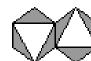
OJSC ALROSA

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014 AND

INDEPENDENT AUDITOR'S REPORT



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Independent Auditor's Report

To the Shareholders and Supervisory Council of
Open Joint Stock Company ALROSA

We have audited the accompanying consolidated financial statements of Open Joint Stock Company ALROSA and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of profit or loss and other comprehensive income, cash flows and changes in equity for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

ZAO PricewaterhouseCoopers Audit
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

20 March 2015
Moscow, Russian Federation

M.I. Buchnev, Director (licence no. 01-000056),
ZAO PricewaterhouseCoopers Audit

Audited entity: AK ALROSA (OJSC)

State registration certificate series 14 № 000724010, issued by Administration of Mirninsky district (ulus) of the Republic of Sakha (Yakutia) on 13 August 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 17 July 2002 under registration № 1021400967092

6, Lenin Street, Mirny, 678170, Republic of Sakha (Yakutia), Russia

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

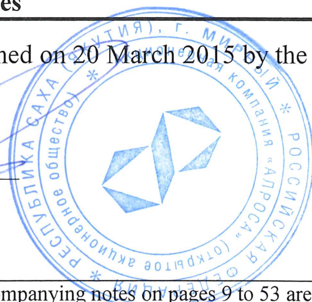
Certificate of inclusion in the Unified State Register of Legal Entitiesissued on 22 August 2002 under registration № 1027700148431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

Consolidated Statement of Financial Position

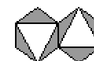
	Notes	31 December 2014	31 December 2013
ASSETS			
Non-current Assets			
Goodwill	5.3	1,439	1,439
Property, plant and equipment	7	271,618	215,277
Investments in associates and joint ventures	5.4	6,219	4,558
Deferred tax assets	16	1,912	-
Available-for-sale investments		379	243
Long-term accounts receivable	9	2,489	3,436
Restricted cash	6	100	249
Total Non-current Assets		**284,156**	**225,202**
Current Assets			
Inventories	8	63,488	60,611
Prepaid income tax		3,716	106
Trade and other receivables	9	15,196	16,067
Cash and cash equivalents	6	21,693	9,270
Assets of disposal group classified as held for sale	5.1	-	43,615
Total Current Assets		**104,093**	**129,669**
Total Assets		**388,249**	**354,871**
EQUITY			
Share capital	10	12,473	12,473
Share premium		10,431	10,431
Treasury shares	10	-	(5)
Retained earnings and other reserves	10	114,147	136,901
Equity attributable to owners of OJSC ALROSA		**137,051**	**159,800**
Non-Controlling Interest in Subsidiaries		**123**	**(339)**
Total Equity		**137,174**	**159,461**
LIABILITIES			
Non-current Liabilities			
Long-term debt	11	176,358	82,296
Provision for pension obligations	14	5,793	12,157
Other provisions	13	4,347	3,968
Deferred tax liabilities	16	11,301	3,282
Total Non-current Liabilities		**197,799**	**101,703**
Current Liabilities			
Short-term loans and current portion of long-term debt	12	20,802	56,295
Trade and other payables	15	24,003	24,001
Income tax payable		2,716	1,776
Other taxes payable	16	5,287	4,758
Dividends payable		468	461
Liabilities of disposal group classified as held for sale	5.1	-	6,416
Total Current Liabilities		**53,276**	**93,707**
Total Liabilities		**251,075**	**195,410**
Total Equity and Liabilities		**388,249**	**354,871**

Approved for issue and signed on 20 March 2015 by the following members of management:



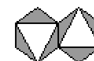
Ilya P. Ryashchin
Acting President

Svetlana V.Linnik
Chief accountant



Consolidated Statement of Profit or Loss and Other Comprehensive Income

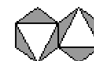
	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Revenue	17	207,159	168,505
Cost of sales	18	(98,936)	(82,232)
Royalty	16	(1,209)	(1,209)
Gross profit		**107,014**	**85,064**
General and administrative expenses	19	(10,270)	(9,913)
Selling and marketing expenses	20	(2,298)	(2,378)
Other operating income	21	4,117	4,018
Other operating expenses	22	(24,187)	(19,920)
Operating profit		**74,376**	**56,871**
Finance costs, net	23	(83,762)	(16,287)
Share of net profit of associates and joint ventures	5	1,589	917
(Loss)/profit before income tax		**(7,797)**	**41,501**
Income tax	16	(9,035)	(9,664)
(Loss)/profit for the year		**(16,832)**	**31,837**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations, net of tax		5,433	21
Total items that will not be reclassified to profit or loss		**5,433**	**21**
Items that will be reclassified to profit or loss:			
Currency translation differences, net of tax		307	1,016
Total items that will be reclassified to profit or loss		**307**	**1,016**
Other comprehensive income for the year		**5,740**	**1,037**
Total comprehensive (loss)/income for the year		**(11,092)**	**32,874**
(Loss)/profit attributable to:			
Owners of OJSC ALROSA		(17,952)	30,917
Non-controlling interest		1,120	920
(Loss)/profit for the year		**(16,832)**	**31,837**
Total comprehensive (loss)/income attributable to:			
Owners of OJSC ALROSA		(12,212)	31,954
Non-controlling interest		1,120	920
Total comprehensive (loss)/income for the year		**(11,092)**	**32,874**
Basic and diluted (loss)/earnings per share for (loss)/profit attributable to the owners of OJSC ALROSA (in Roubles)	10	(2.44)	4.26



Consolidated Statement of Cash Flows

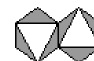
	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Net Cash Inflow from Operating Activities	24	**78,115**	**55,639**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(33,291)	(38,165)
Purchase of inventories for construction		(2,765)	(2,106)
Proceeds from sales of property, plant and equipment		1,147	189
Acquisition of OJSC Nizhne-Lenskoe, net of cash acquired		-	(3,661)
Acquisition of available-for-sale investments		(101)	(17)
Proceeds from disposal of subsidiaries, net of cash disposed of		2,483	2,154
Interest received		969	234
Dividends received from associates		670	965
Net Cash Outflow from Investing Activities		**(30,888)**	**(40,407)**
Cash Flows from Financing Activities			
Repayments of loans		(113,531)	(93,130)
Loans received		91,613	99,007
Interest paid		(9,228)	(9,444)
Sale of treasury shares		224	4,473
Purchase of treasury shares		(65)	-
Acquisition of non-controlling interest in OJSC Nizhne-Lenskoe		-	(3,330)
Proceeds from disposal of non-controlling interest in subsidiaries		91	271
Dividends paid		(11,487)	(9,009)
Net Cash Outflow from Financing Activities		**(42,383)**	**(11,162)**
Net Increase in Cash and Cash Equivalents		**4,844**	**4,070**
Cash and cash equivalents at the beginning of the year*		10,408	6,242
Foreign exchange gain on cash and cash equivalents		6,441	96
Cash and Cash Equivalents at the End of the Year*	6	**21,693**	**10,408**

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



Consolidated Statement of Changes in Equity

		Attributable to owners of OJSC ALROSA							
	Number of shares outstanding	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2012	**7,213,444,600**	**12,473**	**10,431**	**(254)**	**(8,651)**	**117,014**	**131,013**	**(448)**	**130,565**
Comprehensive income									
Profit for the year		-	-	-	-	30,917	30,917	920	31,837
Other comprehensive income		-	-	-	1,037	-	1,037	-	1,037
Total comprehensive income for the year		**-**	**-**	**-**	**1,037**	**30,917**	**31,954**	**920**	**32,874**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(8,013)	(8,013)	-	(8,013)
Sale of treasury shares	146,668,230	-	-	249	-	4,224	4,473	-	4,473
Acquisition of OJSC Nizhne-Lenskoe		-	-	-	-	-	-	3,526	3,526
Sale/(purchase) of non-controlling interest		-	-	-	373	-	373	(3,422)	(3,049)
Dividends of subsidiaries to non-controlling shareholders		-	-	-	-	-	-	(915)	(915)
Total transactions with owners	**146,668,230**	**-**	**-**	**249**	**373**	**(3,789)**	**(3,167)**	**(811)**	**(3,978)**
Balance at 31 December 2013	**7,360,112,830**	**12,473**	**10,431**	**(5)**	**(7,241)**	**144,142**	**159,800**	**(339)**	**159,461**
Comprehensive income/(loss)									
(Loss)/profit for the year		-	-	-	-	(17,952)	(17,952)	1,120	(16,832)
Other comprehensive income		-	-	-	5,740	-	5,740	-	5,740
Total comprehensive income/ (loss) for the year		**-**	**-**	**-**	**5,740**	**(17,952)**	**(12,212)**	**1,120**	**(11,092)**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(10,818)	(10,818)	-	(10,818)
Sale of treasury shares (note 10)	4,852,800	-	-	5	-	194	199	-	199
Sale of non-controlling interest		-	-	-	82	-	82	23	105
Dividends of subsidiaries to non-controlling shareholders		-	-	-	-	-	-	(681)	(681)
Total transactions with owners	**4,852,800**	**-**	**-**	**5**	**82**	**(10,624)**	**(10,537)**	**(658)**	**(11,195)**
Balance at 31 December 2014	**7,364,965,630**	**12,473**	**10,431**	**-**	**(1,419)**	**115,566**	**137,051**	**123**	**137,174**



1. ACTIVITIES

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

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

As at 31 December 2014 and 31 December 2013 the 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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets and financial instruments categorised as at fair value through profit or loss. The consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

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"). Group companies incorporated in other countries maintain their statutory accounting records in accordance with relevant legislation and in the appropriate functional currency.

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 56.26 and 32.73 as at 31 December 2014 and 31 December 2013, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 68.34 and 44.97 as at 31 December 2014 and 31 December 2013, respectively.

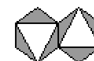
(b) Recent accounting pronouncements

In 2014 the Group has adopted all IFRS, amendments and interpretations which were effective as at 1 January 2014 and which are relevant to its operations.

The following new standards and interpretations became effective for the Group from 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). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. The amended standard did not have a material impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 27 –" Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amended standard did not have a material impact on the Group.



IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have a material impact on the Group.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. These amendments did not have a material impact on the Group.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. These amendments did not have a material impact on the Group.

Standards, Amendments and Interpretations to existing Standards that are not yet effective and have not been early adopted by the Group:

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Amendment to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's financial statements.

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). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment is not expected to have any material impact on the Group's consolidated financial statements.

IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.*Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).* The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are not applicable for the Group's consolidated financial statements.

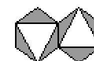
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact four standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 14 "Regulatory Deferral Accounts" (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The amendment is not expected to have any material impact on the Group's consolidated financial statements.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The amendment is not expected to have any material impact on the Group's consolidated financial statements.



(c) Principles of consolidation

The Group comprises the Company and its subsidiaries. The effects of transactions between subsidiaries within the Group are eliminated and accounting policies of the subsidiaries and associates are conformed to those of the Company.

Subsidiaries are those investees that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of obtaining control. Costs directly attributable to the acquisition are recognised as expenses. The date of obtaining control is the acquisition date. The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. The group applies acquisition method on transactions under common control.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

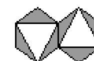
The difference, if any, between the carrying amount of non-controlling interest and the amount paid to acquire is recorded in equity.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20.0 and 50.0 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.



Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial cost for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are recycled to profit or loss where appropriate.

(d) Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

(e) Property, plant and equipment

Property, plant and equipment comprises costs incurred in developing areas of interest as well as the costs related to the construction and acquisition of mining assets.

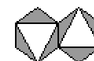
Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Expenditure related to geophysical analysis and exploration is expensed until it is determined to be probable that economically recoverable reserves exist. Exploration costs are classified as exploration expenses within other operating expenses. All expenses incurred subsequently are considered as development costs and are capitalised as part of property, plant and equipment. They are depreciated from the date of commencement of mining activities at the exact area of interest. Depreciation of these development costs is calculated on a units of production basis for each area of interest. Depreciation charges are based on proved and probable reserves. Depreciable amount includes future development costs to extract all reserve base from the mine.

Stripping costs incurred during production phase of an open pit are capitalised as part of property, plant and equipment to the extent they provide improved access to further quantities of diamond ore that will be mined in future periods and depreciated subsequently on a units of production basis to match the economic benefits derived from them. The Group recognises a stripping activity asset if, and only if, all of the following are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the Group;
- the Group can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

Gains and losses arising from the disposal of property, plant and equipment are included in the profit or loss as incurred.



At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use, the carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Costs on borrowings are capitalised as part of the cost of qualifying assets during the period of time that is required to construct and prepare the asset for its intended use.

Depreciation

Property, plant and equipment are depreciated from the date, when they are ready for the commencement of commercial mining activities.

Depreciation of buildings and land and improvements related to extraction of minerals is calculated on a units of production basis for each area of interest. For the purpose of this calculation at the end of each reporting period management uses information with respect to ore reserves in accordance with JORC code on the basis of independent resource engineer's report. In situations where it is known that future development costs will be needed to extract all resource base of the mine, they are included in depreciable amount. Depreciation of production licenses is calculated on a straight-line basis over the period they are valid. Depreciation of other assets is calculated on a straight-line basis over their estimated useful life.

Summary of useful lives and alternative basis for depreciation:

	Assets related to extraction of minerals	**Other assets**
Buildings	Units of production	8-50 years
Land and improvements	Units of production	7-50 years
Plant and equipment	4-13 years	4-13 years
Transport	5-13 years	5-13 years
Production licenses	5-20 years	-
Other	4-17 years	4-17 years

The average depreciation rate for the property, plant and equipment depreciated on a units of production basis was 7.95 per cent. in the year ended 31 December 2014 (year ended 31 December 2013: 9.3 per cent.).

Local infrastructure assets

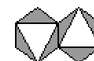
Local infrastructure assets constructed or purchased by the Group (including dwelling houses for the Group's employees located in the areas of the Group's production activity) are included in the consolidated financial statements at historical cost and depreciated during their useful lives as set out above. These assets are an integral part of the Group's production activities.

Finance leases

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of future finance charges, are included in debts. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to the consolidated statement of profit and loss and other comprehensive income over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

(f) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reassessed at each reporting period, and are included in the consolidated financial statements at their expected net present values using discount rates appropriate to the Group in the economic environment in the Russian Federation at the end of each reporting period.



The provision for land recultivation is determined based on the present value of estimated costs of constructive obligations required to restore mining and other operations in accordance with the terms of the license agreements in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration of affected areas. The initial provision for land recultivation together with any changes in estimation is recorded in the consolidated statement of financial position, with a corresponding amount recorded as part of property, plant and equipment in accordance with IAS 16 “Property, Plant and Equipment”.

The Group assesses the provision for land recultivation at each reporting date. Significant estimates and assumptions are made in determining the provision for land recultivation as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent and costs of land recultivation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at reporting date represents management’s best estimate of the present value of the future land recultivation costs required.

Changes in the provision for land recultivation resulting from the passage of time are reflected in the profit or loss each period under finance costs. Other changes in the provision relating to a change in the discount rate applied, in the expected pattern of settlement of the obligation or in the estimated amount of the obligation are treated as a change in accounting estimate in the period of the change. The effects of such changes are added to, or deducted from, the cost of the related asset.

(g) Inventories

Inventories of diamonds, extracted ore and sands, mining and construction stores and consumable supplies are valued at the lower of cost or net realisable value. Cost of inventory is determined using weighted average cost formula.

Cost of extracted ore and sands is calculated using the quantities determined based on surveyors’ measurements of the volumes of ore and sands remaining at the period end. Cost of inventories include those directly attributable to mining the diamonds, extracting the ore and producing sands, and those directly attributable to bringing mining and construction stores and consumable supplies to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

(h) Financial instruments - key measurement terms

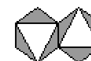
Depending on their classification financial instruments are carried at fair value or amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.



(i) Non derivative financial assets

The Group classifies its financial assets in the following categories:

- available-for-sale financial assets, and
- loans and receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

Purchases of available-for-sale investments on public financial markets are recognised on the settlement date, which is the date that the investment is delivered to the Group. The available-for sale investments are initially recognised at fair value plus transaction costs. Available-for-sale investments are subsequently carried at fair value. Unrealised gains and losses arising from changes in the carrying value of these investments are included in the Group's other comprehensive income or loss in the period in which they arise. Interest income, dividend income and realised gains and losses from the disposal of available-for-sale investments or impairment losses, if any, are included in the Group's profit or loss in the period in which they arise.

Available-for-sale investments of the Group principally comprise non-marketable securities, which are not publicly traded or listed on a stock exchange. For these investments, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows. In assessing the fair value, management makes assumptions that are based on market conditions existing at the end of each reporting period. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are carried at amortised cost using the effective interest method. Gains and losses are recognised within the profit or loss section of the consolidated statement of profit and loss and other comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

Impairment of loans and receivables

Impairment losses are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

(j) Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

(k) Components of cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and instruments with maturity at the date of inception of less than three months, which are considered by the Group at the time of deposit to have minimal fair value and default risks. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

(l) Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as a current asset and liability, except for VAT related to certain assets under construction included within non-current assets. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods borrowings are stated at amortised cost using the effective yield method; any difference between the amount at initial recognition and the redemption amount is recognised as interest expense over the period to maturity of the borrowings.

Borrowing costs (the interests) directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

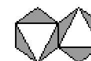
The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

(n) Pension and other post-retirement benefits

In the normal course of business the Group contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, made on behalf of employees directly involved in production of diamonds, are included within wages, salaries and other staff costs in cost of production and apportioned between work-in-process (inventory of diamonds and ores and sands) and cost of sales. Mandatory contributions to the State pension plan made on behalf of other employees, are expensed as incurred and included within wages, salaries and other staff costs in general and administrative expenses and selling and marketing expenses.



The Group also operates a defined benefit pension plan. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is charged to the relevant category in the consolidated statement of profit and loss and other comprehensive income so as to spread the regular cost over the service lives of employees (the cost of providing pensions to employees involved in production process is apportioned between cost of production and work-in-progress). The pension obligation is measured at the present value of the estimated future cash outflows using the interest rates on governmental securities, which have the terms to maturity approximating the terms of the related liability. Actuarial remeasurements arising mainly from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they arise.

Non-state pension fund Almaznaya Osen administers the Group's defined benefit plan. The amount of pension benefit that an employee will receive on retirement is usually dependent on one or more factors such as age, years of service and average salary for the year preceding the year of retirement. The liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The Group contributes funds to the non-state pension fund Almaznaya Osen, which invests them in various financial instruments. These investments are considered the pension fund plan assets, as these assets are available to be used only to pay or fund employee benefits, are not available to the Group's own creditors (even in bankruptcy), and cannot be returned to the Group, unless either the remaining assets of the non-state pension fund are sufficient to meet all the related employee benefit obligations of the pension plan, or the assets are returned to the Group to reimburse it for employee benefits already paid.

Past-service costs are recognised immediately in profit or loss.

(o) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

(p) Equity

Share capital

Share capital consists of ordinary shares, which are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Treasury shares

Where the Group companies purchase the Company's equity share capital, the consideration paid including any attributable transaction costs is deducted from total equity as treasury shares until they are re-sold. Where such shares are subsequently sold, any consideration received net of income taxes is included in equity. Treasury shares are recorded at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are approved at the General Meeting of Shareholders on or before the end of the reporting period.

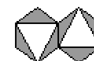
(q) Revenue recognition

Revenues are recognised when goods are transferred to the customer (diamonds are always passed to all customers in the Group's premises), as this is the date on which the risks and rewards of ownership are transferred to the customer. Sales are shown net of VAT and export duties, and after eliminating sales within the Group.

Revenue from rendering of transport services is recognised in consolidated financial statements in the period when the services are rendered.

Interest income is recognised on accrual basis that takes into account the effective yield on the asset.

Dividend income is recognised when the shareholder's right to receive payment is established and inflow of economic benefits is probable.



(r) Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge (benefit) comprises current tax and deferred tax and is recognised in the Group's profit or loss except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit or loss. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains at their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at every end of the reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

(s) Foreign currencies

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies, are translated into functional currencies at the official exchange rate prevailing at the reporting date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the Group's profit or loss.

The statements of financial position of foreign subsidiaries are translated into Russian Roubles at the exchange rate prevailing at the end of the respective reporting period. Statements of profit and loss and other comprehensive income of foreign entities are translated at the average exchange rate for the reporting period. Exchange differences arising from the translation of the net assets of foreign subsidiaries are recognised as translation differences and included in other comprehensive income.

(t) Social costs

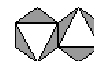
Discretionary and voluntary payments made to support social programs and related operations are expensed as incurred.

(u) Non-cash transactions

Non-cash transactions are measured at the fair value of the consideration received or receivable. Non-cash transactions have been excluded from the financing activities components in the accompanying consolidated statement of cash flows.

(v) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board of the Company, which is the Group's chief operating decision-maker.



(w) Non-current assets classified as held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable within twelve months after the reporting period. They are stated at the lower of carrying amount and fair value less costs to sell. Assets and liabilities directly associated with the disposed assets are reclassified and presented separately in the Consolidated Statement of Financial Position.

(x) Critical accounting estimates and judgements in applying accounting policies

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements preparation and the reported amounts of revenues and expenses during the reporting year. Actual results may differ from such estimates. In particular, significant areas of estimation and critical judgments in applying accounting policies made by management in preparing these consolidated financial statements include:

Impairment provision for receivables. The impairment provision for trade receivables is based on management's assessment of the probability of collection of individual customer accounts receivable. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates.

When there is no expectation of recovering additional cash for an amount receivable, amount receivable is written off against associated provision.

Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment of property, plant and equipment. The estimation of forecast cash flows involves the application of a number of significant judgements and estimates to certain variables including volumes of production, prices of diamonds, operating costs, capital investments, diamonds reserves estimates and macroeconomic factors such as inflation and discount rates. In addition, judgement is applied in determining the cash generating units assessed for impairment.

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. Management believes that as at 31 December 2014 and 31 December 2013 there were no such indicators, accordingly the Group did not conduct an impairment test of its property plant and equipment as at those dates.

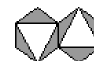
Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (note 25).

Useful lives of property, plant and equipment. Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Management believes diamond production licenses will be extended past their current expiration dates without significant additional charges. The Group has a history of renewal of its production licenses and there were no cases in the past when any of the Group's production licenses were not extended. Because of the extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

In the year ended 31 December 2014, if the estimated useful lives of property, plant and equipment had been 10 per cent. longer / shorter with all other variables held constant, depreciation charge for the year would have been RR'mln 1,787 (year ended 31 December 2013 – RR'mln 1,369) lower / higher.

Classification of production licenses. Management treats cost of production licenses as an integral part of acquisition cost of tangible mining properties; accordingly, production licenses are included in property, plant and equipment in these consolidated financial statements. As at 31 December 2014 the net book value of production licenses included in property, plant and equipment is RR'mln 36,398 (31 December 2013: RR'mln 14,005), see also note 7.



Pension benefits. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the yield to maturity on federal loan bonds denominated in the currency in which the benefits will be paid, and with terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based on current market conditions (note 14).

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including market risk (currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on minimising potential adverse effects on the financial performance of the Group.

Interest rate risk. The Group has no significant interest-bearing assets. The Group's principal interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2014 and 2013, the Group's borrowings were denominated in US dollars and Russian Roubles (notes 11 and 12).

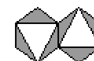
To mitigate this risk, the Group's treasury function performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In cases where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favorable interest rate terms. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new debts management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable over the expected period until maturity. The Group did not use derivative instruments to hedge its interest rate risk.

At 31 December 2014, if interest rates on US dollar-denominated borrowings had been 20 per cent. higher/lower with all other variables held constant, post-tax loss for the year would have been RR'mln 340 higher / lower (31 December 2013: post-tax profit would have been RR'mln 167 lower / higher), mainly as result of higher / lower interest expense on floating rate borrowings. Other components of equity would have not been significantly affected.

Foreign exchange risk. The Group exports production to European and other countries and attracts a substantial amount of foreign currency denominated borrowings and is, thus, exposed to foreign exchange risk arising from various contracts, primarily with respect to the US dollar and to a lesser extent the Euro.

The Group seeks to identify and manage foreign exchange rate risk in a comprehensive manner, considering an integrated analysis of natural economic hedges, to benefit from the correlation between income and expenses. The Group attracts a significant portion of borrowings for its investing activities in the same currency as the forecasted revenue stream to economically hedge the foreign currency risk exposure. The Group chooses the currency in which to hold cash, such as the Russian rouble, US dollar or other currency for a short-term risk management purposes.

To follow the requirement of Government of Russian Federation the Company is currently working on reducing the level of net foreign currency position to be in line or lower than as at 1 October 2014.



The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting year:

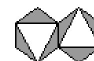
	US Dollar		**Euro**		**Other foreign currency**	
	31 December		**31 December**		**31 December**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Assets						
Cash and cash equivalents	4,059	1,833	275	66	226	125
Trade and other receivables	2,681	1,203	2	16	41	-
	6,740	**3,036**	**277**	**82**	**267**	**125**
Liabilities						
Trade and other payables	145	1,157	678	98	30	3
Borrowings	175,807	115,622	347	-	-	-
	175,952	**116,779**	**1,025**	**98**	**30**	**3**

At 31 December 2014, if the Russian Rouble had weakened / strengthened by 40 per cent. against the US dollar with all other variables held constant, post-tax loss for the year would have been RR'mln 54,148 higher / lower, mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated borrowings and accounts payable partially offset by foreign exchange gains/losses on translation of US dollar-denominated cash and cash equivalents and accounts receivable. Due to the foreign exchange effect recognised within other comprehensive income effect on equity would be RR'mln 1,968 lower / higher than on the financial result of the year. At 31 December 2013, if the Russian Rouble had weakened / strengthened by 10 per cent. against the US dollar with all other variables held constant, post-tax profit for the year would have been RR'mln 9,099 lower/higher, mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated borrowings and accounts payable partially offset by foreign exchange gains/losses on translation of US dollar-denominated cash and cash equivalents and accounts receivable. Other components of equity would have not been significantly affected.

Credit risk. Credit risk arises from cash and cash equivalents, as well as credit exposures to customers, including outstanding trade receivables, loans issued and other financial assets. Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to have minimal risk of default. Due to the fact that most of the counterparties do not have individual external credit rating, the Group has policies in place to ensure that sales of products and services and loans issued are made to counterparties with positive credit history. These procedures include assessment of financial position, past experience and other factors. To support certain receivables from customers of diamonds the Group may require either collateral, or bank or any other third party's guarantee. Although collections of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Liquidity risk. Liquidity risk management includes maintaining sufficient cash balances, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group management maintains flexibility in funding by ensuring availability under committed credit lines and expected cash flows from operating activities. Management monitors a rolling forecast of the Group's liquidity reserve (comprises undrawn borrowing facility and cash and equivalents) on the basis of expected cash flow. This is carried out at Group level monthly and annually. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet any net cash outflows and maintaining debt financing plans.



The table below analyses the Group's liabilities for financial instruments into relevant maturity grouping based on the remaining period at the consolidated statement of financial position to contractual maturity date.

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 3 years	Over 3 years
31 December 2014					
Borrowings	374	83	20,345	86,261	90,097
Trade payables	3,891	456	1 070	91	-
Current accounts of third parties in MAK Bank LLC	68	141	638	-	-
Interest payable	766	784	9,875	16,781	15,233
Payables to associates	19	-	-	-	-
Other payables and accruals	1,175	-	-	-	-
	6,293	**1,464**	**31,928**	**103,133**	**105,330**
31 December 2013					
Borrowings	1,363	20,858	34,074	49,251	33,045
Trade payables	3,516	779	995	231	294
Current accounts of third parties in MAK Bank LLC	140	292	1,319	-	-
Interest payable	560	461	6,307	7,592	10,184
Payables to associates	7	-	-	-	-
Other payables and accruals	1,156	-	-	-	-
	6,742	**22,390**	**42,695**	**57,074**	**43,523**

As the amounts included in the table are contractual undiscounted cash flows which include future interest payments, these amounts will not reconcile to the amounts disclosed in the consolidated statement of financial position for borrowings.

Capital risk management. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

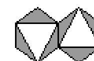
In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

As at 31 December 2014 and 31 December 2013 the Group is not subject to any externally imposed capital requirements other than the requirement stipulated by the Russian legislation that the charter capital of an open-stock company should not exceed its net assets.

The Group monitors capital mostly on the basis of the gearing ratio for the purpose of maintaining major debt parameters at the optimal level. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position, less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt. Management is in process of assessment relevancy of gearing ratio to current economic situation. After completion of that analysis management will develop action plan for improvement of gearing ration if deemed to be necessary.

The gearing ratios at 31 December 2014 and 31 December 2013 were as follows:

	31 December 2014	31 December 2013
Total borrowings	197,160	138,591
Less: cash and cash equivalents	(21,693)	(9,270)
Net debt	175,467	129,321
Total equity	137,174	159,461
Total capital	312,641	288,782
Gearing ratio	56%	45%



4. FINANCIAL INSTRUMENTS BY CATEGORY

FINANCIAL ASSETS	Loans and receivables		Available for sale		Total	
	31 December		31 December		31 December	
	2014	2013	2014	2013	2014	2013
Non-current financial assets						
Restricted cash	100	249	-	-	100	249
Available-for-sale investments	-	-	379	243	379	243
Loans issued	1,319	2,891	-	-	1,319	2,891
Consideration receivable for disposed controlling interest in OJSC MMC Timir	773	-	-	-	773	-
Receivables from associates	-	284	-	-	-	284
Notes receivable	-	108	-	-	-	108
Other long-term receivables	225	78	-	-	225	78
Total non-current financial assets	**2,417**	**3,610**	**379**	**243**	**2,796**	**3,853**
Current financial assets						
Receivables from associates	3,278	1,647	-	-	3,278	1,647
Loans issued	1,236	2,067	-	-	1,236	2,067
Consideration receivable for disposed controlling interest in OJSC MMC Timir	991	2,970	-	-	991	2,970
Trade receivables for supplied diamonds	157	795	-	-	157	795
Other trade receivables	3,313	2,678	-	-	3,313	2,678
Cash and cash equivalents	21,693	9,270	-	-	21,693	9,270
Total current financial assets	**30,668**	**19,427**	**-**	**-**	**30,668**	**19,427**
Total financial assets	**33,085**	**23,037**	**379**	**243**	**33,464**	**23,280**

FINANCIAL LIABILITIES	Liabilities at amortised cost		Total	
	31 December		31 December	
	2014	2013	2014	2013
Non-current financial liabilities				
Long-term debt	176,358	82,296	176,358	82,296
Total non-current financial liabilities	**176,358**	**82,296**	**176,358**	**82,296**
Current financial liabilities				
Short-term loans and current portion of long-term debt	20,802	56,295	20,802	56,295
Trade payables	5,508	5,815	5,508	5,815
Interest payable	1,324	998	1,324	998
Current accounts of third parties in MAK Bank LLC	847	1,751	847	1,751
Payables to associates	19	7	19	7
Other payables and accruals	1,175	1,156	1,175	1,156
Total current financial liabilities	**29,675**	**66,022**	**29,675**	**66,022**
Total financial liabilities	**206,033**	**148,318**	**206,033**	**148,318**

5. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

Name	Principal activity	Place of business	Notes	Percentage of ownership interest held	
				31 December 2014	**31 December 2013**
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	5.1	100.0	100.0
Urengoy Gaz Company Ltd.	Gas production	Russia	5.1	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	87.6
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	5.2	-	100.0

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

5.1. CJSC Geotransgaz and Urengoy Gaz Company Ltd. (the Gas companies)

On 27 September 2013, the Group signed an agreement with Rosneft Oil Company and certain of its affiliates (together "Rosneft") for the sale of the Gas companies, CJSC Irelyakhneft, OJSC ALROSA-Gaz and related assets to Rosneft. At 31 December 2013 management believed that the completion of the Gas companies disposal within 12 months was probable and their assets and liabilities were classified as held for sale. Due to a number of uncertainties related to possible disposal of CJSC Irelyakhneft and OJSC ALROSA-Gaz their assets and liabilities were not classified as held for sale.

As at 31 December 2014 disposal of the Gas companies was not completed due to inability of the parties to fullfil the terms of the existing agreement, accordingly the assets and liabilities related to them are no longer presented as assets and liabilities held for sale as at 31 December 2014 as management does not believe that disposal within 12 months after the reporting date is probable.

5.2. 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 activity 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**

5.3. Goodwill

The amount of goodwill totalling RR'mln 1,439 relates to acquisition of a 49.0 per cent. minority interest in OJSC Almazy Anabara in December 2007. The goodwill is attributable to the operational synergies expected to arise after this acquisition as a result of more effective integration of operational activity of this subsidiary into the Group's one. As of the date of acquisition goodwill was attributed to the diamond mining businesses of OJSC Almazy Anabara. As at 31 December 2014 the recoverable amount of goodwill was determined on the basis of the recent management's forecast of future cash flows of OJSC Almazy Anabara for the years 2015-2023 that reflects the expected period of production activity on the existing deposits. Based on results of the analysis, management concluded that there is no impairment for goodwill as at 31 December 2014 and 31 December 2013.

The impairment test involves making judgment about several key future business indicators. Key future business indicators used for goodwill impairment test are listed below:

	Year ended 31 December 2014	Year ended 31 December 2013
Pre-tax discount rate for 2015-2016	18.2%	11.8%
Pre-tax discount rate after 2016	14.9%	11.8%
Producer price index for 2015-2019	5.6% - 10.6%	3.3% - 8.3%
Producer price index for 2020-2023	6.2% - 8.2%	3.0% - 4.0%
Average diamond price, RR / carat	7,546	3,807
EBITDA margin	36% - 59%	29% - 48%

Management believes that their judgments are reasonable and supportable in the current economic environment. However, reasonable changes of key assumptions will not lead to an excess of carrying value of assets over their value-in-use allocated to the respective cash generating unit.

5.4. Associates and joint ventures

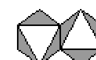
Name	Principal activity	Place of business	Percentage of ownership interest held at 31 December		Carrying value of investment at 31 December		Group's share of net profit/(loss) for the year ended 31 December	
			2014	2013	2014	2013	2014	2013
OJSC MMC Timir	Iron-ore production	Russia	49.0	49.0	2,179	2,190	(12)	(47)
Catoca Mining Company Ltd.	Diamonds production	Angola	32.8	32.8	3,413	1,704	1,597	939
OJSC Almazergienbank	Banking	Russia	20.00	22.8	425	442	37	20
Other		Russia	20-50	20-50	202	222	(33)	5
Total carrying value of investment					**6,219**	**4,558**	**1,589**	**917**

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

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

Catoca Mining Company Ltd ("Catoca") is a diamond-mining venture located in Angola. 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 consolidated other comprehensive income for the year ended 31 December 2014 in respect of investment in Catoca totalled RR'mln 1,251.

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 135. Currency translation gain recognised in the consolidated other comprehensive income for the year ended 31 December 2013 in respect of investment in Catoca totalled RR'mln 83.



Summarised IFRS financial information of the Group's associates is as follows:

	Catoca Mining Company Ltd		OJSC MMC Timir		OJSCAlmaz-ergien bank		Other		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Non-current assets	11,526	6,852	5,878	5,576	n/a	n/a	439	439	17,843	12,867
Current assets	15,055	5,637	97	22	n/a	n/a	90	87	15,242	5,746
Total assets	26,581	12,489	5,975	5,598	20,335	20,940	529	526	53,420	39,553
Non-current liabilities	3,910	2,415	175	288	n/a	n/a	27	28	4,112	2,731
Current liabilities	12,266	4,876	1,354	841	n/a	n/a	51	52	13,671	5,769
Total liabilities	16,176	7,291	1,529	1,129	18,209	19,001	78	80	35,992	27,501
Net assets	10,405	5,198	4,446	4,469	2,126	1,939	451	446	17,428	12,052
Group's share in net assets	3,413	1,704	2,179	2,190	425	442	202	222	6,219	4,558
Revenue	34,212	18,465	-	-	2,215	1,880	270	269	36,697	20,614
Profit/(loss)	7,098	3,273	(6)	(96)	168	88	10	12	7,270	3,277
Dividends declared	(5,626)	(4,120)	-	-	-	-		-	(5,626)	(4,120)

6. CASH AND CASH EQUIVALENTS

Restricted cash

Restricted cash included within non-current assets in the consolidated statement of financial position of RR'mln 100 and RR'mln 249 as at 31 December 2014 and 31 December 2013, respectively, is represented by mandatory reserve deposits held with the Central Bank of the Russian Federation by MAK Bank LLC, a subsidiary of the Group; these balances are not available for use in the Group's day to day operations. Payments to this restricted cash account are included in cash flows from operating activity in consolidated statement of cash flows (note 24).

At 31 December 2014 and 31 December 2013 the weighted average interest rate on the restricted cash balances is approximately nil.

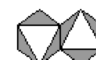
Cash and cash equivalents

	31 December 2014	31 December 2013
Deposit accounts	14,302	3,802
Cash in banks and on hand	7,391	5,468
Total cash and cash equivalents	**21,693**	**9,270**

At 31 December 2014 the weighted average annual interest rate on the cash and cash equivalents' balances of the Group was 14.64 per cent. (31 December 2013: 2.61 per cent.).

As at 31 December 2014 and 31 December 2013 all balances of cash and cash equivalents of the Group are neither past due nor impaired. The table below analyses the credit quality of banks at which the Group holds cash and cash equivalents:

	Credit rating at 31 December 2014	Rating agency	31 December 2014	31 December 2013
Bank VTB (OJSC)	Baa3	Moody's	12,784	4,464
Gazprombank (Switzerland) ltd.	BBB-	S&P	2,306	685
OJSC Alfa-Bank	Ba1	Moody's	2,275	173
VTB 24 (PJSC)	Baa3	Moody's	1,003	62
Current accounts of MAK Bank LLC in the Central Bank of the Russian Federation	Not applicable	Not applicable	803	920
Bank of Moscow	Ba1	Moody's	447	-
Cash of MAK Bank LLC on hand and in cash machines	Not applicable	Not applicable	399	866
Lloyds Bank Plc	A1	Moody's	353	115
National Bank of Abu Dhabi	Aa3	Moody's	324	9
AO UniCredit Bank	BBB-	S&P	151	81
The Bank of New York Mellon S.A.	Aa2	Moody's	150	100
Khanty-Mansiysk bank Otkritie (PJSC)	Ba3	Moody's	143	-
Sberbank of Russia	Baa2	Moody's	53	164
ABN AMRO Bank N.V.	A2	Moody's	44	373
Other banks	Other	Not applicable	458	1,258
Total cash and cash equivalents			**21,693**	**9,270**

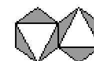


7. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Land and Improvements	Plant and Equipment	Transport	Production Licenses	Assets under Construction	Other	TOTAL
Cost at 1 January 2013	**64,098**	**100,845**	**61,376**	**19,543**	**35,570**	**48,631**	**3,313**	**333,376**
Additions	379	2,955	6,245	2,050	128	30,480	680	42,917
Additions through acquisition of OJSC Nizhne-Lenskoe	981	184	749	1,820	8,936	10	46	12,726
Transfers	3,414	7,332	6,751	90	-	(17,658)	71	-
Reclassification to assets held for sale – at cost (note 5.1)	(911)	(11,559)	(2,893)	(68)	(24,767)	(2,540)	(12)	(42,750)
Disposal of subsidiaries – at cost	(1,314)	(32)	(88)	(102)	(5,403)	(6)	(125)	(7,070)
Other disposals – at cost	(588)	(489)	(2,551)	(880)	(1)	(726)	(196)	(5,431)
Foreign exchange differences	9	180	-	48	-	-	12	249
Change in estimate of provision for land recultivation (note 13)	-	514	-	-	-	-	-	514
Cost at 31 December 2013	**66,068**	**99,930**	**69,589**	**22,501**	**14,463**	**58,191**	**3,789**	**334,531**
Additions	259	4,101	6,205	1,814	140	28,102	246	40,867
Transfers	4,370	22,530	5,600	1,250	-	(33,768)	18	-
Reclassification from assets held for sale – at cost (note 5.1)	911	11,559	2,893	68	24,767	2,540	12	42,750
Disposal of subsidiaries – at cost	(51)	(1,236)	(164)	(25)	(1)	(725)	(202)	(2,404)
Other disposals – at cost	(2,137)	(267)	(3,024)	(1,460)	(15)	(2,799)	(705)	(10,407)
Foreign exchange differences	81	1,695	8	12	-	4	105	1,905
Change in estimate of provision for land recultivation (note 13)	-	(597)	-	-	-	-	-	(597)
Cost at 31 December 2014	**69,501**	**137,715**	**81,107**	**24,160**	**39,354**	**51,545**	**3,263**	**406,645**
Accumulated depreciation and impairment losses at 1 January 2013	**(23,157)**	**(30,877)**	**(38,178)**	**(13,580)**	**(357)**	**(1,028)**	**(1,453)**	**(108,630)**
Charge for the year	(1,980)	(5,799)	(6,786)	(1,238)	(101)	-	(230)	(16,134)
Reclassification to assets held for sale – accumulated depreciation (note 5.1)	22	988	172	13	-	-	4	1,199
Disposal of subsidiaries – accumulated depreciation	194	12	43	43	-	-	65	357
Other disposals – accumulated depreciation	163	275	2,546	856	-	-	114	3,954
Accumulated depreciation and impairment losses at 31 December 2013	**(24,758)**	**(35,401)**	**(42,203)**	**(13,906)**	**(458)**	**(1,028)**	**(1,500)**	**(119,254)**
Charge for the year	(2,166)	(6,201)	(8,122)	(1,958)	(2,498)	-	(188)	(21,133)
Reclassification from assets held for sale – accumulated depreciation (note 5.1)	(38)	(972)	(166)	(19)	-	-	(4)	(1,199)
Disposal of subsidiaries – accumulated depreciation	30	749	107	17	-	-	65	968
Other disposals – accumulated depreciation	1,011	141	2,926	1,372	-	-	141	5,591
Accumulated depreciation and impairment losses at 31 December 2014	**(25,921)**	**(41,684)**	**(47,458)**	**(14,494)**	**(2,956)**	**(1,028)**	**(1,486)**	**(135,027)**
Net book value at 31.12.2013	**41,310**	**64,529**	**27,386**	**8,595**	**14,005**	**57,163**	**2,289**	**215,277**
Net book value at 31.12.2014	**43,580**	**96,031**	**33,649**	**9,666**	**36,398**	**50,517**	**1,777**	**271,618**

Capitalised borrowing costs

As at 31 December 2014 borrowing costs totalling RR'mln 286 (31 December 2013: RR'mln 292) were capitalised in property, plant and equipment. For the year ended 31 December 2014 the capitalisation rate applied to qualifying assets totalling RR'mln 4,218 (31 December 2013: RR'mln 4,376) was 6.79 per cent. (31 December 2013: 6.67 per cent.). In accordance with transitional rules of revised IAS 23, borrowing costs are capitalised for projects commencing after 1 January 2009.



Finance leases

Property, plant and equipment include the mining equipment and transport which the Group received under finance lease agreements. As at 31 December 2014 the carrying value of this equipment is RR'mln 675 (31 December 2013: RR'mln 877).

Impairment of property, plant and equipment

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. Management believes that as at 31 December 2014 and 31 December 2013 there were no such indicators, accordingly the Group did not conduct an impairment test of its property plant and equipment as at those dates.

8. INVENTORIES

	31 December 2014	31 December 2013
Diamonds	32,100	31,411
Ores and sands mined	10,004	9,795
Mining and other materials	18,452	16,145
Consumable and other supplies	2,932	3,260
Total inventories	**63,488**	**60,611**

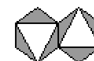
9. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	**31 December 2014**	**31 December 2013**
Loans issued	1,319	2,891
Consideration receivable for disposed controlling interest in OJSC MMC Timir*	773	-
Advances to suppliers	157	47
Long-term VAT recoverable	15	28
Receivables from associates (note 27)	-	284
Notes receivable	-	108
Other long-term receivables	225	78
Total long-term accounts receivable	**2,489**	**3,436**

Current accounts receivable	**31 December 2014**	**31 December 2013**
VAT recoverable	4,027	4,396
Receivables from associates (note 27)	3,278	1,647
Loans issued	1,236	2,067
Advances to suppliers	1,184	1,347
Prepaid taxes, other than income tax	1,010	167
Consideration receivable for disposed controlling interest in OJSC MMC Timir*	991	2,970
Trade receivables for supplied diamonds	157	795
Other trade receivables	3,313	2,678
Total current accounts receivable	**15,196**	**16,067**

*The consideration is receivable from Evraz plc, which credit rating as at 31 December 2014 is BB- (Stable) assessed by Fitch.

The fair value of each class of short-term trade and other accounts receivable at 31 December 2014 and 31 December 2013 approximates their carrying value.



The average effective and market interest rates for each class of long-term accounts receivable at the end of the reporting period were as follows:

	31 December 2014		31 December 2013	
	Effective interest rates	**Market interest rates**	**Effective interest rates**	**Market interest rates**
Loans issued	5.1%	20.1%	7.9%	13.9%
Consideration receivable for disposed controlling interest in OJSC MMC Timir	18.2%	18.2%	-	-
Notes receivable	-	-	10.1%	6.8%
Other long-term receivables	10.1%	16.1%	10.0%	12.6%

The fair value of long-term accounts receivable is estimated by discounting the future contractual cash inflows at the market interest rates available to the recipients of funds at the end of the reporting period. The carrying amounts and fair values of long-term accounts receivable are as follows:

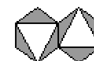
	31 December 2014		31 December 2013	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Loans issued	1,319	1,010	2,891	2,263
Consideration receivable for disposed controlling interest in OJSC MMC Timir	773	773	-	-
Receivables from associates	-	-	284	281
Notes receivable	-	-	108	107
Other long-term receivables	225	205	78	78

Trade and other accounts receivables relate to Level 3 fair value measurement hierarchy described in Note 29.

The impairment provision offset against individual receivable balances is as follows:

Long-term accounts receivable	**31 December 2014**	**Bad debt write-off**	**Bad debt expense**	**31 December 2013**
Loans issued	-	(3,820)	-	3,820
Receivables from associates	35	-	-	35
Other long term receivables	60	-	60	-
	95	**(3,820)**	**60**	**3,855**
Current accounts receivable				
Receivables from associates	26	-	-	26
Loans issued	542	(14)	213	343
Advances to suppliers	5	(8)	-	13
Other trade receivables	445	(625)	312	758
	1,018	**(647)**	**525**	**1,140**

Long-term accounts receivable	**31 December 2013**	**Bad debt write-off**	**Bad debt expense**	**31 December 2012**
Loans issued	3,820	-	-	3,820
Receivables from associates	35	-	-	35
	3,855	**-**	**-**	**3,855**
Current accounts receivable				
Loans issued	343	(27)	5	365
Receivables from associates	26	-	-	26
Advances to suppliers	13	-	-	13
Other trade receivables	758	(199)	291	666
	1,140	**(226)**	**296**	**1,070**



The individually impaired receivables mainly relate to the customers, which are in difficult economic situations or under bankruptcy procedures. The ageing analysis of these receivables is as follows:

	31 December 2014				31 December 2013			
	Up to 1 year	1 to 3 years	Over 3 years	Total	Up to 1 year	1 to 3 years	Over 3 years	Total
Long-term accounts receivable								
Loans issued	-	-	-	-	-	61	3,759	3,820
Receivables from associates	-	-	35	35	-	-	35	35
Other long term receivables	-	60	-	60	-	-	-	-
	-	**60**	**35**	**95**	**-**	**61**	**3,794**	**3,855**
Current accounts receivable								
Loans issued	305	147	90	542	9	263	71	343
Receivables from associates	-	26	-	26	-	26	-	26
Advances to suppliers	-	5	-	5	-	13	-	13
Other trade receivables	143	275	27	445	287	113	358	758
	448	**453**	**117**	**1,018**	**296**	**415**	**429**	**1,140**

For the purpose of analysis of credit quality of debtors management classified financial receivables of the Group, except receivable for disposed controlling interest in OJSC MMC Timir, as follows:

31 December 2014	**Large customers**	**Medium and small customers**	**Entities controlled by the Government**	**Individuals**	**Total**
Long-term accounts receivable					
Loans issued	-	830	1	488	1,319
Other long-term receivables	-	225	-	-	225
Total long-term accounts receivable	**-**	**1,055**	**1**	**488**	**1,544**
Current accounts receivable					
Receivables from associates	3,015	261	2	-	3,278
Loans issued	-	967	157	112	1,236
Trade receivables for supplied diamonds	-	157	-	-	157
Other trade receivables	301	1,590	1,132	290	3,313
Total current accounts receivable	**3,316**	**2,975**	**1,291**	**402**	**7,984**

31 December 2013	**Large customers**	**Medium and small customers**	**Entities controlled by the Government**	**Individuals**	**Total**
Long-term accounts receivable					
Loans issued	155	1,283	229	1,224	2,891
Receivables from associates	284	-	-	-	284
Notes receivables	108	-	-	-	108
Other long-term receivables	-	78	-	-	78
Total long-term accounts receivable	**547**	**1,361**	**229**	**1,224**	**3,361**
Current accounts receivable					
Receivables from associates	791	16	840	-	1,647
Loans issued	220	1,121	495	231	2,067
Trade receivables for supplied diamonds	346	230	219	-	795
Other trade receivables	-	1,929	677	72	2,678
Total current accounts receivable	**1,357**	**3,296**	**2,231**	**303**	**7,187**

For the purposes of the above analysis customers are considered large if their total assets exceed RR'mln 5,000 and their revenue exceeds RR'mln 1,000. Management believes that balances of accounts receivable with large customers have higher credit quality than medium and small customers or individuals.

As at 31 December 2014 trade and other receivables in the amount of RR'mln 9,068 (31 December 2013: RR'mln 9,942) were neither past due nor impaired and have no history of overdue payments. Most of these debtors have no individual external credit rating.

As at 31 December 2014 accounts receivable in the amount of RR'mln 460 (as at 31 December 2013: RR'mln 606) were past due but were not considered impaired. They include only other trade receivables and relate to a number of independent medium and small customers for whom there is no recent history of default. As at 31 December 2014 and 31 December 2013 none of these accounts receivable was secured by any collateral.

The ageing analysis of receivables that are past due but not impaired is as follows:

	31 December 2014	**31 December 2013**
Up to 3 months	166	240
3 to 6 months	20	53
6 to 12 months	42	97
More than 1 year	232	216
Total past due but not impaired	**460**	**606**

As at 31 December 2014 eight individual debtors of the Group (31 December 2013: 13 individual debtors) had the outstanding balance with the Group exceeding RR'mln 100. As at 31 December 2014 total amount of such accounts receivable was RR'mln 5,147 (31 December 2013: RR'mln 7,397).

As at 31 December 2014 the amount of undrawn credit facilities provided by the Group's subsidiary MAK Bank LLC to third parties comprised RR'mln 221 (31 December 2013: RR'mln 257).

10. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 31 December 2014 and 31 December 2013 and consists of 7,364,965,630 ordinary shares, including treasury shares, at RR 0.5 par value share. In addition as at 31 December 2014 and 31 December 2013 share capital includes hyperinflation adjustment totalling RR'mln 8,790, which was calculated in accordance with requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" and relates to the reporting periods prior to 1 January 2003.

Distributable profits

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the years ended 31 December 2014 and 31 December 2013, the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 23,469 and RR'mln 34,523, respectively. 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 these consolidated financial statements.

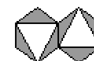
Treasury shares

As at 31 December 2014 subsidiaries of the Group held no ordinary shares of the Company (31 December 2013: 4,852,800 shares). The Group management effectively controls the voting rights of shares held by subsidiaries.

Earnings or loss per share

Earnings or loss per share have been calculated by dividing the profit or loss 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 7,360,600,109 and 7,253,717,750 weighted average shares outstanding for the years ended 31 December 2014 and 31 December 2013, 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 reserves
Balance at 31 December 2012	**(928)**	**(542)**	**41**	**(7,222)**	**(8,651)**
Currency translation differences	1,016	-	-	-	1,016
Purchase of non-controlling interest	-	373	-	-	373
Actuarial remeasurement on post employment benefit obligation	-	-	-	21	21
Balance at 31 December 2013	**88**	**(169)**	**41**	**(7,201)**	**(7,241)**
Currency translation differences	307	-	-	-	307
Purchase of non-controlling interest	-	82	-	-	82
Actuarial remeasurement on post employment benefit obligation	-	-	-	5,433	5,433
Balance at 31 December 2014	**395**	**(87)**	**41**	**(1,768)**	**(1,419)**

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.

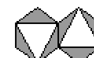
On 29 June 2013 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2012 totalling RR'mln 8,175, including dividends on shares held by subsidiaries of the Group totalling RR'mln 162. Dividends per share amounted to RR 1.11.

11. LONG-TERM DEBT

	31 December 2014	31 December 2013
Banks:		
US$ denominated floating rate	33,755	19,638
US$ denominated fixed rate	85,794	9,328
RR denominated fixed rate	36	8
	119,585	**28,974**
Eurobonds	56,258	49,088
RR denominated non-convertible bonds	20,044	20,044
Finance lease obligation	488	584
Other RR denominated fixed rate loans	348	1,187
	196,723	**99,877**
Less: current portion of long-term debt (note 12)	(20,365)	(17,581)
Total long-term debt	**176,358**	**82,296**

At 31 December 2014 long-term loans had the following maturity profile (based on the contractual cash flows):

	Within 1 year	1 to 2 Years	2 to 3 years	3 to 4 Years	4 years and thereafter	Total
Banks:						
US$ denominated floating rate	-	-	-	33,755	-	33,755
US$ denominated fixed rate	-	24,472	61,322	-	-	85,794
RR denominated fixed rate	-	30	-	5	1	36
Eurobonds	-	-	-	-	56,258	56,258
RR denominated non-convertible bonds	20,044	-	-	-	-	20,044
Finance lease obligation	207	122	86	73	-	488
Other RR denominated fixed rate loans	114	28	201	5	-	348
Total long-term debt	**20,365**	**24,652**	**61,609**	**33,838**	**56,259**	**196,723**



At 31 December 2013 long-term loans had the following maturity profile (based on the contractual cash flows):

	Within 1 year	1 to 2 Years	2 to 3 years	3 to 4 Years	4 years and thereafter	Total
Banks:						
US$ denominated floating rate	-	19,638	-	-	-	19,638
US$ denominated fixed rate	-	6,546	2,782	-	-	9,328
RR denominated fixed rate	-	-	-	7	1	8
Eurobonds	16,359	-	-	-	32,729	49,088
RR denominated non-convertible bonds	44	20,000	-	-	-	20,044
Finance lease obligation	241	157	84	56	46	584
Other RR denominated fixed rate loans	937	34	10	201	5	1,187
Total long-term debt	**17,581**	**46,375**	**2,876**	**264**	**32,781**	**99,877**

The average effective and market interest rates for each class of long-term debt at the end of the reporting period were as follows:

	31 December 2014		31 December 2013	
	Effective interest rates	Market interest rates	Effective interest rates	Market interest rates
Banks				
US$ denominated floating rate	6.3%	6.7%	3.9%	6.5%
US$ denominated fixed rate	4.2%	8.2%	4.8%	6.5%
RR denominated fixed rate	9.2%	14.1%	14.9%	12.2%
Eurobonds	7.8%	8.1%	8.1%	4.5%
RR denominated non-convertible bonds	8.9%	13.8%	8.9%	7.7%
Finance lease obligation	11.5%	11.5%	11.5%	11.5%
Other RR denominated fixed rate loans	7.2%	14.1%	6.4%	12.2%

The fair value of long-term debt is estimated by discounting the future contractual cash outflows at the market interest rate available to the Group at the end of the reporting period. The carrying amounts and fair values of long-term debt are as follows:

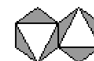
	31 December 2014		31 December 2013	
	Carrying value	Fair value	Carrying value	Fair value
Banks				
US$ denominated floating rate	33,755	33,494	19,638	18,815
US$ denominated fixed rate	85,794	79,756	9,328	9,021
RR denominated fixed rate	36	34	8	9
Eurobonds	56,258	53,235	49,088	50,147
RR denominated non-convertible bonds	20,044	19,637	20,044	20,412
Finance lease obligation	488	488	584	584
Other RR denominated fixed rate loans	348	290	1,187	1,108

Loans from banks relate to Level 2 fair value measurement hierarchy, Eurobonds and RR denominated non-convertible bonds relate to Level 1 fair value measurement hierarchy, and Finance lease obligation relates to Level 3 fair value measurement hierarchy described in Note 29.

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

Eurobonds

	Year ended 31 December 2014	Year ended 31 December 2013
Balance at the beginning of the reporting period	**49,088**	**45,548**
Amortisation of discount	7	5
Repayment	(22,976)	-
Foreign exchange losses	30,139	3,535
Balance at the end of the reporting period	**56,258**	**49,088**



Finance lease obligation

	Minimum lease payments 31 December 2014	Discounted value of minimum lease payments 31 December 2014	Minimum lease payments 31 December 2013	Discounted value of minimum lease payments 31 December 2013
Within 1 year	212	207	257	241
After 1 year	327	281	419	343
Total finance lease obligation	**539**	**488**	**676**	**584**

Finance lease obligations relate to the certain mining equipment and transport recorded as property, plant and equipment items in these consolidated financial statements (note 7). These leased assets are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

12. SHORT-TERM LOANS AND CURRENT PORTION OF LONG-TERM DEBT

	31 December 2014	31 December 2013
Banks:		
US$ denominated floating rate	-	16,365
US$ denominated fixed rate	-	20,619
RR denominated fixed rate	100	115
	100	**37,099**
Other RR denominated fixed rate loans	337	1,615
	437	**38,714**
Add: current portion of long-term debt (note 11)	20,365	17,581
Total short-term debt and current portion of long-term debt	**20,802**	**56,295**

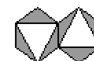
As at 31 December 2014 and 31 December 2013 there were no short-term loans secured with the assets of the Group.

The average effective and market interest rates for each class of short-term debt at the end of the year were as follows:

	31 December 2014		31 December 2013	
	Effective interest rates	Market interest rates	Effective interest rates	Market interest rates
Banks:				
US$ denominated floating rate	-	-	1.7%	7.3%
US$ denominated fixed rate	-	-	2.3%	7.3%
RR denominated fixed rate	12.4%	15.0%	11.1%	11.0%
Other RR denominated fixed rate loans	1.3%	17.8%	1.1%	1.1%

Loans from banks relate to Level 2 fair value measurement hierarchy described in note 29. The fair value of short-term debt is estimated by discounting the future contractual cash outflows at the market interest rate available to the Group at the end of year. The carrying amounts and fair values of short-term debt are as follows:

	31 December 2014		31 December 2013	
	Carrying value	Fair value	Carrying value	Fair value
Banks:				
US$ denominated floating rate	-	-	16,365	16,143
US$ denominated fixed rate	-	-	20,619	20,233
RR denominated fixed rate	100	99	115	114
Other RR denominated fixed rate loans	337	333	1,615	1,610



13. OTHER PROVISIONS

	31 December 2014	31 December 2013
Provision for social obligations	625	892
Provision for land recultivation	3,722	3,076
Other provisions	**4,347**	**3,968**

Provision for social obligations

In 2012 the Group entered into a number of agreements with the Republic of Sakha (Yakutia) to support its social and economic development. In accordance with the agreements the Group has assumed certain obligations which include repair works related to certain infrastructure assets which belong to local municipalities, dismantling of certain worn out assets and other. During 2014 and 2013 the Group has partially fulfilled these obligations in the amount of RR'mln 898 and RR'mln 882, respectively and will continue to do so during 2015. The current portion of provision for social obligation as at 31 December 2014 in the amount of RR'mln 996 (31 December 2013: RR'mln 1,122) was included in trade and other payables within the Group's current liabilities (note 15).

Provision for land recultivation

	Year ended 31 December 2014	Year ended 31 December 2013
At the beginning of the year	**3,076**	**2,416**
Accrual of provision	958	795
Unwinding of discount	310	188
Utilised	(25)	(42)
Change in estimate of provision	(597)	(281)
At the end of the year	**3,722**	**3,076**

The Group assumed an obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. The Group recognised a provision for these future expenses in its consolidated financial statements with a corresponding asset recognised within property, plant and equipment (note 7). During 2013 and 2014 the Group assumed additional obligations which resulted in the respective increase of the provision.

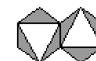
The discount rate used to calculate the net present value of future cash outflows relating to assumed social and land recultivation obligations at 31 December 2014 was 14.1 per cent. (31 December 2013: 8.9 per cent.), which represents adjusted risk free rate for the Group and is considered appropriate to the Group in the economic environment in the Russian Federation at the end of the year.

14. PROVISION FOR PENSION OBLIGATIONS

The Group operates defined employee benefit plans, including corporate pension plan with defined payments, one-off payments on retirement, jubilee payments, payments for years of service and provision of financial assistance in case of an employee's or non-working pensioner's death. Corporate pension is administered through the separate entity – Non-state pension fund Almaznaya Osen. Group makes contributions to this pension fund to cover its obligations. There are no any minimum funding requirements prescribed by regulatory authorities. Other plans are non-funded and implemented through payments to employees made directly by the Group.

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:

	31 December 2014	31 December 2013
Present value of obligations	14,547	20,122
Fair value of plan assets	(9,510)	(9,017)
Pension obligations for the funded plan	5,037	11,105
Present value of unfunded obligation	756	1,052
Net liability	**5,793**	**12,157**

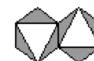


Changes in the present value of pension obligations and plan assets are as follows:

	Present value of obligations on funded plans	Fair value of plan assets	Present value of obligations on unfunded plans	Total
At 1 January 2013	**19,174**	**(7,188)**	**1,057**	**13,043**
Current service cost	389	-	28	417
Past service cost and curtailment	(199)	-	(31)	(230)
Interest expense / (income)	1,329	(510)	70	889
	1,519	**(510)**	**67**	**1,076**
Remeasurements:				-
Return on plan assets, excluding amounts included in interest income	-	(322)	-	(322)
Loss from changes in demographic actuarial assumptions	2,196	-	15	2,211
Gain from changes in financial actuarial assumptions	(2,042)	-	(122)	(2,164)
Loss from experience adjustments	118	-	136	254
	272	**(322)**	**29**	**(21)**
Contributions to plan:				
Employer contributions	-	(1,941)	-	(1,941)
Benefits paid	(843)	944	(101)	-
	(843)	**(997)**	**(101)**	**(1,941)**
At 31 December 2013	**20,122**	**(9,017)**	**1,052**	**12,157**
Current service cost	386	-	26	412
Past service cost and curtailment	(289)	-	(18)	(307)
Interest expense / (income)	1,574	(717)	78	935
	1,671	**(717)**	**86**	**1,040**
Remeasurements:				
Return on plan assets, excluding amounts included in interest expense	-	278	-	278
Loss/(gain) from changes in demographic actuarial assumptions	7	-	(2)	5
Gain from changes in financial actuarial assumptions	(7,439)	-	(350)	(7,789)
Loss from experience adjustments	1,140	-	81	1,221
	(6,292)	**278**	**(271)**	**(6,285)**
Contributions to plan:				
Employer contributions	-	(1,008)	-	(1,008)
Benefits paid	(954)	954	(111)	(111)
	(954)	**(54)**	**(111)**	**(1,119)**
At 31 December 2014	**14,547**	**(9,510)**	**756**	**5,793**

Net expense recognised in the consolidated statement of profit or loss and other comprehensive income is included in cost of sales, general and administrative expenses, selling and marketing expenses in the amounts of RR'mln 83 (year ended 31 December 2013: RR'mln 146), RR'mln 11 (year ended 31 December 2013: RR'mln 18) and RR'mln 11 (year ended 31 December 2013: RR'mln 23), respectively.

Expense recognised through profit or loss	**Year ended 31 December 2014**	**Year ended 31 December 2013**
Current service cost	412	417
Past service cost and curtailment	(307)	(230)
Interest expense	935	889
Total expense recognised through profit or loss	**1,040**	**1,076**



Expense recognised through other comprehensive income	Year ended 31 December 2014	Year ended 31 December 2013
Loss from changes in demographic actuarial assumptions	5	2,211
Gain from changes in financial actuarial assumptions	(7,789)	(2,164)
Loss/(gain) from experience adjustments	1,499	(68)
Total (gain)/loss recognised through other comprehensive income	**(6,285)**	**(21)**

Change in amount of remeasurements of employee benefit obligations charged to other comprehensive income	Year ended 31 December 2014	Year ended 31 December 2013
Remeasurement amount at 1 January	8,164	8,185
Change in remeasurement amount	(6,285)	(21)
Remeasurement amount at 31 December	**1,879**	**8,164**

Estimation of financial actuarial assumptions was based on market forecasts at the end of the reporting period in relation to period, during which the obligation should be settled. Average estimated term of settlement of Group obligations at the reporting date totals 9.6 years.

	Year ended 31 December 2014	Year ended 31 December 2013
Discount rate (nominal)	13.0%	8.0%
Future salary increases (nominal)	8.3%	7.0%
Future pension increases (nominal)	6.5%	5.5%

In the year ended 31 December 2014 the actual income on plan assets was RR'mln 494 (year ended 31 December 2013: RR'mln 482).

The Group expects to contribute RR'mln 1,176 to the defined benefit plans during the year beginning 1 January 2015.

Actuarial assumptions related to mortality of employees were formed based on Russian population mortality data in 1998 corrected by 50% related to mortality of employees and by 25% related to mortality of pensioneers of the Group. Actuarial assumptions extrapolated to expected life period of 60 years are listed below.

	Year ended 31 December 2014	Year ended 31 December 2013
Expected age of retirement		
Male	57	57
Female	56	56
Source - table of mortality dated:	1998 - adjusted	1998 - adjusted
The average life expectancy of current employees in the expected retirement age		
Male	20.57	20.57
Female	25.84	25.84

The assumption of staff turnover was made on the basis of statistical data of the Group layoffs, turnover rate depends on the employment of workers and continuously decreases during seniority of workers. Averaged rates point: with a seniority of 0 to 10 years – 10% per year, with a seniority of 10 to 20 years – 4.2% per year, with a seniority of 20 to 30 years – 2.2% per year, with a seniority of more than 30 – 0.7% per year.

Sensitivity of the total amount of pension obligations to changes in underlying actuarial assumptions set out below:

	Change in assumption	Impact on provision for pension obligations
Discount rate	Increase / decrease by 0.5%	Decrease / increase by 3.88%
Future salary increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 0.06%
Future pension increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 4.54%
Expected age of retirement	Increase / decrease by 1 year	Decrease / increase by 1.92%
Employee turnover	Increase / decrease by 10%	Decrease / increase by 0.12%
Mortality level	Increase / decrease by 10%	Decrease / increase by 2.25%

The above results of the sensitivity analysis are based on the analysis of changes in each actuarial assumption assuming other actuarial assumptions remain constant. In the calculation of the sensitivity of the present value of key actuarial assumptions evaluation method analogous to the assessment of the current value of liabilities recognised in the consolidated statement of financial position (projected unit credit method) was used.

The major categories of plan assets as a percentage of total plan assets are as follows:

	Year ended 31 December 2014	**Year ended 31 December 2013**
Russian corporate bonds	14.7%	35.6%
Bank deposits	70.3%	37.2%
Russian Government and municipal bonds	3.4%	7.0%
Equity securities of Russian issuers	4.8%	20.2%
Debt securities of Russian issuers	6.8%	-
Total plan assets	**100.0%**	**100.0%**

All categories of plan assets are measured at fair value.

As at 31 December 2014 4,962 shares of the Company's subsidiary – OJSC ALROSA-Nyurba with the fair value of RR'mln 447 were held by Non-state pension fund Almaznaya Osen. As at 31 December 2013 26,279,305 shares of the Company and 3,782 shares of OJSC ALROSA-Nyurba with the fair values of RR'mln 924 and RR'mln 229, respectively were held by Non-state pension fund Almaznaya Osen.

The Group is exposed to a number of risks, the most significant of which are detailed below:

Assets volatility

The plan liabilities are calculated using a discount rate set with the reference to the Russian government bonds which considered to be risk-free; if plan assets underperform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform Russian government bonds in the long-term while providing volatility and risk in the short-term.

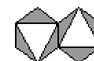
Inflation risk

Certain Group's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

In case of the funded plans, the Group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturites that match the benefit payments as they fall due. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the processes used to manage its risks from previous periods. The Group does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2013 and 2014 consisted of equity and debt instruments, although the Group also invests in cash equivalents and deposits.



15. TRADE AND OTHER PAYABLES

	31 December 2014	31 December 2013
Accrual for employee flights and holidays	7,427	6,995
Wages and salaries	5,954	5,514
Trade payables	5,508	5,815
Interest payable	1,324	998
Current portion of provision for social obligation (note 13)	996	1,122
Current accounts of third parties in MAK Bank LLC	847	1,751
Advances from customers	753	643
Payables to associates	19	7
Other payables and accruals	1,175	1,156
Total trade and other payables	**24,003**	**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.

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2014 and 31 December 2013 approximates their carrying value.

16. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

	31 December 2014	31 December 2013
Payments to social funds	1,897	1,662
Property tax	1,134	964
Personal income tax (employees)	830	732
Extraction tax	648	658
Value added tax	245	475
Other taxes and accruals	533	267
Total taxes payable, other than income tax	**5,287**	**4,758**

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

	Year ended 31 December 2014	Year ended 31 December 2013
Property tax	3,228	3,634
Other taxes and accruals	526	511
Total taxes other than income tax expense	**3,754**	**4,145**

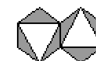
In accordance with Resolution № 795 of the Government of the Russian Federation dated 23 December 2006, in addition to the taxes noted above, the Group is obliged to pay 6.5 per cent. on the value of diamonds sold for export in the form of an export duty (note 17).

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) starting from 1 January 2012 in the amount of RR'mln 1,209 per annum.

Income tax comprise the following:

	Year ended 31 December 2014	Year ended 31 December 2013
Current tax expense	8,469	10,283
Deferred tax benefits	(44)	(1,296)
Adjustments recognised in the period for current tax of prior periods	610	677
Total income tax expense	**9,035**	**9,664**

Profit before taxation for financial reporting purposes is reconciled to tax expense as follows:



	Year ended 31 December 2014	Year ended 31 December 2013
(Loss)/profit before income tax	(7,797)	41,501
Theoretical tax charge at statutory rate of 20 per cent. thereon	(1,559)	8,300
Prior periods adjustments recognised in the current period	610	677
Tax effect of foreign exchange gain recognised from intergroup settlements	6,892	-
Tax effect of expenses and losses not deductible for income tax purposes	3,092	687
Total income tax expense	**9,035**	**9,664**

Expenses and losses not deductible for income tax purposes include mostly charity and social expenses as well as non-deductible wages, salaries and other staff costs.

Differences between IFRS and Russian statutory tax accounting give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement in these temporary differences is recorded at the rate of 20.0 per cent.

		Effect of changes temporary difference on deferred tax				
	31 December 2014	**Charged/ (credited) to profit or loss**	**Charged/ (credited) directly to other comprehensive income**	**Reclassification of assets held for sale**	**Disposal of subsidiaries**	**31 December 2013**
Tax effect of (deductible)/taxable temporary differences						
Property, plant and equipment	11,732	1,835	-	5,534	(40)	4,403
Write down of inventories	2,379	(1,528)	-	13	(5)	3,899
Long term investments	147	351	-	-	-	(204)
Accruals and provisions	(2,170)	(986)	-	-	10	(1,194)
Exploration costs write-off	(1,629)	(1,116)	-	-	-	(513)
Provision for pension obligations	(985)	(159)	852	-	-	(1,678)
Impairment of receivables	(28)	919	-	-	2	(949)
Other temporary differences	(57)	640	(213)	-	(2)	(482)
Net deferred tax liability/(asset)	**9,389**	**(44)**	**639**	**5,547**	**(35)**	**3,282**
Deferred tax asset	(1,912)					-
Deferred tax liability	11,301					3,282
Net deferred tax liability/(asset)	**9,389**	**(44)**	**639**	**5,547**	**(35)**	**3,282**

		Effect of changes temporary difference on deferred tax				
	31 December 2013	**Charged/ (credited) to profit or loss**	**Acquisition of OJSC Nizhne-Lenskoe**	**Reclassification of assets held for sale**	**Disposal of subsidiaries**	**31 December 2012**
Tax effect of (deductible)/taxable temporary differences						
Property, plant and equipment	4,403	(327)	1,916	(5,552)	83	8,283
Write down of inventories	3,899	585	(151)	-	-	3,465
Long term investments	(204)	(470)	-	-	-	266
Accruals and provisions	(1,194)	(660)	-	-	-	(534)
Exploration costs write-off	(513)	33	-	-	-	(546)
Provision for pension obligations	(1,678)	(5)	-	-	-	(1,673)
Impairment of receivables	(949)	(98)	-	-	-	(851)
Other temporary differences	(482)	(354)	-	-	-	(128)
Net deferred tax liability/(asset)	**3,282**	**(1,296)**	**1,765**	**(5,552)**	**83**	**8,282**
Deferred tax asset	-					-
Deferred tax liability	3,282					8,282
Net deferred tax liability/(asset)	**3,282**	**(1,296)**	**1,765**	**(5,552)**	**83**	**8,282**

As at 31 December 2014 and 31 December 2013 the Group had not recorded a deferred tax liability in respect to taxable temporary differences of RR'mln 7,147 and RR'mln 7,144, respectively, associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

17. REVENUE

	Year ended 31 December 2014	Year ended 31 December 2013
Revenue from diamond sales:		
Export	163,667	127,045
Domestic	19,511	21,655
Revenue from diamonds for resale	887	599
Total revenue from diamond sales	**184,065**	**149,299**
Other revenue:		
Sales of gas	6,797	5,652
Social infrastructure	4,995	2,623
Transport	4,884	4,621
Other	6,418	6,310
Total revenue	**207,159**	**168,505**

Export duties totalling RR'mln 10,999 for the year ended 31 December 2014 (year ended 31 December 2013: RR'mln 8,517) were netted against revenues from export of diamonds.

In the years ended 31 December 2014 and 31 December 2013 the Group had no customers accounting for more than 10 per cent. of the Group's revenue.

18. COST OF SALES

	Year ended 31 December 2014	Year ended 31 December 2013
Wages, salaries and other staff costs	34,279	32,764
Depreciation	18,452	13,815
Extraction tax	14,697	10,509
Fuel and energy	13,686	11,016
Materials	9,569	8,845
Services	4,740	3,865
Transport	2,474	2,559
Cost of diamonds for resale	879	597
Other	1,058	282
Movement in inventory of diamonds, ores and sands	(898)	(2,020)
Total cost of sales	**98,936**	**82,232**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 6,494 (year ended 31 December 2013: RR'mln 5,987). These payments include mandatory contributions to State pension plan in the amount of RR'mln 4,682 (year ended 31 December 2013: RR'mln 5,712).

Depreciation totalling RR'mln 2,252 (year ended 31 December 2013: RR'mln 1,830) and staff costs totalling RR'mln 2,967 (year ended 31 December 2013: RR'mln 2,878) were incurred by the Group's construction divisions and were capitalised into property, plant and equipment in the year.

19. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2014	Year ended 31 December 2013
Wages, salaries and other staff costs	5,673	5,621
Services and other administrative expenses	4,012	3,996
Impairment of accounts receivable (note 9)	585	296
Total general and administrative expenses	**10,270**	**9,913**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 591 (year ended 31 December 2013: RR'mln 545). These payments include mandatory contributions to State pension plan in the amount of RR'mln 488 (year ended 31 December 2013: RR'mln 520).

20. SELLING AND MARKETING EXPENSES

	Year ended 31 December 2014	Year ended 31 December 2013
Wages, salaries and other staff costs	1,375	1,323
Services and other selling and marketing expenses	923	1,055
Total selling and marketing expenses	**2,298**	**2,378**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 256 (year ended 31 December 2013: RR'mln 141). These payments include mandatory contributions to State pension plan in the amount of RR'mln 184 (year ended 31 December 2013: RR'mln 135).

21. OTHER OPERATING INCOME

	Year ended 31 December 2014	Year ended 31 December 2013
Foreign exchange gain, net	3,011	130
Gain on disposal of subsidiary (Note 5.2)	142	2,552
Other	964	1,336
Total other operating income	**4,117**	**4,018**

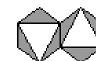
22. OTHER OPERATING EXPENSES

	Year ended 31 December 2014	Year ended 31 December 2013
Exploration expenses	8,876	8,735
Social costs	5,707	4,609
Taxes other than income tax, extraction tax and payments to social funds (note 16)	3,754	4,145
Loss on disposal of property, plant and equipment	3,472	585
Loss on disposal of subsidiaries	279	-
Other	2,099	1,846
Total other operating expenses	**24,187**	**19,920**

In the years ended 31 December 2014 and 31 December 2013 the amounts of operating cash outflows associated with exploration expenses were approximately equal to the respective amounts recognised within other operating expenses.

Social costs consist of:

	Year ended 31 December 2014	Year ended 31 December 2013
Charity	2,762	2,497
Maintenance of local infrastructure	2,309	1,525
Hospital expenses	259	205
Education	136	112
Other	241	270
Total social costs	**5,707**	**4,609**



23. FINANCE COSTS, NET

	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	969	234
Interest expense:		
Eurobonds	(4,336)	(3,777)
Bank loans	(3,131)	(2,286)
RR denominated non-convertible bonds	(1,780)	(2,324)
European commercial paper	-	(240)
Other financial liabilities	(1,331)	(1,255)
Unwinding of discount of provisions (note 13)	(310)	(188)
Foreign exchange loss, net	(73,843)	(6,451)
Total finance costs	**(83,762)**	**(16,287)**

24. CASH GENERATED FROM OPERATIONS

Reconciliation of profit/(loss) before tax to cash generated from operations:

	Year ended 31 December 2014	Year ended 31 December 2013
(Loss)/profit before income tax	**(7,797)**	**41,501**
Adjustments for:		
Share of net profit of associates and joint ventures (note 5)	(1,589)	(917)
Interest income (note 23)	(969)	(234)
Interest expense (note 23)	10,884	10,070
Loss on disposal of property, plant and equipment (note 22)	3,472	585
Gain on disposal of subsidiaries (note 21, 22)	137	(2,660)
Provision for social obligation (note 13)	562	-
Change in provision for impairment of receivables and obsolete inventories, net	1,029	216
Depreciation	18,883	14,304
Adjustments for non-cash financing activity	(30)	(39)
Payments to restricted cash account (note 6)	149	37
Unrealised foreign exchange effect on non-operating items	70,109	6,882
Net operating cash inflow before changes in working capital	94,840	69,745
Net increase in inventories	(3,478)	(2,843)
Net decrease in trade and other receivables, excluding dividends receivable	1,236	552
Net decrease in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(2,393)	(2,238)
Net decrease in taxes payable other than income tax	289	1,138
Cash generated from operations	**90,494**	**66,354**
Income tax paid	(12,379)	(10,715)
Net Cash Inflow from Operating Activities	**78,115**	**55,639**

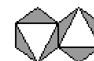
25. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(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 yars 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. Effective from from 1 January 2014 certain transitional provisions of the Russian Tax Code in respect of the controlled transactions were terminated. A list of controlled transactions (including transactions with related parties) was extended. Amended Russian 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). This 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.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group.

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

(c) Legal proceedings

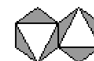
The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 31 December 2014 and 31 December 2013.

(d) Capital commitments

As at 31 December 2014 the Group had contractual commitments for capital expenditures of approximately RR'mln 7,243 (31 December 2013: RR'mln 6,375).

(e) 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. At 31 December 2014 the Group recognised a provision for these future expenses in the amount of RR'mln 3,722 (31 December 2013: RR'mln 3,076), see note 13.



26. 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 (Revised) “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

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

Governments of the Russian Federation and the Republic of Sakha (Yakutia) are the major shareholders of the Company. As at 31 December 2014 68.9 per cent. of the Company’s issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Also as at 31 December 2014 8 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 2014, the 15 seats on the Supervisory Board include 9 representatives of the Russian Federation and the Republic of Sakha (Yakutia), five independent directors according to the Russian Corporate Law (three of them were nominated by the Government of the Russian Federation, one was nominated by the Government of the Republic of Sakha (Yakutia), one was nominated by districts of the Republic of Sakha (Yakutia)), and one 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 consolidated statement of financial position and in notes 9 and 16. Tax transactions are disclosed in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and in notes 17, 18, 19, 20 and 25.

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 Governmental control are detailed below:

Consolidated Statement of Financial Position	**31 December 2014**	**31 December 2013**
Short-term accounts receivable	6,030	2,165
Short-term accounts payable	1,517	1,039
Loans received by the Group	38 674	25,366
Loans issued by the Group	183	668
Deposits, cash and cash equivalents	16,414	5,028

Consolidated Statement of Profit or Loss and Other Comprehensive Income	**Year ended 31 December 2014**	**Year ended 31 December 2013**
Sales of diamonds	6,254	8,600
Other sales	7,897	8,681
Electricity and heating expenses	(8,156)	(8,625)
Other purchases	(7,762)	(4,290)
Interest income	688	217
Interest expense	(1,288)	(1,047)

Key management compensation

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

Before 25 April 2013 the Management Board consisted of 20 members. On 25 April 2013 the Company's Supervisory Council made a decision to reduce the number of Management Board members to 13. As at 31 December 2014 the Management Board consisted of 11 members. As at 31 December 2014 and 31 December 2013 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" 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 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 year ended 31 December 2014 totalling RR'mln 827 (year ended 31 December 2013: RR'mln 773). The portion of provision for pension obligations attributable to key management as at 31 December 2014 equals to RR'mln 31 (31 December 2013: RR'mln 62). The amount of expenses recognised in the consolidated statement of profit or loss and other comprehensive income in respect of the operation of the defined benefit plan for key management in the year ended 31 December 2014 equals to RR'mln 6 (year ended 31 December 2013: RR'mln 6).

Associates and Joint Ventures

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

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

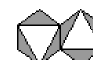
Current accounts receivable	**31 December 2014**	**31 December 2013**
Catoca, dividends and other receivable	2,067	785
OJSC MMC Timir, loans issued	1,124	840
Other	87	22
Total current accounts receivable	**3,278**	**1,647**

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

27. NON-CONTROLLING INTEREST

The following tables provide information about each subsidiary that has non-controlling interest that is material to the Group:

Name	**Carrying amount of non-controlling interest**		**Profit/(loss) attributable to non-controlling interest**		**Revenue**		**Profit/(loss)**		**Total comprehensive income/(loss)**	
	31.12.2014	**31.12.2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
OJSC ALROSA-Nyurba	(185)	(668)	1,148	886	30,395	24,573	9,172	7,153	9,172	7,153
MAK Bank LLC	51	113	(62)	8	373	717	(392)	34	(392)	34
OJSC Severalmaz	104	105	(1)	(4)	3,269	1,260	(387)	(1,015)	(387)	(1,015)
OJSC Viluyskaya GES-3	(65)	(66)	1	1	2,700	2,908	556	376	556	376
Hydroshikapa S.A.R.L.	76	39	36	70	579	477	81	155	81	155
Total	**(19)**	**(477)**	**1,122**	**961**	**37,316**	**29,935**	**9,030**	**6,703**	**9,030**	**6,703**
Other subsidiaries	142	138	(2)	(41)						
Per financial statements	**123**	**(339)**	**1,120**	**920**						



Name	Non-current Assets		Current Assets		Non-current Liabilities		Current Liabilities	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
OJSC ALROSA-Nyurba	3,730	2,119	8,199	8,984	824	1,338	1,791	3,906
MAK Bank LLC	1,301	3,304	1,212	1,912	208	235	2,016	4,350
OJSC Severalmaz	21,901	20,113	6,340	2,933	65	10,289	742	922
OJSC Viluyskaya GES-3	10,902	10,776	473	626	-	6,392	6,270	421
Hydroshikapa S.A.R.L.	4,796	2,900	408	158	6,149	3,796	769	327
Total	**42,630**	**39,212**	**16,632**	**14,613**	**7,246**	**22,050**	**11,588**	**9,926**

Name	OJSC ALROSA-Nyurba		MAK Bank LLC		OJSC Severalmaz		OJSC Viluyskaya GES-3		Hydroshikapa S.A.R.L.	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Cash Inflow / (Outflow) from Operating Activity	11,317	10,575	(1,270)	(1,588)	(3,383)	(2,330)	1,381	914	356	116
Income tax paid	(2,675)	(2,130)	-	-	-	-	(152)	(218)	-	-
Net Cash Inflows / (Outflows) from Operating Activities	8,642	8,445	(1,270)	(1,588)	(3,383)	(2,330)	1,229	696	356	116
Net Cash (Outflow) / Inflow from Investing Activities	(1,681)	(1,210)	331	100	(2,278)	(4,109)	(568)	(416)	-	-
Net Cash (Outflow) /Inflow from Financing Activities	(6,678)	(7,162)	(39)	(11)	5,737	6,148	(444)	(302)	(226)	(219)
Net Increase/(Decrease) in Cash and Cash Equivalents	**283**	**73**	**(978)**	**(1,499)**	**76**	**(291)**	**217**	**(22)**	**130**	**(103)**
Cash and eash equivalents at the beginning of the period	221	136	2,185	3,683	60	350	98	120	38	141
Foreign exchange gains/(losses) on cash and cash equivalents	18	12	(6)	1	(31)	1	-	-	-	-
Cash and Cash Equivalents at the End of the Period	**522**	**221**	**1,201**	**2,185**	**105**	**60**	**315**	**98**	**168**	**38**

The figures presented above are before inter-company eliminations.

The following table provides information about dividends paid by subsidiaries to non-controlling shareholders that interest is material to the Group:

	Dividends paid	
Subsidiary	**Year ended 31 December 2014**	**Year ended 31 December 2013**
OJSC ALROSA-Nyurba	677	899
OJSC Severalmaz	-	2
MAK Bank LLC	2	1
Total dividends paid by subsidiaries to non-controlling shareholders	**679**	**902**

Holders of the non-controlling interest have a right to veto any transaction with related parties with a financial effect above: OJSC ALROSA-Nyurba – RR'mln 152; OJSC Severalmaz – RR'mln 393; OJSC Viluyskaya GES-3 – RR'mln 97; MAK Bank LLC – RR'mln 9. These restrictions apply to 2 per cent. the subsidiaries' average net assets as disclosed above.

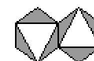
28. SEGMENT INFORMATION

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;
- 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 – airline business, transportation services and services at transportation terminals, ports and airports;
- Social infrastructure - include residential housing units, sports complexes and cultural facilities, such as cinemas and theatres and other social infrustructure;
- Gas – production and sale of natural gas;
- Other activities.

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

Year ended 31 December 2014	Diamonds segment	Transpor-tation	Social infrastructure	Gas	Other activities	Total
Revenue	195,064	5,847	5,964	7,841	11,484	226,200
Intersegment revenue	-	(964)	(575)	(1,048)	(6,475)	(9,063)
Cost of sales, including	63,388	6,237	8,716	4,209	10,892	93,442
depreciation	10,797	453	486	1,005	1,722	14,463
Gross margin	**131,676**	**(390)**	**(2,752)**	**3,632**	**592**	**132,758**

Year ended 31 December 2013	Diamonds segment	Transpor-tation	Social infrastructure	Gas	Other activities	Total
Revenue	157,816	5,661	3,461	6,692	14,628	188,258
Intersegment revenue	-	(1,038)	(645)	(950)	(9,329)	(11,963)
Cost of sales, including	55,046	6,582	6,987	2,400	14,551	85,566
depreciation	10,385	569	47	602	1,456	13,059
Gross margin	**102,770**	**(921)**	**(3,526)**	**4,292**	**77**	**102,692**

Reconciliation of revenue is presented below:

	Year ended 31 December 2014	Year ended 31 December 2013
Segment revenue	**226,200**	**188,258**
Elimination of intersegment revenue	(9,063)	(11,963)
Reclassification of custom duties [1]	(10,999)	(8,517)
Other adjustments and reclassifications	1,021	726
Revenue as per consolidated statement of profit or loss and other comprehensive income	**207,159**	**168,505**

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

Reconciliation of cost of sales including depreciation is presented below:

	Year ended 31 December 2014	Year ended 31 December 2013
Segment cost of sales	**93,442**	**85,566**
Adjustment for depreciation of property, plant and equipment	3,989	756
Elimination of intersegment purchases	(7,702)	(10,990)
Accrued provision for pension obligation [1]	(1,112)	(1,634)
Reclassification of extraction tax [2]	12,044	7,402
Adjustment for inventories [3]	1,612	331
Accrual for employee flights and holidays [4]	(53)	231
Other adjustments	148	-
Reclassification of exploration expenses [5]	(3,053)	(3,453)
Other reclassifications	(379)	4,024
Cost of sales as per consolidated statement of profit or loss and other comprehensive income	**98,936**	**82,233**

[1] Accrued provision for pension obligation – recognition of pension obligation in accordance with IAS 19
[2] Reclassification of extraction tax – reclassification from general and administrative expenses
[3] Adjustment for inventories – treatment of extraction tax as direct expenses for financial statements, with acorresponding entry in inventory figure and other adjustments
[4] Accrual for employee flights and holidays – recognition of employee flights and holidays reserve
[5] Reclassification of exploration expenses – reclassification to other operating expenses

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

	Year ended 31 December 2014	Year ended 31 December 2013
Belgium	101,012	76,549
Russian Federation	41,834	40,213
India	26,298	21,983
Israel	21,283	16,984
China	7,028	5,232
United Arab Emirates	6,288	4,199
USA	1,207	1,801
Angola	579	477
United Kingdom	348	262
Armenia	173	519
Other countries	1,109	286
Total	**207,159**	**168,505**

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

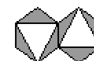
	31 December 2014	31 December 2013
Russian Federation	276,513	218,170
Angola	4,796	2,900
Other countries	430	447
Total non-current assets other than financial instruments	**281,739**	**221,517**

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

- 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:

	31 December 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	188	-	191	**379**	-	-	243	**243**
Total	**188**	**-**	**191**	**379**	**-**	**-**	**243**	**243**

The description of valuation technique and description of inputs used in the fair value measurement for Level 3 measurements at 31 December 2014:

	31 December 2014	**31 December 2013**	**Valuation technique**	**Inputs used**
Available-for-sale investments	191	243	Net assets valuation	Financial statements of the investee
Total	**191**	**243**		

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

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:

	Quoted price in an active market (Level 1)	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**	**Total**
Trade and other receivables				
Current accounts receivable	-	-	8,975	8,975
Long-term receivables	-	-	1,544	1,544
Total assets	**-**	**-**	**10,519**	**10,519**
Loans from banks	-	119,585	-	119,585
Eurobonds	56,258	-	-	56,258
RR denominated non-convertible bonds	20,044	-	-	20,044
Finance lease obligation	-	-	488	488
RR denominated fixed rate loans	-	348	-	348
Total non-current liabilities	**76,302**	**119,933**	**488**	**196,723**
Short-term debt				
Loans from banks	-	100	-	100
RR denominated fixed rate loans	-	337	-	337
Total current liabilities	**-**	**437**	**-**	**437**
Total liabilities	**76,302**	**120,370**	**488**	**197,160**

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

	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
Trade and other receivables				
Current accounts receivable	-	-	10,157	10,157
Long-term receivables	-	-	3,361	3,361
Total assets	**-**	**-**	**13,518**	**13,518**
Long-term debt				
Loans from banks	-	28,974	-	28,974
Eurobonds	49,088	-	-	49,088
RR denominated non-convertible bonds	20,044	-	-	20,044
Finance lease obligation	-	-	584	584
RR denominated fixed rate loans	-	1,187	-	1,187
Total non-current liabilities	**69,132**	**30,161**	**584**	**99,877**
Short-term debt				
Loans from banks	-	37,099	-	37,099
RR denominated fixed rate loans	-	1,615	-	1,615
Total current liabilities	**-**	**38,714**	**-**	**38,714**
Total liabilities	**69,132**	**68,875**	**584**	**138,591**

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

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

30. SUBSEQUENT EVENTS

In February 2015, the Group sold its 84.7 per cent. interest in MAK Bank LLC to a third party. As a result of the transaction, the Group lost an ability to control financial and operating activity of MAK Bank LLC.