OJSC ALROSA

INTERNATIONAL ACCOUNTING STANDARD No. 34

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

CONTENTS

(in millions of US$, unless otherwise stated)

Condensed Consolidated Interim Statement of Financial Position (unaudited)

	Notes	31 March 2014	31 December 2013
Assets			
Non-current Assets			
Goodwill		40	44
Property, plant and equipment	6	6,146	6,578
Investments in associates and joint ventures	4	140	139
Available-for-sale investments		7	7
Long-term accounts receivable	8	81	105
Restricted cash		5	8
Total Non-current Assets		**6,419**	**6,881**
Current Assets			
Inventories	7	1,517	1,852
Prepaid income tax		1	3
Current accounts receivable	8	414	491
Cash and cash equivalents	5	452	283
Assets of disposal group classified as held for sale	4.1	1,224	1,333
Total Current Assets		**3,608**	**3,962**
Total Assets		**10,027**	**10,843**
Equity			
Share capital	9	398	398
Share premium		433	433
Retained earnings and other reserves	9	3,892	4,079
Equity attributable to owners of OJSC ALROSA		**4,723**	**4,910**
Non-Controlling Interest in Subsidiaries		**(26)**	**(37)**
Total Equity		**4,697**	**4,873**
Liabilities			
Non-current Liabilities			
Long-term debt	10	2,462	2,514
Provision for pension obligations	14	296	371
Other provisions		112	121
Deferred tax liabilities		73	100
Total Non-current Liabilities		**2,943**	**3,106**
Current Liabilities			
Short-term debt and current portion of long-term debt	11	1,375	1,720
Trade and other payables	12	623	733
Income tax payable		79	54
Other taxes payable	13	137	145
Dividends payable		1	16
Liabilities of disposal group classified as held for sale	4.1	172	196
Total Current Liabilities		**2,387**	**2,864**
Total Liabilities		**5,330**	**5,970**
Total Equity and Liabilities		**10,027**	**10,843**

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

Fedor B. Andreev	Elena L. Timonina
President	Chief accountant

(in millions of US$, unless otherwise stated)

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

		Three months ended	
	Notes	**31 March 2014**	**31 March 2013**
Revenue	15	1,601	1,297
Cost of sales	16	(793)	(655)
Royalty	13	(8)	(10)
Gross profit		**800**	**632**
General and administrative expenses	17	(57)	(62)
Selling and marketing expenses	18	(18)	(22)
Other operating income		21	10
Other operating expenses	19	(122)	(163)
Operating profit		**624**	**395**
Finance income	20	17	38
Finance costs	21	(369)	(152)
Share of net profit of associates and joint ventures	4	8	9
Profit before income tax		**280**	**290**
Income tax	13	(108)	(84)
Profit for the period		**172**	**206**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations, net of tax		53	(4)
Total items that will not be reclassified to profit or loss		**53**	**(4)**
Items that will be reclassified to profit or loss:			
Currency translation differences, net of tax		(399)	(133)
Total items that will be reclassified to profit or loss		**(399)**	**(133)**
Other comprehensive income / (loss) for the period		**(346)**	**(137)**
Total comprehensive income for the period		**(174)**	**69**
Profit attributable to:			
Owners of OJSC ALROSA		161	201
Non-controlling interest		11	5
Profit for the period		**172**	**206**
Total comprehensive income attributable to:			
Owners of OJSC ALROSA		(185)	64
Non-controlling interest		11	5
Total comprehensive income for the period		**(174)**	**69**
Basic and diluted earnings per share for profit attributable to the owners of OJSC ALROSA (in US$)		**0.02**	**0.03**

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

(in millions of US$, unless otherwise stated)

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

	Notes	Three months ended 31 March 2014	Three months ended 31 March 2013
Net Cash Inflow from Operating Activities	22	**809**	**478**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(237)	(216)
Proceeds from sales of property, plant and equipment		14	1
Proceeds from sale of non-controlling share in subsidiary		-	8
Disposals from purchase of available-for-sale investments		-	-
Interest received		3	3
Dividends received from associates		9	-
Acquisition of OAO Nizhne-Lenskoe less cash acquired on acquisition of subsidiary	4.2	-	(121)
Net Cash Outflow from Investing Activities		**(211)**	**(325)**
Cash Flows from Financing Activities			
Repayments of loans		(1,320)	(707)
Loans received		966	832
Proceeds/(disposals) from sale/(purchase) of treasury shares		(2)	7
Interest paid		(28)	(68)
Dividends paid		(12)	(16)
Net Cash (Outflow) / Inflow from Financing Activities		**(396)**	**48**
Net Increase in Cash and Cash Equivalents		**202**	**201**
Cash and cash equivalents at the beginning of the period*		318	206
Exchange gains on cash and cash equivalents		5	-
Translation difference		(29)	(9)
Cash and Cash Equivalents at the End of the Period*		**496**	**398**

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

(in millions of US$, unless otherwise stated)

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

		Attributable to owners of OJSC ALROSA								
	Number of shares outstanding	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves**	**Currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2012	**7,213,444,600**	**398**	**433**	**(8)**	**(251)**	**(42)**	**3,814**	**4,344**	**(46)**	**4,298**
Comprehensive income										
Profit for the period		-	-	-	-	-	201	201	5	206
Other comprehensive income		-	-	-	(4)	(133)	-	(137)	-	(137)
Total comprehensive income for the period		**-**	**-**	**-**	**(4)**	**(133)**	**201**	**64**	**5**	**69**
Transactions with owners										
Acquisition of OJSC Nizhne-Lenskoe		-	-	-	-	-	-	-	116	116
Sale/(purchase) of non-controlling interest		-	-	-	8	-	-	8	(1)	7
Sale of treasury shares	6,312,000	-	-	-	-	-	6	6	-	6
Total transactions with owners		**-**	**-**	**-**	**8**	**-**	**6**	**14**	**115**	**129**
Balance at 31 March 2013	**7,219,756,600**	**398**	**433**	**(8)**	**(247)**	**(175)**	**4,021**	**4,422**	**74**	**4,496**
Balance at 31 December 2013	**7,360,112,830**	**398**	**433**	**-**	**(237)**	**(342)**	**4,658**	**4,910**	**(37)**	**4,873**
Comprehensive income										
Profit for the period		-	-	-	-	-	161	161	11	172
Other comprehensive income		-	-	-	53	(399)	-	(346)	-	(346)
Total comprehensive income for the period		**-**	**-**	**-**	**53**	**(399)**	**161**	**(185)**	**11**	**(174)**
Transactions with owners										
Purchase of treasury shares	(1,851,900)	-	-	-	-	-	(2)	(2)	-	(2)
Total transactions with owners		**-**	**-**	**-**	**-**	**-**	**(2)**	**(2)**	**-**	**(2)**
Balance at 31 March 2014	**7,358,260,930**	**398**	**433**	**-**	**(184)**	**(741)**	**4,817**	**4,723**	**(26)**	**4,697**

1. ACTIVITIES

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

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

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

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

2. BASIS OF PRESENTATION

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

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

The results and financial positions of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated to the presentation currency as follows:

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

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

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

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

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

The official US dollar ("US$") to RR exchange rates as determined by the Central Bank of the Russian Federation were 35.69 and 32.73 as at 31 March 2014 and 31 December 2013, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 49.05 and 44.97 as at 31 March 2014 and 31 December 2013, respectively. The average official US dollar to RR exchange rate for three months ended 31 March 2014 was 35.14 (for three months ended 31 March 2013: 30.42).

(in millions of US$, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2013.

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

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

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

4. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

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

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

4.1. CJSC Geotransgaz and Urengoy Gaz Company Ltd.

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

Gas companies contributed revenue of US$'mln 51 and net income of US$'mln 10 to the Group for the three months ended 31 March 2014. Gas companies contributed revenue of US$'mln 22 and net loss of US$'mln 7 to the Group for the three months ended 31 March 2013.

(in millions of US$, unless otherwise stated)

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

	31 March 2014
Assets classified as held for sale	
Property, plant and equipment	1,152
Inventories	9
Trade and other receivables	19
Cash and cash equivalents	44
Total assets of the disposal group classified as held for sale	**1,224**
Liabilities classified as held for sale	
Trade and other payables	17
Deferred tax liability	155
Total liabilities of the disposal group classified as held for sale	**172**
Total net assets of the disposal group classified as held for sale	**1,052**

On 27 September 2013, the Group signed an agreement with Rosneft Oil Company and certain of its affiliates (together "Rosneft") for the sale of the Gas companies, CJSC Irelyakhneft, OJSC ALROSA-Gaz and related assets to Rosneft for an aggregate sale price of approximately US$1.38 billion. Disposal of Gas companies is to be completed by 30 April 2014. If disposal is not completed by this date the parties should negotiate additional terms for the completion of the deal. As at 31 March 2014 the management of ALROSA believed that the completion was probable. Rosneft's obligations to acquire CJSC Irelyakhneft and OJSC ALROSA-Gaz are contingent on the completion of the acquisition of Gas Companies. As at 31 March 2014 there were still a number of uncertainties related to possible disposal of CJSC Irelyakhneft and OJSC ALROSA-Gaz, accordingly their assets and liabilities were not classified as held for sale in this condensed consolidated interim financial information.

4.2. Acquisition of OJSC Nizhne-Lenskoe

On 22 January 2013 the Group acquired a 51.0 per cent. interest in OJSC Nizhne-Lenskoe from the Government of the Republic of Sakha (Yakutia) for a total cash consideration of US$'mln 121. As a result of this transaction the Group acquired control over OJSC Nizhne-Lenskoe. The core activity of OJSC Nizhne-Lenskoe is exploration and extraction of alluvial diamond reserves and distribution of raw diamonds.

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

Property, plant and equipment	420
Inventories	89
Available-for-sale investments	1
Investments in associates	14
Trade and other receivables	21
Deferred tax liability	(58)
Borrowings	(131)
Trade and other payables	(119)
Fair value of acquired net assets	**237**
Non-controlling interest measured as proportionate share of acquired net assets	**(116)**
Total purchase consideration	**121**

On 5 June 2013 the Group acquired an additional 49.0 per cent. interest in OJSC Nizhne-Lenskoe for a total cash consideration of US$'mln 105. As a result of this transaction the Group acquired 100.0 per cent. ownership in OJSC Nizhne-Lenskoe. OJSC Nizhne-Lenskoe contributed revenue of US$'mln 113 and net profit of US$'mln 25 to the Group for the three months ended 31 March 2014. OJSC Nizhne-Lenskoe contributed revenue of US$'mln 2 and net loss of US$'mln 7 to the Group for the period from the date of acquisition to 31 March 2013.

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

(in millions of US$, unless otherwise stated)

Associates and joint ventures

Name	Country of Incorporation	Percentage of ownership interest held at		Carrying value of investment at		Group's share of net profit/(loss) for 3 months ended	
		31 March 2014	31 December 2013	31 March 2014	31 December 2013	31 March 2014	31 March 2013
OJSC MMC Timir	Russia	49.0	49.0	61	67	-	-
Catoca Mining Company Ltd	Angola	32.8	32.8	61	52	9	9
OJSC Almazergienbank	Russia	22.8	22.8	12	14	-	-
Other	Russia	20-50	20-50	6	6	-	-
Total carrying value of investment				**140**	**139**	**9**	**9**

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

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

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

Catoca Mining Company Ltd. ("Catoca") is a diamond-mining venture located in Angola. Currency translation gain recognised in the condensed consolidated interim statement of profit and loss and other comprehensive income for the three months ended 31 March 2014 in respect of investment in Catoca totalled US$'mln 4. Currency translation gain recognised in the condensed consolidated interim statement of profit and loss and other comprehensive income for the three months ended 31 March 2013 in respect of investment in Catoca totalled US$'mln 1.

5. CASH AND CASH EQUIVALENTS

	31 March 2014	31 December 2013
Cash in banks and on hand	325	167
Deposit accounts	127	116
Total cash and cash equivalents	**452**	**283**

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

(in millions of US$, unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	TOTAL
As at 31 December 2012			
Cost	9,375	1,601	10,976
Accumulated depreciation and impairment losses	(3,543)	(34)	(3,577)
Net book value as at 31 December 2012	**5,832**	**1,567**	**7,399**
Three months ended 31 March 2013			
Net book value as at 31 December 2012	5,832	1,567	7,399
Foreign exchange differences	2	-	2
Additions	28	202	230
Additions through acquisition of OAO Nizhne-Lenskoe (note 4.2)	420	-	420
Transfers	62	(62)	-
Other disposals – at cost	(43)	(6)	(49)
Other disposals – accumulated depreciation	13	-	13
Depreciation charge for the period	(123)	-	(123)
Translation difference	(143)	(37)	(180)
Net book value as at 31 March 2013	**6,048**	**1,664**	**7,712**
As at 31 March 2013			
Cost	9,617	1,697	11,314
Accumulated depreciation and impairment losses	(3,569)	(33)	(3,602)
Net book value as at 31 March 2013	**6,048**	**1,664**	**7,712**
As at 31 December 2013			
Cost	8,443	1,778	10,221
Accumulated depreciation and impairment losses	(3,612)	(31)	(3,643)
Net book value as at 31 December 2013	**4,831**	**1,747**	**6,578**
Three months ended 31 March 2014			
Net book value as at 31 December 2013	4,831	1,747	6,578
Foreign exchange differences	9	-	9
Additions	109	138	247
Transfers	133	(133)	-
Disposal of assets held for sale - at cost (note 4.1)	-	(5)	(5)
Disposal of assets held for sale - accumulated depreciation (note 4.1)	9	-	9
Other disposals – at cost	(33)	(3)	(36)
Other disposals – accumulated depreciation	22	-	22
Change in estimate of provision for land recultivation	(1)	-	(1)
Depreciation charge for the period	(129)	-	(129)
Translation difference	(404)	(144)	(548)
Net book value as at 31 March 2014	**4,546**	**1,600**	**6,146**
As at 31 March 2014			
Cost	7,956	1,629	9,585
Accumulated depreciation and impairment losses	(3,410)	(29)	(3,439)
Net book value as at 31 March 2014	**4,546**	**1,600**	**6,146**

Capitalised borrowing costs

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

7. INVENTORIES

	31 March 2014	31 December 2013
Diamonds	610	960
Ores and concentrates	372	299
Mining and construction materials	446	493
Consumable supplies	89	100
Total inventories	**1,517**	**1,852**

(in millions of US$, unless otherwise stated)

8. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	**31 March 2014**	**31 December 2013**
Loans issued	68	88
Receivables from associates and joint ventures (note 24)	8	9
Notes receivable	-	3
Long-term advances to suppliers	2	1
Long-term VAT recoverable	1	1
Other long-term receivables	2	3
Total long-term accounts receivable	**81**	**105**

Current accounts receivable	**31 March 2014**	**31 December 2013**
Consideration receivable for disposed controlling interest in OJSC MMC Timir	83	91
Prepaid taxes, other than income tax	70	88
Loans issued	54	63
VAT recoverable	45	51
Receivables from associates and joint ventures (note 24)	37	50
Advances to suppliers	29	41
Trade receivables for supplied diamonds	6	24
Other trade receivables	90	83
Total current accounts receivable	**414**	**491**

Trade and other receivables are presented net of impairment provision of US$'mln 138 and US$'mln 150 as at 31 March 2014 and 31 December 2013, respectively.

9. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals US$'mln 398 as at 31 March 2014 and 31 December 2013 and consists of 7,364,965,630 ordinary shares, including treasury shares, at US$ 0.02 par value share. In addition as at 31 March 2014 and 31 December 2013 share capital includes hyperinflation adjustment totalling US$'mln 324, which was calculated in accordance with requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" and relates to the reporting periods prior to 1 January 2003.

Distributable profits

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the three months ended 31 March 2014 the statutory profit of the Company as reported in the published statutory reporting forms was US$'mln 174 (for the three months ended 31 March 2013 – US$'mln 180). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation, and accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in this condensed consolidated interim financial information.

Treasury shares

As at 31 March 2014 and 31 December 2013 subsidiaries of the Group held 6,704,700 and 4,852,800 ordinary shares of the Company, respectively. The Group management controls the voting rights of these shares.

Earnings per share

Earnings per share have been calculated by dividing the profit attributable to owners of OJSC ALROSA by the weighted average number of shares outstanding during the year, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares. There were 7,358,381,459 weighted average shares outstanding for the three months ended 31 March 2014 (for the three months ended 31 March 2013 – 7,212,067,885). There are no dilutive financial instruments outstanding.

(in millions of US$, unless otherwise stated)

Other reserves

	Purchase of non-controlling interest	**Available-for-sale investments**	**Recognition of accumulated actuarial (loss) / gain**	**Total other reverves**
Balance at 31 December 2012	**(22)**	**1**	**(230)**	**(251)**
Sale/purchase of non-controlling interest	8	-	-	8
Actuarial loss on post employment benefit obligation	-	-	(4)	(4)
Balance at 31 March 2013	**(14)**	**1**	**(234)**	**(247)**
Balance at 31 December 2013	**(10)**	**1**	**(228)**	**(237)**
Actuarial gain on post employment benefit obligations	-	-	53	53
Balance at 31 March 2014	**(10)**	**1**	**(175)**	**(184)**

Dividends

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

10. LONG-TERM DEBT

	31 March 2014	**31 December 2013**
Bank loans:		
US$ denominated floating rate	600	600
US$ denominated fixed rate	285	285
	885	**885**
Eurobonds	1,500	1,500
RR denominated non-convertible bonds	561	612
Finance lease obligation	17	18
Other RR denominated fixed rate loans	26	36
	2,989	**3,051**
Less: current portion of long-term debt (see note 11)	(527)	(537)
Total long-term debt	**2,462**	**2,514**

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

The average effective interest rates were as follows:

	31 March 2014	**31 December 2013**
Bank loans:		
US$ denominated floating rate	3.9%	3.9%
US$ denominated fixed rate	4.8%	4.8%
Eurobonds	8.1%	8.1%
RR denominated non-convertible bonds	8.9%	8.9%
Finance lease obligation	11.5%	11.5%
Other RR denominated fixed rate loans	7.0%	6.4%

(in millions of US$, unless otherwise stated)

Eurobonds

	Three months ended	
	31 March 2014	**31 March 2013**
Balance at the beginning of the period	**1,500**	**1,500**
Exchange losses	-	-
Balance at the end of the period	**1,500**	**1,500**

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

	31 March 2014	**31 December 2013**
Bank loans:		
US$ denominated floating rate	240	500
US$ denominated fixed rate	580	630
RR denominated fixed rate	2	4
	822	**1,134**
Other RR denominated fixed rate loans	26	49
	848	**1,183**
Add: current portion of long-term debt (note 10)	527	537
Total short-term debt and current portion of long-term debt	**1,375**	**1,720**

The average effective interest rates were as follows:

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

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

12. TRADE AND OTHER PAYABLES

	31 March 2014	**31 December 2013**
Accrual for employee flights and holidays	225	214
Trade payables	149	178
Wages and salaries	84	168
Interest payable	60	30
Current portion of provision for social obligation	31	34
Advances from customers	29	20
Current accounts of third parties in MAK Bank LLC	14	53
Payables to associates and joint ventures	1	-
Other payables and accruals	30	36
Total trade and other payables	**623**	**733**

13. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

	31 March 2014	**31 December 2013**
Payments to social funds	45	51
Extraction tax	31	29
Property tax	28	20
Personal income tax (employees)	12	22
Value added tax	12	15
Other taxes and accruals	9	8
Total taxes payable, other than income tax	**137**	**145**

(in millions of US$, unless otherwise stated)

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

	Three months ended	
	31 March 2014	**31 March 2013**
Property tax	25	30
Other taxes and accruals	3	5
Total taxes other than income tax expense	**28**	**35**

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

In accordance with the amendment to the license agreement registered in May 2007, OJSC ALROSA-Nyurba, a subsidiary of the Group, is obliged to make annual fixed royalty payments to the Republic of Sakha (Yakutia) in the amount of US$'mln 34 per annum.

Income tax expense comprises the following:

	Three months ended	
	31 March 2014	**31 March 2013**
Current tax expense	120	84
Adjustments recognised in the period for current tax of prior periods	7	-
Deferred tax expense	(19)	-
Total income tax expense	**108**	**84**

14. PROVISION FOR PENSION OBLIGATION

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

	31 March 2014	**31 December 2013**
Present value of funded obligations	514	615
Fair value of plan assets	(245)	(276)
Deficit of the funded plans	269	339
Present value of unfunded obligation	27	32
Liability in the condensed consolidated interim statement of financial position	**296**	**371**

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

	Present value of obligation	**Fair value of plan assets**	**Total**
As at 1 January 2013	**666**	**(237)**	**429**
Current service cost	4	-	4
Interest expense / (income)	12	(4)	8
	16	**(4)**	**12**
Remeasurements:			
Return on plan assets, excluding amount included in interest expense / (income)	-	4	4
	-	**4**	**4**
Contributions paid by employer	-	(1)	(1)
Benefit payments	(11)	11	-
	(11)	**10**	**(1)**
Translation difference	(16)	5	(11)
As at 31 March 2013	**655**	**(222)**	**433**

(in millions of US$, unless otherwise stated)

	Present value of obligation	Fair value of plan assets	Total
As at 1 January 2014	**647**	**(276)**	**371**
Current service cost	3	-	3
Interest expense / (income)	12	(5)	7
	15	**(5)**	**10**
Remeasurements:			
Return on plan assets, excluding amount included in interest expense / (income)	-	5	5
Gain from changes in financial actuarial assumptions	(57)	-	(57)
	(57)	**5**	**(52)**
Contributions paid by employer	-	(3)	(3)
Benefit payments	(10)	10	-
	(10)	**7**	**(3)**
Translation difference	(53)	23	(30)
As at 31 March 2014	**542**	**(246)**	**296**

The significant actuarial assumptions are as follows:

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

15. REVENUE

	Three months ended	
	31 March 2014	**31 March 2013**
Revenue from diamond sales:		
Export	1,303	991
Domestic	153	192
Revenue from diamonds for resale	10	9
Total revenue from diamond sales	**1,466**	**1,192**
Other revenue:		
Transport	24	24
Social infrastructure	21	26
Trading	7	2
Construction	2	1
Sales of gas	51	22
Other	30	30
Total revenue	**1,601**	**1,297**

Export duties totalling US$'mln 89 for the three months ended 31 March 2014 (three months ended 31 March 2013: US$'mln 67) were netted against revenue from diamond export sales.

16. COST OF SALES

	Three months ended	
	31 March 2014	**31 March 2013**
Wages, salaries and other staff costs	224	251
Depreciation	108	106
Extraction tax	97	80
Fuel and energy	82	104
Transport	39	15
Materials	33	34
Services	20	21
Cost of diamonds for resale	10	9
Impairment of inventories	3	4
Other	2	-
Movement in inventory of diamonds, ores and concentrates	175	31
Total cost of sales	**793**	**655**

(in millions of US$, unless otherwise stated)

Wages, salaries and other staff costs include payments to social funds in the amount of US$'mln 62 for the three months ended 31 March 2014 (for the three months ended 31 March 2013 in the amount of US$'mln 55).

Depreciation totalling US$'mln 17 for the three months ended 31 March 2014 (for the three months ended 31 March 2013: US$'mln 18) and wages, salaries and other staff costs totalling US$'mln 40 for the three months ended 31 March 2014 (for the three months ended 31 March 2013: US$'mln 23) were incurred by the Group's construction divisions and were capitalised in the respective periods.

17. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended	
	31 March 2014	**31 March 2013**
Wages, salaries and other staff costs	38	32
Services and other administrative expenses	20	29
(Reversal of impairment) / impairment of accounts receivable	(1)	1
Total general and administrative expenses	**57**	**62**

Wages, salaries and other staff costs include payments to social funds in the amount of US$'mln 7 for the three months ended 31 March 2014 (for the three months ended 31 March 2013 in the amount of US$'mln 5).

18. SELLING AND MARKETING EXPENSES

	Three months ended	
	31 March 2014	**31 March 2013**
Wages, salaries and other staff costs	9	10
Services and other selling and marketing expenses	9	12
Total selling and marketing expenses	**18**	**22**

Wages, salaries and other staff costs include payments to social funds in the amount of US$'mln 4 for the three months ended 31 March 2014 (for the three months ended 31 March 2013 in the amount of US$'mln 2).

19. OTHER OPERATING EXPENSES

	Three months ended	
	31 March 2014	**31 March 2013**
Exploration expenses	56	81
Taxes other than income tax, extraction tax and payments to social funds (note 13)	28	35
Social costs	20	22
Loss on disposal of property, plant and equipment	7	19
Other	11	6
Total other operating expenses	**122**	**163**

Social costs consist of:

	Three months ended	
	31 March 2014	**31 March 2013**
Maintenance of local infrastructure	10	10
Charity	6	8
Hospital expenses	1	-
Education	1	1
Other	2	3
Total social costs	**20**	**22**

(in millions of US$, unless otherwise stated)

20. FINANCE INCOME

	Three months ended	
	31 March 2014	**31 March 2013**
Exchange gains	14	35
Interest income	3	3
Total finance income	**17**	**38**

21. FINANCE COSTS

	Three months ended	
	31 March 2014	**31 March 2013**
Interest expense:		
Eurobonds	31	31
RR denominated non-convertible bonds	12	25
Bank loans	15	14
European commercial paper	-	3
Other	7	2
Unwinding of discount of future provisions	3	2
Exchange losses	301	75
Total finance costs	**369**	**152**

22. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash flows from operations:

	Three months ended	
	31 March 2014	**31 March 2013**
Profit before income tax	**280**	**290**
Adjustments for:		
Share of net profit of associates and joint ventures (note 4)	(8)	(9)
Interest income (note 20)	(3)	(3)
Interest expense (note 21)	68	77
Loss on disposal of property, plant and equipment (note 19)	7	19
Depreciation	112	105
Adjustment for inventory used in construction	(14)	(13)
Proceeds from restricted cash account	2	-
Unrealised foreign exchange effect on non-operating items	290	28
Net operating cash flows before changes in working capital	**734**	**494**
Net increase in inventories	188	81
Net increase in receivables, excluding dividends receivable and consideration receivable for disposed controlling interest in OJSC MMC Timir	46	23
Net decrease in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(66)	(44)
Net increase in taxes payable, excluding income tax	5	20
Cash inflows from operating activity	**907**	**574**
Income tax paid	(98)	(96)
Net cash inflows from operating activities	**809**	**478**

23. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment of the Russian Federation

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

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

(b) Taxes

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

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

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

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

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

(c) Legal proceedings

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

(d) Insurance

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

(e) Capital commitments

As at 31 March 2014 the Group has contractual commitments for capital expenditures of US$’mln 134 (31 December 2013: US$’mln 150).

(f) Restoration, rehabilitation and environmental costs

Under its license agreements, the Group is not responsible for any significant restoration, rehabilitation and environmental expenditures that may be incurred subsequent to the cessation of production at each mine, apart from the obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. The Group recognised a provision for these future expenses in the amount of US$’mln 87 as at 31 March 2014 (US$’mln 94 as at 31 December 2013).

(in millions of US$, unless otherwise stated)

24. RELATED PARTY TRANSACTIONS

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

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

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

Governments of the Russian Federation and the Republic of Sakha (Yakutia) are the major shareholders of the Company. As at 31 March 2014 68.9 per cent. of the Company's issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Also as at 31 March 2014 8.0 per cent. of the Company's shares were owned by administrations of 8 districts of the Republic of Sakha (Yakutia). Following the Extraordinary General Meeting of Shareholders in December 2013, the 15 seats on the Supervisory Council include 9 representatives of the Russian Federation (1 also is the Chairman of the Management Board) and the Republic of Sakha (Yakutia), 5 independent directors according to the Russian Corporate Law (3 of them were nominated by the Government of the Russian Federation, 1 was nominated by the Government of the Republic of Sakha (Yakutia), 1 was nominated by districts of the Republic of Sakha (Yakutia)), and 1 member of the Management Board. Governmental, federal and local economic and social policies affect the Group's financial position, results of operations and cash flows.

Tax balances are disclosed in the condensed consolidated interim statement of financial position and in notes 8 and 13. Tax transactions are disclosed in the condensed consolidated interim statement of profit and loss and other comprehensive income, the condensed consolidated interim statement of cash flows and in notes 13, 15, 16 and 22.

Parties under control of the Government

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

As at 31 March 2014 the accounts payable to the parties under Governmental control totalled US$'mln 15 (31 December 2013: US$'mln 16). As at 31 March 2014 the accounts receivable from the parties under Governmental control (excluding loans issued) totalled US$'mln 61 (31 December 2013: US$'mln 66). As at 31 March 2014 and 31 December 2013 the accounts receivable from the parties under Governmental control and accounts payable to the parties under Governmental control were non-interest bearing, had a maturity within one year and were denominated in Russian Roubles.

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

	Three months ended	
	31 March 2014	**31 March 2013**
Sales of diamonds	47	63
Electricity and heating expenses	39	37
Other sales	62	64
Other purchases	11	12

As at 31 March 2014 and 31 December 2013 the Group has no contractual commitments to sell goods or services to the parties under control of the Government. As at 31 March 2014 the Group has contractual commitments to purchase goods and services from the parties under control of the Government in the amount of approximately US$'mln 87 (31 December 2013: US$'mln 136).

As at 31 March 2014 the amount of loans received by the Group from the entities under Governmental control totalled US$'mln 835 (31 December 2013: US$'mln 775). During the three months ended 31 March 2014 interest expense accrued in respect to the loans received by the Group from the entities under Governmental control totalled US$'mln 7 (three months ended 31 March 2013: US$'mln 7).

As at 31 March 2014 the amount of loans issued by the Group to the entities under Governmental control totalled US$'mln 15 (31 December 2013: US$'mln 22). During the three months ended 31 March 2014 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled US$'mln 1 (three months ended 31 March 2013: US$'mln 1).

(in millions of US$, unless otherwise stated)

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

Key management compensation

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

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

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

Key management received short-term benefits for the three months ended 31 March 2014 totalling US$'mln 12 (three months ended 31 March 2013: US$'mln 4).

Associates and joint ventures

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

Long-term accounts receivable	**31 March 2014**	**31 December 2013**
OJSC MMC Timir, loans issued	8	9
Total long-term accounts receivable	**8**	**9**

Current accounts receivable	**31 March 2014**	**31 December 2013**
Catoca, dividends and other receivables	13	23
OJSC MMC Timir, loans issued	24	26
Other	-	1
Total current accounts receivable	**37**	**50**

During the three months ended 31 March 2014 Catoca paid dividends for the Group in cash in the amount of US$'mln 9 (three months ended 31 March 2013: US$'mln nil). The Group recognised exchange gain related to dividends receivable from Catoca in the amount of US$'mln 1 for the three months ended 31 March 2014 (for the three months ended 31 March 2013 the Groud did non recognised any exchange gain related to dividends receivable from Catoca).

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

25. SEGMENT INFORMATION

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

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

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

(in millions of US$, unless otherwise stated)

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

The following reportable segments were identified:

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

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

Three months ended 31 March 2014	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Revenue	1,555	29	27	15	9	34	107	1,776
Intersegment revenue	-	(5)	(5)	(13)	(2)	(30)	(36)	(91)
Cost of sales, incl.	560	39	54	15	6	19	75	768
depreciation	76	3	1	-	1	4	14	99
Gross margin	**995**	**(10)**	**(27)**	**-**	**3**	**15**	**32**	**1,008**
Three months ended 31 March 2013								
Revenue	1,259	32	26	18	2	35	86	1,458
Intersegment revenue	-	(7)	(1)	(17)	-	(30)	(30)	(85)
Cost of sales, incl.	460	46	43	18	-	20	52	639
depreciation	79	5	-	2	-	3	8	97
Gross margin	**799**	**(14)**	**(17)**	**-**	**2**	**15**	**34**	**819**

Reconciliation of revenue is presented below:

	Three months ended	
	31 March 2014	**31 March 2013**
Segment revenue	**1,776**	**1,458**
Elimination of intersegment revenue	(91)	(85)
Reclassification of export duties [1]	(89)	(67)
Other adjustments and reclassifications	5	(9)
Revenue as per statement of profit and loss and other comprehensive income	**1,601**	**1,297**

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

(in millions of US$, unless otherwise stated)

Reconciliation of cost of sales including depreciation is presented below:

	Three months ended	
	31 March 2014	**31 March 2013**
Segment cost of sales	**768**	**639**
Adjustment for depreciation of property, plant and equipment [1]	9	8
Elimination of intersegment purchases	(79)	(85)
Accrued provision for pension obligation [2]	-	2
Reclassification of extraction tax [3]	97	75
Adjustment for inventories [4]	44	41
Accrual for employee flights and holidays [5]	1	4
Other adjustments	-	9
Reclassification of exploration expenses [6]	(30)	(11)
Other reclassifications	(17)	(27)
Cost of sales as per statement of profit and loss and other comprehensive income	**793**	**655**

[1] Adjustment for depreciation - adjustment of depreciation figure recognised in statutory financial statements which is different from that in IFRS financial statements due to the differences in book values of property, plant and equipment and methods of depreciation calculation

[2] Accrued provision for pension obligation – recognition of pension obligation in accordance with IAS 19

[3] Reclassification of extraction tax – reclassification from general and administrative expenses

[4] Adjustment for inventories – treatment of extraction tax as direct expenses for financial statements prepared under IFRS, with a corresponding record in inventory figure and other adjustments

[5] Accrual for employee flights and holidays – recognition of employee flights and holidays reserve under collective labour agreement of the Company

[6] Reclassification of exploration expenses – reclassification to other operating expenses

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

	Three months ended	
	31 March 2014	**31 March 2013**
Belgium	852	640
Russian Federation	284	300
India	220	184
Israel	138	93
United Arab Emirates	44	24
China	42	30
United States of America	9	10
Belarus	5	6
Angola	4	4
Switzerland	1	3
Armenia	1	3
Other countries	1	-
Total revenue	**1,601**	**1,297**

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

	31 March 2014	**31 December 2013**
Russian Federation	6,238	6,666
Angola	83	89
Other countries	13	14
Total non-current assets (other than financial instruments)	**6,334**	**6,769**

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

(in millions of US$, unless otherwise stated)

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

Recurring fair value measurements

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

	At 31 March 2014				**At 31 December 2013**			
	Level 1	Level 2	Level 3	**Total carrying value**	Level 1	Level 2	Level 3	**Total carrying value**
Available-for-sale investments	-	-	7	**7**	-	-	7	**7**
Total	**-**	**-**	**7**	**7**	**-**	**-**	**7**	**7**

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

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

	Quoted price in an active market (Level 1)	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**	**Total**
Trade and other receivables				
Current accounts receivable	-	-	269	269
Loans issued	-	-	68	68
Receivables from associates	-	-	8	8
Other long-term receivables	-	-	2	2
Total assets	**-**	**-**	**347**	**347**
Long-term debt				
Loans from banks	-	885	-	885
Eurobonds	1,500	-	-	1,500
RR denominated non-convertible bonds	561	-	-	561
Finance lease obligation	-	-	17	17
RR denominated fixed rate loans	-	26	-	26
Total non-current liabilities	**2,061**	**911**	**17**	**2,989**
Short-term debt				
Loans from banks	-	822	-	822
RR denominated fixed rate loans	-	26	-	26
Total current liabilities	**-**	**848**	**-**	**848**
Total liabilities	**2,061**	**1,759**	**17**	**3,837**

(in millions of US$, unless otherwise stated)

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

	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
Trade and other receivables				
Current accounts receivable	-	-	310	310
Loans issued	-	-	88	88
Receivables from associates	-	-	9	9
Notes receivable	-	-	3	3
Other long-term receivables	-	-	3	3
Total assets	**-**	**-**	**413**	**413**
Long-term debt				
Loans from banks	-	885	-	885
Eurobonds	1500	-	-	1500
RR denominated non-convertible bonds	612	-	-	612
Finance lease obligation	-	-	18	18
RR denominated fixed rate loans	-	36	-	36
Total non-current liabilities	**2,112**	**921**	**18**	**3,051**
Short-term debt				
Loans from banks	-	1,134	-	1,134
RR denominated fixed rate loans	-	49	-	49
Total current liabilities	**-**	**1,183**	**-**	**1,183**
Total liabilities	**2,112**	**2,104**	**18**	**4,234**

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

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

27. SUBSEQUENT EVENTS

Sale of Gas companies

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

Sale of CJSC Irelyakhneft

On 31 May 2014 the Company sold 100% of shares in CJSC Irelyakhneft for a total cash consideration of US$'mln 52.

Dividends

On 24 April 2014 the Company's Supervisory Council recommended the annual shareholders' meeting which is scheduled for 28 June 2014 to approve dividends for the year ended 31 December 2013 in the amount of US$'mln 304 (US$ 0.04 per share).

Borrowings

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