**	**52,805**	**203,423**
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 nine months ended 30 September 2014:			
Foreign exchange differences	655	-	655
Additions	7,829	18,742	26,571
Transfers	24,454	(24,454)	-
Reclassification from assets held for sale – at cost (note 4.1)	40,211	2,540	42,751
Reclassification from assets held for sale – accumulated depreciation (note 4.1)	(1,199)	-	(1,199)
Disposal of subsidiaries – at cost (note 4.4)	(1,498)	(725)	(2,223)
Disposal of subsidiaries – accumulated depreciation (note 4.4)	899	-	899
Other disposals – at cost	(4,170)	(1,163)	(5,333)
Other disposals – accumulated depreciation	2,778	-	2,778
Change in estimate of provision for land recultivation	60	-	60
Depreciation charge for the period	(15,336)	-	(15,336)
As at 30 September 2014	**212,797**	**52,103**	**264,900**
Cost	343,881	53,131	397,012
Accumulated depreciation and impairment losses	(131,084)	(1,028)	(132,112)
Net book value at 30 September 2014	**212,797**	**52,103**	**264,900**

Capitalised borrowing costs

During nine months ended 30 September 2014 borrowing costs totalling RR’mln 140 (nine months ended 30 September 2013: RR’mln 165) were capitalised in property, plant and equipment. For the nine months ended 30 September 2014 the capitalisation rate applied to qualifying assets was 6.21 per cent. p.a. (nine months ended 30 September 2013: 6.78 per cent. p.a.). In accordance with transitional rules of revised IAS 23 “Borrowing costs”, borrowing costs are capitalised for projects commencing after 1 January 2009.

(in millions of Russian roubles, unless otherwise stated)

7. INVENTORIES

	30 September 2014	31 December 2013
Diamonds	27,269	31,411
Mining and construction materials	23,145	16,145
Ores and sands mined	13,757	9,795
Consumable supplies	3,199	3,260
Total inventories	**67,370**	**60,611**

8. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	30 September 2014	31 December 2013
Loans issued	2,045	2,891
Consideration receivable for disposed controlling interest in OJSC MMC Timir	876	-
Receivables from associates and joint ventures (note 24)	292	284
Advances to suppliers	73	47
Long-term VAT recoverable	9	28
Notes receivable	-	108
Other long-term receivables	158	78
Total long-term accounts receivable	**3,453**	**3,436**

Current accounts receivable	30 September 2014	31 December 2013
VAT recoverable	5,351	4,396
Receivables from associates (note 24)	2,120	1,647
Loans issued	1,309	2,067
Consideration receivable for disposed controlling interest in OJSC MMC Timir	1,048	2,970
Advances to suppliers	876	1,347
Trade receivables for supplied diamonds	352	795
Prepaid taxes, other than income tax	351	167
Other trade receivables	3,637	2,678
Total current accounts receivable	**15,044**	**16,067**

As at 30 September 2014 part of consideration receivable for disposed controlling interest in OJSC MMC Timir in the amount of RR'mln 876 was reclassified to long-term accounts receivable following the agreement of the parties to extend payment terms.

Trade and other receivables are presented net of impairment provision of RR'mln 1,191 and RR'mln 4,995 as at 30 September 2014 and 31 December 2013, respectively.

9. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 30 September 2014 and 31 December 2013 and consists of 7,364,965,630 ordinary shares, including treasury shares, at RR 0.5 par value share. In addition as at 30 September 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.

(in millions of Russian roubles, unless otherwise stated)

9. SHAREHOLDERS' EQUITY (CONTINUED)

Distributable profits

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the nine months ended 30 September 2014 the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 23,514 (for the nine months ended 30 September 2013: RR'mln 22,833). 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 September 2014 and 31 December 2013 subsidiaries of the Group held 1,746,000 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 7,361,064,419 and 7,359,444,491 weighted average shares outstanding for the three and nine months ended 30 September 2014, respectively (for the three and nine months ended 30 September 2013: 7,215,790,600 and 7,216,059,928, respectively). There are no dilutive financial instruments outstanding.

Other reserves

	Currency translation	**Purchase of non-controlling interest**	**Available-for-sale investments**	**Recognition of accumulated actuarial (loss)/gain**	**Total other reverves**
Balance as at 1 January 2013	**(928)**	**(542)**	**41**	**(7,222)**	**(8,651)**
Actuarial gain on post employment benefit obligations	-	-	-	1,425	1,425
Sale of non-controlling interest	-	342	-	-	342
Currency translation differences	610	-	-	-	610
Balance at 30 September 2013	**(318)**	**(200)**	**41**	**(5,797)**	**(6,274)**
Balance as at 1 January 2014	**88**	**(169)**	**41**	**(7,201)**	**(7,241)**
Actuarial gain on post employment benefit obligations	-	-	-	2,670	2,670
Sale of non-controlling interest	-	63	-	-	63
Currency translation differences	1,498	-	-	-	1,498
Balance as at 30 September 2014	**1,586**	**(106)**	**41**	**(4,531)**	**(3,010)**

Dividends

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

On 29 June 2013 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2012 totalling RR'mln 8,175, including dividends on shares held by subsidiaries of the Group totalling RR'mln 162. Dividends per share amounted to RR 1.11.

(in millions of Russian roubles, unless otherwise stated)

10. LONG-TERM DEBT

	30 September 2014	31 December 2013
Bank loans:		
US$ denominated fixed rate	60,065	9,328
US$ denominated floating rate	23,632	19,638
RR denominated fixed rate	7	8
	83,704	**28,974**
Eurobonds	59,076	49,088
RR denominated non-convertible bonds	20,044	20,044
Finance lease obligation	415	584
Other RR denominated fixed rate loans	500	1,187
	163,739	**99,877**
Less: current portion of long-term debt (note 11)	(30,178)	(17,581)
Total long-term debt	**133,561**	**82,296**

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

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

The average effective interest rates were as follows:

	30 September 2014	31 December 2013
Bank loans:		
US$ denominated fixed rate	4.2%	4.8%
US$ denominated floating rate	3.9%	3.9%
RR denominated fixed rate	14.9%	14.9%
Eurobonds	8.1%	8.1%
RR denominated non-convertible bonds	8.9%	8.9%
Finance lease obligation	11.5%	11.5%
Other RR denominated fixed rate loans	6.9%	6.4%

Eurobonds
Movements of Eurobonds during nine months ended 30 September 2014 and 30 September 2013 were as follows:

	Nine months ended	
	30 September 2014	**30 September 2013**
Balance at the beginning of the period	**49,088**	**45,548**
Amortisation of discount	3	3
Exchange losses	9,985	2,958
Balance at the end of the period	**59,076**	**48,509**

As at 30 September 2014 the fair value of Eurobonds and RR denominated non-convertibe bonds comprised RR'mln 60,639 and RR'mln 19,977, respectively (31 December 2013: RR'mln 50,147 and RR'mln 20,412, respectively).

(in millions of Russian roubles, unless otherwise stated)

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

	30 September 2014	31 December 2013
Bank loans:		
US$ denominated fixed rate	-	20,619
US$ denominated floating rate	-	16,365
RR denominated fixed rate	89	115
	89	**37,099**
Other RR denominated fixed rate loans	611	1,615
	700	**38,714**
Add: current portion of long-term debt (note 10)	30,178	17,581
Total short-term debt and current portion of long-term debt	**30,878**	**56,295**

The average effective interest rates were as follows:

	30 September 2014	31 December 2013
Banks loans:		
US$ denominated fixed rate	-	2.3%
US$ denominated floating rate	-	1.7%
RR denominated fixed rate	11.8%	11.1%
Other RR denominated fixed rate loans	2.1%	1.1%

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

12. TRADE AND OTHER PAYABLES

	30 September 2014	31 December 2013
Accrual for employee flights and holidays	7,326	6,995
Trade payables	4,365	5,815
Wages and salaries	3,864	5,514
Interest payable	2,362	998
Current portion of provision for social obligation	1,347	1,122
Advances from customers	876	643
Current accounts of third parties in MAK Bank LLC	261	1,751
Other payables and accruals	3,650	1,163
Total trade and other payables	**24,051**	**24,001**

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

13. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

	30 September 2014	31 December 2013
Payments to social funds	1,567	1,662
Extraction tax	1,157	658
Property tax	785	964
Personal income tax (employees)	315	732
Value added tax	293	475
Other taxes and accruals	578	267
Total taxes payable, other than income tax	**4,695**	**4,758**

(in millions of Russian roubles, unless otherwise stated)

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

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

	Three months ended		Nine months ended	
	30 September 2014	**30 September 2013**	**30 September 2014**	**30 September 2013**
Property tax	796	869	2,586	2,714
Other taxes and accruals	136	94	431	311
Total	**932**	**963**	**3,017**	**3,025**

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		Nine months ended	
	30 September 2014	**30 September 2013**	**30 September 2014**	**30 September 2013**
Current tax expense / (benefit)	(59)	2,235	9,204	7,553
Adjustments recognised in the period for current tax of prior periods	-	-	647	-
Deferred tax (benefit) / charge	663	231	(260)	90
Total income tax expense	**604**	**2,466**	**9,591**	**7,643**

14. PROVISION FOR PENSION OBLIGATION

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

	30 September 2014	**31 December 2013**
Present value of funded obligations	17,233	20,122
Fair value of plan assets	(9,020)	(9,017)
Pension obligations for the funded plan	8,213	11,105
Present value of unfunded obligation	909	1,052
Net liability	**9,122**	**12,157**

(in millions of Russian roubles, unless otherwise stated)

14. PROVISION FOR PENSION OBLIGATION (CONTINUED)

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

	Present value of obligation	Fair value of plan assets	Total
As at 30 June 2013	**18,406**	**(8,671)**	**9,735**
Current service cost	107	-	107
Interest expense/(income)	349	(128)	221
	456	**(128)**	**328**
Remeasurements:			
Return on plan assets, excluding amount included in interest expense	-	62	62
Loss from change in financial assumptions	494	-	494
	494	**62**	**556**
Contributions paid by employer	-	(141)	(141)
Benefit payments	(372)	372	-
	(372)	**231**	**(141)**
As at 30 September 2013	**18,984**	**(8,506)**	**10,478**

	Present value of obligation	Fair value of plan assets	Total
As at 30 June 2014	**20,363**	**(9,249)**	**11,114**
Current service cost	104	-	104
Past service cost	-	-	-
Interest expense/(income)	412	(180)	232
	516	**(180)**	**336**
Remeasurements:			
Return on plan assets, excluding amount included in interest expense	-	180	180
Gain from change in financial assumptions	(2,356)	-	(2,356)
	(2,356)	**180**	**(2,176)**
Contributions paid by employer	-	(152)	(152)
Benefit payments	(381)	381	-
	(381)	**229**	**(152)**
As at 30 September 2014	**18,142**	**(9,020)**	**9,122**

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

	Present value of obligation	Fair value of plan assets	Total
As at 1 January 2013	**20,231**	**(7,188)**	**13,043**
Current service cost	320	-	320
Interest expense/(income)	1,067	(383)	684
	1,387	**(383)**	**1,004**
Remeasurements:			
Return on plan assets, excluding amount included in interest expense	-	32	32
Gain from change in financial assumptions	(1,813)	-	(1,813)
	(1,813)	**32**	**(1,781)**
Contributions paid by employer	-	(1,788)	(1,788)
Benefit payments	(821)	821	-
	(821)	**(967)**	**(1,788)**
As at 30 September 2013	**18,984**	**(8,506)**	**10,478**

(in millions of Russian roubles, unless otherwise stated)

14. PROVISION FOR PENSION OBLIGATION (CONTINUED)

	Present value of obligation	Fair value of plan assets	Total
As at 1 January 2014	**21,174**	**(9,017)**	**12,157**
Current service cost	313	-	313
Past service cost	(123)	-	(123)
Interest expense/(income)	1,258	(541)	717
	1,448	**(541)**	**907**
Remeasurements:			
Return on plan assets, excluding amount included in interest expense	-	591	591
Gain from change in financial assumptions	(3,637)	-	(3,637)
	(3,637)	**591**	**(3,046)**
Contributions paid by employer	-	(890)	(890)
Benefit payments	(837)	837	-
	(837)	**(53)**	**(890)**
Disposal of subsidiaries	(6)	-	(6)
As at 30 September 2014	**18,142**	**(9,020)**	**9,122**

The significant actuarial assumptions are as follows:

	30 September 2014	31 December 2013
Discount rate (nominal)	9.4%	8.0%
Future salary increases (nominal)	7.0%	7.0%
Future pension increases (nominal)	5.5%	5.5%

15. REVENUE

	Three months ended		Nine months ended	
	30 September 2014	**30 September 2013**	**30 September 2014**	**30 September 2013**
Revenue from diamond sales:				
Export	31,005	28,831	114,492	91,891
Domestic	4,709	4,150	15,276	14,673
Revenue from diamonds for resale	277	178	785	561
Total revenue from diamond sales	**35,991**	**33,159**	**130,553**	**107,125**
Other revenue:				
Gas	1,802	2,097	5,100	3,885
Transport	1,666	1,355	3,777	3,405
Social infrastructure	891	635	3,047	2,124
Other	1,768	1,903	4,430	4,839
Total revenue	**42,118**	**39,149**	**146,907**	**121,378**

Export duties totalling RR'mln 2,071 and RR'mln 7,636 for the three and nine months ended 30 September 2014, respectively (three and nine months ended 30 September 2013: RR'mln 1,942 and RR'mln 6,166, respectively) were netted against revenue from diamond export sales.

(in millions of Russian roubles, unless otherwise stated)

16. COST OF SALES

	Three months ended		Nine months ended	
	30 September 2014	**30 September 2013**	**30 September 2014**	**30 September 2013**
Wages, salaries and other staff costs	8,545	8,258	25,363	23,859
Depreciation	5,635	3,734	13,094	10,493
Extraction tax	3,642	2,767	10,157	7,686
Fuel and energy	3,503	2,585	9,511	8,863
Materials	2,396	2,879	5,995	6,826
Services	1,641	974	3,488	2,147
Transport	899	530	2,899	1,580
Cost of diamonds for resale	277	178	776	461
Impairment / (reversal of impairment) of inventories	93	(11)	204	100
Other	162	218	265	249
Movement in inventory of diamonds, ores and sands	(4,948)	(1,988)	180	(2,929)
Total cost of sales	**21,845**	**20,124**	**71,932**	**59,335**

Wages, salaries and other staff costs include payments to social funds in the amount of RR’mln 970 and RR’mln 5,400 for the three and nine months ended 30 September 2014, respectively (for the three and nine months ended 30 September 2013: RR’mln 1,162 and RR’mln 4,740, respectively).

Depreciation totalling RR’mln 515 and RR’mln 1,828 for the three and nine months ended 30 September 2014, respectively (for the three and nine months ended 30 September 2013: RR’mln 364 and RR’mln 1,101, respectively) and wages, salaries and other staff costs totalling RR’mln 1,057 and RR’mln 4,126 for the three and nine months ended 30 September 2014, respectively (for the three and nine months ended 30 September 2013: RR’mln 363 and RR’mln 1,628, respectively) were incurred by the Group’s construction divisions and were capitalised in the respective periods.

17. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Nine months ended	
	30 September 2014	**30 September 2013**	**30 September 2014**	**30 September 2013**
Wages, salaries and other staff costs	1,444	1,026	4,405	3,400
Services and other administrative expenses	895	966	2,757	3,002
Impairment / (reversal of impairment) of accounts receivable	484	(3)	624	210
Total general and administrative expenses	**2,823**	**1,989**	**7,786**	**6,612**

Wages, salaries and other staff costs include payments to social funds in the amount of RR’mln 129 and RR’mln 539 for the three and nine months ended 30 September 2014, respectively (for the three and nine months ended 30 September 2013: RR’mln 41 and RR’mln 350, respectively).

18. SELLING AND MARKETING EXPENSES

	Three months ended		Nine months ended	
	30 September 2014	**30 September 2013**	**30 September 2014**	**30 September 2013**
Wages, salaries and other staff costs	318	273	994	856
Services and other selling and marketing expenses	28	123	708	680
Total selling and marketing expenses	**346**	**396**	**1,702**	**1,536**

(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 53 and RR'mln 197 for the three and nine months ended 30 September 2014, respectively (for the three and nine months ended 30 September 2013 in the amount of RR'mln 32 and RR'mln 173, respectively).

19. OTHER OPERATING INCOME

	Three months ended		Nine months ended	
	30 September 2014	**30 September 2013**	**30 September 2014**	**30 September 2013**
Gain on disposal of subsidiaries (Notes 4.3, 4.4)	-	-	142	2,552
Other	594	114	818	715
Total other operating income	**594**	**114**	**960**	**3,267**

20. OTHER OPERATING EXPENSES

	Three months ended		Nine months ended	
	30 September 2014	**30 September 2013**	**30 September 2014**	**30 September 2013**
Exploration expenses	2,479	2,125	5,914	6,170
Taxes other than income tax, extraction tax and payments to social funds (Note 13)	932	963	3,017	3,025
Social costs	801	827	2,924	2,516
Loss on disposal of property, plant and equipment	656	69	1,326	609
Other	596	358	1,206	1,389
Total other operating expenses	**5,464**	**4,342**	**14,387**	**13,709**

Social costs consist of:

	Three months ended		Nine months ended	
	30 September 2014	**30 September 2013**	**30 September 2014**	**30 September 2013**
Charity	630	578	1,511	1,265
Maintenance of local infrastructure	105	43	1,068	751
Hospital expenses	48	76	147	146
Education	18	32	69	76
Other	-	98	129	278
Total social costs	**801**	**827**	**2,924**	**2,516**

21. FINANCE INCOME AND COSTS

	Three months ended		Nine months ended	
	30 September 2014	**30 September 2013**	**30 September 2014**	**30 September 2013**
Interest income	321	33	772	137
Interest expense:				
Eurobonds	(1,141)	(959)	(3,293)	(2,836)
Bank loans	(797)	(745)	(1,956)	(1,721)
RR denominated non-convertible bonds	(448)	(423)	(1,331)	(1,908)
European commercial paper	-	(53)	-	(195)
Other	(270)	(66)	(849)	(219)
Unwinding of discount of future provisions	(81)	(58)	(205)	(201)
Exchange (loss)/gain, net	(19,889)	667	(23,153)	(5,697)
Total finance (costs)/income, net	**(22,305)**	**(1,604)**	**(30,015)**	**(12,640)**

(in millions of Russian roubles, unless otherwise stated)

22. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash flows from operations:

	Nine months ended	
	30 September 2014	**30 September 2013**
Profit before income tax	**22,375**	**30,579**
Adjustments for:		
Share of net profit of associates and joint ventures (note 4)	(1,237)	(673)
Interest income (note 21)	(772)	(137)
Interest expense (note 21)	7,634	7,080
Loss on disposal of property, plant and equipment (note 20)	1,326	609
Depreciation (notes 6, 16)	13,504	10,760
Gain on disposal of subsidiaries (note 19)	(142)	(2,552)
Adjustment for inventory used in construction	(1,688)	(1,296)
Adjustment for non-cash financing activity	(67)	-
Withdrawals from restricted cash account	142	11
Unrealised foreign exchange effect on non-operating items	23,290	5,090
Net operating cash flows before changes in working capital	**64,365**	**49,471**
Net increase in inventories	(6,202)	(6,085)
Net decrease/(increase) in receivables, excluding dividends receivable and consideration receivable for disposed controlling interest in OJSC MMC Timir	1,839	(2,116)
Net decrease in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(3,660)	(4,951)
Net (decrease)/increase in taxes payable, excluding income tax	(265)	138
Cash inflows from operating activity	**56,077**	**36,457**
Income tax paid	(11,241)	(8,685)
Net cash inflows from operating activities	**44,836**	**27,772**

23. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment of the Russian Federation

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

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

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

23. CONTINGENCIES, COMMITMENTS AND OTHER RISKS (CONTINUED)

(b) Taxes

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

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

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

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

As at 30 September 2014 and 31 December 2013 the Group had tax contingencies. These contingencies are estimates that result from uncertainties in interpretation of applicable legislation concerning deduction of certain expenses for income tax purposes and reimbursement of the related input VAT. Management is not able to reliably estimate the range of possible outcomes, but believes that under certain circumstances the magnitude of these tax contingencies may be significant for the Group. Management of the Group believes that the exposure in respect of these tax risks is not probable, therefore as at 30 September 2014 and 31 December 2013 no provision for tax liabilities had been recorded.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 30 September 2014.

(d) Insurance

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

(e) Capital commitments

As at 30 September 2014 the Group has contractual commitments for capital expenditures of RR'mln 5,362 (31 December 2013: RR'mln 4,898).

(in millions of Russian roubles, unless otherwise stated)

23. CONTINGENCIES, COMMITMENTS AND OTHER RISKS (CONTINUED)

(f) Restoration, rehabilitation and environmental costs

Under its license agreements, the Group is not responsible for any significant restoration, rehabilitation and environmental expenditures that may be incurred subsequent to the cessation of production at each mine, apart from the obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. As at 30 September 2014 the Group recognised a provision for these future expenses in the amount of RR'mln 3,303 (31 December 2013: RR'mln 3,076).

24. RELATED PARTY TRANSACTIONS

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

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

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

Governments of the Russian Federation and the Republic of Sakha (Yakutia) are the major shareholders of the Company. As at 30 September 2014 68.9 per cent. of the Company's issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Also as at 30 September 2014 8.0 per cent. of the Company's shares were owned by administrations or 8 districts of the Republic of Sakha (Yakutia). Following the Extraordinary General Meeting of Shareholders in December 2013, the 15 seats on the Supervisory Council include 9 representatives of the Russian Federation (1 also is the Chairman of the Management Board) and the Republic of Sakha (Yakutia), 5 independent directors according to the Russian Corporate Law (3 of them are nominated by the Government of the Russian Federation, 1 was nominated by the Government of the Republic of Sakha (Yakutia), 1 was nominated by districts of the Republic of Sakha (Yakutia)) and 1 member of the Management Board. Governmental, federal and local economic and social policies affect the Group's financial position, results of operations and cash flows.

Tax balances are disclosed in the condensed consolidated interim statement of financial position and in notes 8 and 13. Tax transactions are disclosed in the condensed consolidated interim statement of profit or loss and other comprehensive income, the condensed consolidated interim statement of cash flows and in notes 22 and 23.

Parties under control of the Government

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

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

Financial statements line item	**30 September 2014**	**31 December 2013**
Statement of financial position		
Short-term accounts receivable	2,287	2,165
Short-term accounts payable	610	518
Loans received by the Group	27,002	25,366
Loans issued by the Group	274	668
Deposits, cash and cash equivalents	16,075	5,028

(in millions of Russian roubles, unless otherwise stated)

24. RELATED PARTY TRANSACTIONS (CONTINUED)

	Three months ended		Nine months ended	
Financial statements line item	**30 September 2014**	**30 September 2013**	**30 September 2014**	**30 September 2013**
Statement of profit or loss and other comprehensive income				
Sales of diamonds	1,245	702	4,200	4,147
Other sales	1,783	-	5,005	1,615
Electricity and heating expenses	(2,264)	(1,052)	(4,812)	(3,177)
Other purchases	(4,020)	(2,177)	(6,295)	(4,022)
Interest income	222	36	490	143
Interest expense	(264)	(287)	(798)	(727)

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

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

Key management compensation

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

Before 25 April 2013 the Management Board consisted of 20 members. On 25 April 2013 the Company's Supervisory Council made a decision to reduce the number of Management Board members to 13. As at 30 September 2014 and 31 December 2013 two of the Management Board members are also members of the Supervisory Council. Management Board members are entitled to salary, bonuses, voluntary medical insurance and other short-term employee benefits. Salary and bonus compensation paid to members of the Management Board is determined by the terms of "Remuneration Policy for the members of the Management Board" approved by the Company's Supervisory Council on 18 March 2012.

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

Key management received short-term benefits for the three and nine months ended 30 September 2014 totalling RR'mln 128 and RR' mln 724, respectively (three and nine months ended 30 September 2013: RR'mln 133 and RR' mln 652, respectively).

Associates and joint ventures

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

Long-term accounts receivable	**30 September 2014**	**31 December 2013**
OJSC MMC Timir, loans issued	290	284
Other	2	-
Total long-term accounts receivable	**292**	**284**

Current accounts receivable	**30 September 2014**	**31 December 2013**
Catoca, dividends receivable	1,267	785
OJSC MMC Timir, loans issued	835	840
Other	18	22
Total current accounts receivable	**2,120**	**1,647**

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

25. SEGMENT INFORMATION

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

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

The Management Board evaluates performance and makes investment and strategic decisions based upon review of operating activity results (i.e. meeting production targets and monitoring of actual expenditures against budget allocated by production and sales of diamonds and other activities) as it believes that such information is the most relevant in evaluating the results. No specific measure of profit or loss is analysed by the CODM on entity by entity basis. The following items are analysed on the Group level and are not allocated between segments for the purposes of the analysis:

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

The following reportable segments were identified:

- Diamonds segment - production and sales of diamonds;
- Transportation;
- Social infrastructure;
- Sale of Gas;
- Other activities.

(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 September 2014	**Diamonds segment**	**Transpor-tation**	**Social infrastruc-ture**	**Sale of Gas**	**Other activities**	**Total**
Revenue	38,062	1,982	894	1,759	2,683	45,380
Intersegment revenue	-	(317)	(28)	(84)	(1,142)	(1,571)
Cost of sales, incl.	12,673	1,536	1,093	960	3,001	19,263
depreciation	2,802	155	246	208	238	3,650
Gross margin	**25,389**	**446**	**(199)**	**799**	**(318)**	**25,478**

Three months ended 30 September 2013	**Diamonds segment**	**Transpor-tation**	**Social infrastruc-ture**	**Sale of Gas**	**Other activities**	**Total**
Revenue	35,101	2,304	726	2,121	4,234	44,486
Intersegment revenue	-	(948)	(81)	(75)	(2,410)	(3,514)
Cost of sales, incl.	12,944	2,039	1,364	715	3,451	20,513
depreciation	2,592	142	17	148	381	3,280
Gross margin	**22,157**	**265**	**(638)**	**1,406**	**783**	**23,973**

Nine months ended 30 September 2014	**Diamonds segment**	**Transpor-tation**	**Social infrastruc-ture**	**Sale of Gas**	**Other activities**	**Total**
Revenue	138,189	4,514	3,441	5,739	9,078	160,961
Intersegment revenue	-	(738)	(390)	(642)	(5,371)	(7,141)
Cost of sales, incl.	44,516	4,404	4,539	2,612	9,471	65,542
depreciation	7,863	416	282	695	1,302	10,558
Gross margin	**93,673**	**110**	**(1,098)**	**3,127**	**(393)**	**95,419**

Nine months ended 30 September 2013	**Diamonds segment**	**Transpor-tation**	**Social infrastruc-ture**	**Sale of Gas**	**Other activities**	**Total**
Revenue	113,291	5,558	2,230	4,179	11,171	136,429
Intersegment revenue	-	(2,152)	(106)	(291)	(6,810)	(9,359)
Cost of sales, incl.	40,089	5,844	3,897	1,543	8,983	60,356
depreciation	7,723	430	37	398	1,074	9,662
Gross margin	**73,202**	**(286)**	**(1,667)**	**2,636**	**2,188**	**76,073**

(in millions of Russian roubles, unless otherwise stated)

25. SEGMENT INFORMATION (CONTINUED)

Reconciliation of revenue is presented below:

	Three months ended		Nine months ended	
	30 September 2014	**30 September 2013**	**30 September 2014**	**30 September 2013**
Segment revenue	**45,380**	**44,486**	**160,961**	**136,429**
Elimination of intersegment revenue	(1,571)	(3,514)	(7,141)	(9,359)
Reclassification of export duties [1]	(2,071)	(1,942)	(7,636)	(6,166)
Other adjustments and reclassifications	380	119	723	474
Revenue as per statement of profit or loss and other comprehensive income	**42,118**	**39,149**	**146,907**	**121,378**

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

Reconciliation of cost of sales including depreciation is presented below:

	Three months ended		Nine months ended	
	30 September 2014	**30 September 2013**	**30 September 2014**	**30 September 2013**
Segment cost of sales	**19,263**	**20,513**	**65,542**	**60,356**
Adjustment for depreciation of property, plant and equipment [1]	1,985	454	2,536	831
Elimination of intersegment purchases	(1,427)	(3,514)	(5,931)	(9,359)
Accrued provision for pension obligation [2]	(99)	(29)	(745)	(1,294)
Reclassification of extraction tax [3]	3,642	2,610	10,157	7,737
Adjustment for inventories [4]	(756)	952	3,212	3,476
Accrual for employee flights and holidays [5]	(163)	61	(64)	137
Accrual for the part of expected annual bonus	411	-	1,133	-
Other adjustments	352	416	270	576
Reclassification of exploration expenses [6]	(849)	(780)	(2,834)	(1,797)
Other reclassifications	(514)	(559)	(1,344)	(1,328)
Cost of sales as per statement of profit or loss and other comprehensive income	**21,845**	**20,124**	**71,932**	**59,335**

[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 a nd 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		Nine months ended	
	30 September 2014	**30 September 2013**	**30 September 2014**	**30 September 2013**
Belgium	19,760	18,059	71,846	57,233
Russian Federation	10,680	10,187	31,116	29,039
India	5,026	4,627	18,747	16,392
Israel	4,100	3,505	14,583	10,746
United Arab Emirates	807	699	4,398	2,573
China	1,067	1,320	3,917	3,448
Belarus	148	-	444	181
Angola	114	96	386	344
Armenia	35	82	102	304
Other countries	381	574	1,368	1,118
Total revenue	**42,118**	**39,149**	**146,907**	**121,378**

(in millions of Russian roubles, unless otherwise stated)

25. SEGMENT INFORMATION (CONTINUED)

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

	30 September 2014	31 December 2013
Russian Federation	267,697	218,170
Angola	3,448	2,900
Other countries	320	447
Total non-current assets (other than financial instruments)	**271,465**	**221,517**

26. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

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

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

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

Recurring fair value measurements

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

	30 September 2014				**31 December 2013**			
	Level 1	Level 2	Level 3	**Total carrying value**	Level 1	Level 2	Level 3	**Total carrying value**
Available-for-sale investments	-	-	242	**242**	-	-	243	**243**
Total	**-**	**-**	**242**	**242**	**-**	**-**	**243**	**243**

(in millions of Russian roubles, unless otherwise stated)

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

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

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

	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
Current and non-current financial assets				
Loans issued	-	-	2,045	2,045
Other long-term receivables	-	-	158	158
Total assets	**-**	**-**	**2,203**	**2,203**
Loans from banks	-	83,704	-	83,704
Eurobonds	59,076	-	-	59,076
RR denominated non-convertible bonds	20,044	-	-	20,044
Finance lease obligation	-	-	415	415
Other RR denominated fixed rate loans	-	500	-	500
Total non-current liabilities	**79,120**	**84,204**	**415**	**163,739**
Short-term debt and other payables				
Loans from banks	-	89	-	89
Other RR denominated fixed rate loans	-	611	-	611
Total current liabilities	**-**	**700**	**-**	**700**
Total liabilities	**79,120**	**84,904**	**415**	**164,439**

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

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

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

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

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

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

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