OJSC ALROSA

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

CONTENTS

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 2013 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, 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.

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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 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

7 April 2014

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 Entities issued 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

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Financial Position

	Notes	31 December 2013	31 December 2012 (restated)	1 January 2012 (restated)
ASSETS				
Non-current Assets				
Goodwill	5.4	1,439	1,439	1,439
Property, plant and equipment	7	215,277	224,746	169,534
Investments in associates and joint ventures	5.5	4,558	2,115	2,350
Available-for-sale investments		243	104	157
Long-term accounts receivable	9	3,436	2,328	1,833
Restricted cash	6	249	286	237
Total Non-current Assets		**225,202**	**231,018**	**175,550**
Current Assets				
Inventories	8	60,611	54,670	44,429
Prepaid income tax		106	55	213
Trade and other receivables	9	16,067	12,724	8,758
Cash and cash equivalents	6	9,270	6,242	12,014
Assets of disposal group classified as held for sale	5.1	43,615	-	-
Total Current Assets		**129,669**	**73,691**	**65,414**
Total Assets		**354,871**	**304,709**	**240,964**
EQUITY				
Share capital	10	12,473	12,473	12,473
Share premium		10,431	10,431	10,431
Treasury shares	10	(5)	(254)	(249)
Retained earnings and other reserves	10	136,901	108,363	87,063
Equity attributable to owners of OJSC ALROSA		**159,800**	**131,013**	**109,718**
Non-Controlling Interest in Subsidiaries	10	**(339)**	**(448)**	**(717)**
Total Equity		**159,461**	**130,565**	**109,001**
LIABILITIES				
Non-current Liabilities				
Long-term debt	11	82,296	90,357	75,529
Provision for pension obligations	14	12,157	13,043	9,254
Other provisions	13	3,968	5,232	522
Deferred tax liabilities	16	3,282	8,282	3,348
Total Non-current Liabilities		**101,703**	**116,914**	**88,653**
Current Liabilities				
Short-term loans and current portion of long-term debt	12	56,295	32,344	20,024
Derivative financial instruments	5.1	-	-	1,995
Trade and other payables	15	24,001	19,130	15,591
Income tax payable		1,776	1,331	1,851
Other taxes payable	16	4,758	3,883	3,364
Dividends payable		461	542	485
Liabilities of disposal group classified as held for sale	5.1	6,416	-	-
Total Current Liabilities		**93,707**	**57,230**	**43,310**
Total Liabilities		**195,410**	**174,144**	**131,963**
Total Equity and Liabilities		**354,871**	**304,709**	**240,964**

Approved for issue and signed on 7 April 2014 by the following members of management:

Fedor B. Andreev
President

Elena L. Timonina
Chief accountant

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Revenue	17	168,505	150,880
Cost of sales	18	(81,737)	(68,467)
Royalty	16	(1,209)	(1,209)
Gross profit		**85,559**	**81,204**
General and administrative expenses	19	(9,913)	(8,509)
Selling and marketing expenses	20	(2,378)	(2,018)
Other operating income	21	4,018	3,087
Other operating expenses	22	(20,415)	(24,725)
Operating profit		**56,871**	**49,039**
Finance income	23	630	3,017
Finance costs	24	(16,917)	(9,054)
Share of net profit of associates and joint ventures	5	917	1,149
Profit before income tax		**41,501**	**44,151**
Income tax	16	(9,664)	(10,517)
Profit for the year		**31,837**	**33,634**

Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations, net of tax		21	(3,188)
Total items that will not be reclassified to profit or loss		**21**	**(3,188)**
Items that will be reclassified to profit or loss:			
Currency translation differences, net of tax		1,016	(783)
Total items that will be reclassified to profit or loss		**1,016**	**(783)**
Other comprehensive income / (loss) for the period		**1,037**	**(3,971)**
Total comprehensive income for the year		**32,874**	**29,663**

Profit attributable to:			
Owners of OJSC ALROSA		30,917	32,634
Non-controlling interest		920	1,000
Profit for the year		**31,837**	**33,634**
Total comprehensive income attributable to:			
Owners of OJSC ALROSA		31,954	28,663
Non-controlling interest		920	1,000
Total comprehensive income for the year		**32,874**	**29,663**
Basic and diluted earnings per share for profit attributable to the owners of OJSC ALROSA (in Roubles)	10	4.26	4.52

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Net Cash Inflow from Operating Activities	25	**53,533**	**42,007**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(38,165)	(30,050)
Acquisition of CJSC Geotrasgaz and Urengoy Gas Company Ltd., net of cash acquired	5.1	-	(32,756)
Proceeds from sales of property, plant and equipment		189	423
Acquisition of OJSC Nizhne-Lenskoe, net of cash acquired	5.2	(3,661)	-
Acquisition of available-for-sale investments		(17)	(10)
Proceeds from disposal of subsidiaries, net of cash disposed of		2,154	-
Interest received		234	292
Dividends received from associates		965	979
Net Cash Outflow from Investing Activities		**(38,301)**	**(61,122)**
Cash Flows from Financing Activities			
Repayments of loans		(93,130)	(69,676)
Loans received		99,007	99,025
Interest paid		(9,444)	(7,742)
Sale / (purchase) of treasury shares		4,473	(64)
Acquisition of non-controlling interest in OJSC Nizhne-Lenskoe		(3,330)	-
Proceeds from disposal of non-controlling interest in subsidiaries		271	-
Dividends paid		(9,009)	(7,979)
Net Cash (Outflow) / Inflow from Financing Activities		**(11,162)**	**13,564**
Net Increase / (Decrease) in Cash and Cash Equivalents		**4,070**	**(5,551)**
Cash and cash equivalents at the beginning of the year		6,242	12,014
Exchange gain / (loss) on cash and cash equivalents		96	(221)
Cash and Cash Equivalents at the End of the Year*	6, 5.1	**10,408**	**6,242**

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

(in millions of Russian roubles, unless otherwise stated)

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
Previously reported balance at 31 December 2011	**7,216,276,100**	**12,473**	**10,431**	**(249)**	**(646)**	**91,805**	**113,814**	**(717)**	**113,097**
Effect of adoption of Amended IAS 19 (net of tax)		-	-	-	(4,005)	(91)	(4,096)	-	(4,096)
Adjusted as at 1 January 2012	**7,216,276,100**	**12,473**	**10,431**	**(249)**	**(4,651)**	**91,714**	**109,718**	**(717)**	**109,001**
Comprehensive income									
Profit for the year		-	-	-	-	32,634	32,634	1,000	33,634
Other comprehensive income		-	-	-	(4,000)	29	(3,971)	-	(3,971)
Total comprehensive income for the year		**-**	**-**	**-**	**(4,000)**	**32,663**	**28,663**	**1,000**	**29,663**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(7,304)	(7,304)	-	(7,304)
Purchase of treasury shares	(2,831,500)	-	-	(5)	-	(59)	(64)	-	(64)
Dividends paid by subsidiaries to minority shareholders		-	-	-	-	-	-	(731)	(731)
Total transactions with owners	**(2,831,500)**	**-**	**-**	**(5)**	**-**	**(7,363)**	**(7,368)**	**(731)**	**(8,099)**
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 (note 5.2)		-	-	-	-	-	-	3,526	3,526
Sale / (purchase) of non-controlling interest		-	-	-	373	-	373	(3,422)	(3,049)
Dividends paid by subsidiaries to minority 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**

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 December 2013. 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 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 32.73 and 30.37 as at 31 December 2013 and 31 December 2012, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 44.97 and 40.23 as at 31 December 2013 and 31 December 2012, respectively.

(b) Recent accounting pronouncements

In 2011 the Group early adopted *IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" ("IFRIC 20")* which is effective for annual periods beginning on or after 1 January 2013 and considers when and how to account for the benefits arising from the stripping costs incurred in surface mining activity during the production phase of an open pit. The early adoption of IFRIC 20 did not materially affect the Group's consolidated financial statements.

In 2013 the Group has adopted all IFRS, amendments and interpretations which were effective as at 1 January 2013 and which are relevant to its operations.

Standards, Amendments or Interpretations effective in 2013:

IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces all of the guidance on control and consolidation in *IAS 27 "Consolidated and separate financial statements"* and *SIC-12 "Consolidation - special purpose entities"*. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The application of this standard did not materially affect the Group's consolidated financial statements.

IFRS 11 "Joint Arrangements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces *IAS 31 "Interests in Joint Ventures"* and *SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers"*. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The application of this standard did not materially affect the Group's consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements previously found in *IAS 27 "Consolidated and Separate Financial Statements", IAS 28 "Investments in associates" and IAS 31 "Investments in Joint Ventures"*. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The application of this standard resulted in additional disclosures in these consolidated financial statements, refer to notes 5.4 and 28.

IFRS 13 "Fair Value Measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements of the Group. IFRS 13 also requires specific disclosures of fair values, refer to note 30.

Amended IAS 27 "Separate Financial Statements" ("IAS 27") (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) with earlier application permitted, contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The application of this standard did not materially affect the Group's consolidated financial statements.

Amended *IAS 28 "Investments in Associates and Joint Ventures" ("IAS 28") (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)* with earlier application permitted, prescribes the accounting for investments in associates and contains the requirements for the application of the equity method to investments in associates and joint ventures. The application of this standard did not materially affect the Group's consolidated financial statements.

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012) changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income". The amended standard resulted in changed presentation of consolidated financial statements, but did not have any impact on measurement of transactions and balances.

Several other new standards and amendments adopted in 2013 are amended IFRS 7 "Financial Instruments: Disclosure" ("IFRS 7"), and IAS 32 "Financial Instruments: Presentation" ("IAS 32"), amendments resulting from Annual Improvements 2009-2011 cycle to IAS 1, IAS 16 "Property, Plant and Equipment" ("IAS 16"), IAS 32, IAS 34. Application of these standards and amendments had no significant impact on the Group's financial position or results of operations.

IAS 19 (revised) "Employee Benefits" ("IAS 19 Revised")

From 1 January 2013 the Group has applied the amendments to *IAS 19 "Employee benefits"* retrospectively in accordance with the transition provisions of the standard. IAS 19 Revised makes significant changes to the recognition and measurement of defined benefit pension expenses and to disclosures of all employee benefits.

The material impacts of IAS 19 Revised on the Group's consolidated financial statements are as follows:

- "Actuarial gains and losses" are renamed "remeasurements"; remeasurements related to post-employment benefits are now recognised immediately in "other comprehensive income" and thus, will no longer be deferred using the corridor approach or recognised in profit or loss. As the result, unrecognised actuarial losses at 1 January 2012 in the amount of RR'mln 4,096 (31 December 2012: RR'mln 7,284) were recorded within Retained earnings and other reserves. Correspondingly, the net defined benefit assets / liabilities have changed for those amounts;
- Past-services costs are now recognised immediately through profit or loss when they occur, in the period of a plan amendment. This is resulted in unrecognised past-service costs (net of tax) at 1 January 2012 of RR'mln 91 (31 December 2012: RR'mln 62) being charged to Retained earnings;
- The standard replaces the interest cost on the defined benefit obligations and the expected return on plan assets with a

(in millions of Russian roubles, unless otherwise stated)

net interest expense or income based on the net defined benefit assets or liability and the discount rate, measured at the beginning of the year. For the year ended at 31 December 2013 and 31 December 2012, net interest expense totalled RR'mln 889 and RR'mln 744, respectively.

The total effect of the adoption of IAS 19 (revised) on the consolidated financial statements is shown below. All changes in the accounting policies have been made in accordance with IAS 8 “Accounting policies, changes in accounting estimates and errors” (“IAS 8”) which requires retrospective application unless the new standard requires otherwise.

The effect on amounts at 1 January 2012 was as follows:

	As originally presented	Effect of adopting revised IAS 19	As restated at 1 January 2012
Equity	91,159	(4,096)	87,063
Provision for pension obligations	5,028	4,226	9,254
Deferred tax liabilities	3,478	(130)	3,348

Effect of adoption revised IAS 19 recognised in Other reserves amounts to RR’mln 4,005 and recognised in Retained earnings amounts to RR’mln 91.

The effect on amounts at 31 December 2012 was as follows:

	As originally presented	Effect of adopting revised IAS 19	As restated at 31 December 2012
Equity	115,647	(7,284)	108,363
Provision for pension obligations	5,108	7,935	13,043
Deferred tax liabilities	8,933	(651)	8,282

The effect was as follows on amounts in the statement of profit or loss and other comprehensive income for the year ended 31 December 2012:

	As originally presented	Effect of adopting revised IAS 19	As restated for the year 2012
Other comprehensive income. Items that will not be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations, net of tax	-	(3,188)	(3,188)

The third statement of financial position as at 1 January 2012 is presented in these consolidated financial statements as a result of the above described adoption of the IAS 19 Revised.

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

IFRS 9 “Financial Instruments: Classification and Measurement”. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent payments of principal and interest only (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- 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.
- 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 amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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.

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 will be 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 Group does not expect the amendment to have any impact on its financial statements.

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 Group is currently assessing the impact of the amendments on its financial statements.

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. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

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 will 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. The Group does not expect the amendment to have any impact on its financial statements.

Amendments 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.

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.

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.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly 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.

The group has applied IFRS 11 to all joint arrangements as of 1 January 2013. Under IFRS 11 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. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. 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.

(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.

(in millions of Russian roubles, unless otherwise stated)

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 9.3 per cent. in the year ended 31 December 2013 (year ended 31 December 2012: 7.3 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 concentrates, mining and construction stores and consumable supplies are valued at the lower of cost or net realisable value. Cost of inventory is assigned using weighted average cost formula.

Cost of extracted ore and concentrates is calculated using the quantities determined based on surveyors' measurements of the volumes of ore and concentrates remaining at the period end. Cost of inventories include those directly attributable to mining the diamonds, extracting the ore and producing concentrates, 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) Derivative financial instruments

As part of trading activities the Group was also party to derivative financial instruments, including put options. The Group’s policy is to measure these instruments at fair value, with resultant gains or losses being reported in the Group’s profit or loss. Derivatives are not accounted for as hedges. These instruments are classified as non-current assets or liabilities if they are expected to be settled after 12 months of the end of the reporting period.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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 concentrates) 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 gains and losses arising 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) Social costs

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

(v) 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.

(w) 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.

(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 2013 and 31 December 2012 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 26).

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. 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 2013, 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 1,369 (year ended 31 December 2012 – RR'mln 1,037) 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 2013 the net book value of production licenses included in property, plant and equipment is RR'mln 14,005 (as at 31 December 2012: RR'mln 35,213), 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).

(y) 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.

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.

Cash flow and fair value 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 2013 and 2012, 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.

(in millions of Russian roubles, unless otherwise stated)

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 fair value interest rate risk.

At 31 December 2013, if interest rates on US dollar-denominated borrowings had been 20 per cent. higher/lower with all other variables held constant, post-tax profit for the year and equity would have been RR'mln 167 (at 31 December 2012 RR'mln 118) lower/higher, mainly as result of higher/lower interest expense on floating rate borrowings.

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

	US Dollar		**Euro**		**Other foreign currency**	
	31 December		**31 December**		**31 December**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Assets						
Cash and cash equivalents	1,833	923	66	29	125	163
Trade and other receivables	1,203	536	16	11	-	1
	3,036	**1,459**	**82**	**40**	**125**	**164**
Liabilities						
Trade and other payables	1,157	1,270	98	159	3	43
Borrowings	115,622	82,029	-	-	-	-
	116,779	**83,299**	**98**	**159**	**3**	**43**

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. At 31 December 2012, 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 6,547 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.

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.

(in millions of Russian roubles, unless otherwise stated)

	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 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**
31 December 2012					
Borrowings	2,259	9,230	20,855	59,776	30,581
Trade payables	1,733	1,095	1,286	-	-
Current accounts of third parties in MAK Bank LLC	136	270	1,216	-	-
Interest payable	268	509	2,369	23,741	11,395
Payables to associates	57	-	-	-	-
Other payables and accruals	1,024	-	-	-	-
	5,477	**11,104**	**25,726**	**83,517**	**41,976**

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 2013 and 31 December 2012 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. During 2013, the Group's strategy, which was unchanged from 2012, was to maintain gearing ratio under 50%.

The gearing ratios at 31 December 2013 and 31 December 2012 were as follows:

	31 December 2013	31 December 2012
Total borrowings	138,591	122,701
Less: cash and cash equivalents	(9,270)	(6,242)
Net debt	129,321	116,459
Total equity	159,461	130,565
Total capital	288,782	247,024
Gearing ratio	45%	47%

(in millions of Russian roubles, unless otherwise stated)

4. FINANCIAL INSTRUMENTS BY CATEGORY

ASSETS	Loans and receivables		Available for sale		Total	
	31 December		31 December		31 December	
	2013	2012	2013	2012	2013	2012
Non-current assets						
Restricted cash	249	286	-	-	249	286
Available-for-sale investments	-	-	243	104	243	104
Loans issued	2,891	2,248	-	-	2,891	2,248
Notes receivable	108	-	-	-	108	-
Other long-term receivables	78	1	-	-	78	1
Total non-current assets	**3,326**	**2,535**	**243**	**104**	**3,569**	**2,639**
Current assets						
Consideration receivable for disposed controlling interest in OJSC MMC Timir	2,970	-	-	-	2,970	-
Trade receivables for supplied diamonds	795	812	-	-	795	812
Loans issued	2,067	2,662	-	-	2,067	2,662
Receivables from associates	1,647	411	-	-	1,647	411
Other trade receivables	2,678	2,801	-	-	2,678	2,801
Cash and cash equivalents	9,270	6,242	-	-	9,270	6,242
Total current assets	**19,427**	**12,928**	**-**	**-**	**19,427**	**12,928**
Total assets	**22,753**	**15,463**	**243**	**104**	**22,996**	**15,567**

LIABILITIES	Liabilities at amortised cost		Total	
	31 December		31 December	
	2013	2012	2013	2012
Non-current liabilities				
Long-term debt	82,296	90,357	82,296	90,357
Total non-current liabilities	**82,296**	**90,357**	**82,296**	**90,357**
Current liabilities				
Short-term loans and current portion of long-term debt	56,295	32,344	56,295	32,344
Trade payables	5,815	4,114	5,815	4,114
Current accounts of third parties in MAK Bank LLC	1,751	1,622	1,751	1,622
Interest payable	998	1,313	998	1,313
Payables to associates	7	57	7	57
Other payables and accruals	1,156	1,024	1,156	1,024
Total current liabilities	**66,022**	**40,474**	**66,022**	**40,474**
Total liabilities	**148,318**	**130,831**	**148,318**	**130,831**

(in millions of Russian roubles, unless otherwise stated)

5. 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 December 2013	31 December 2012
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	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	5.2	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	88.1
MAK Bank LLC	Banking activity	Russia		84.7	84.7
Hydroshikapa S.A.R.L	Electricity production	Angola		55.0	55.0
OJSC MMC Timir	Iron ore production	Russia	5.3	49.0	100.0

As at 31 December 2013 and 31 December 2012 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.

In March 2012 the Group and the companies affiliated with OJSC Bank VTB agreed to early terminate put-option agreements and signed share purchase agreements in accordance to which the Group purchased back a 90.0 per cent. interest in CJSC Geotransgaz and Urengoy Gaz Company Ltd. (the "Gas companies") for a total cash consideration of RR'mln 30,145 (US$'mln 1,036). Also in March 2012 the Group acquired an additional 10.0 per cent. interest in the Gas companies from their minority shareholders for a total cash consideration of RR'mln 2,908 (US$'mln 100).

As a result of these transactions (which were considered as a one single transaction) the Group acquired 100.0 per cent. ownership interest and full control over the Gas companies. These entities hold production licenses for certain gas deposits located in the Tyumen region of the Russian Federation (which expire in 2020 and 2024 with the option to extend the license period) and currently perform construction of production infrastructure at their licensed areas.

The fair values of assets and liabilities of the Gas companies at the date of acquisition are as follows:

Property, plant and equipment	37,364
Inventories	719
Trade and other receivables	499
Cash	297
Deferred tax liability	(5,518)
Trade and other payables	(308)
Fair value of acquired net assets	**33,053**
Cash consideration paid	**33,053**
Fair value of terminated put option	**(1,995)**
Negative goodwill on acquisition of Gas companies	**1,995**

Negative goodwill was recognised in the amount of the fair-value of put-options, which were early terminated as part of the purchase and not exercised. The entire amount of negative goodwill was recorded as other operating income (note 21).

As at 31 December 2013 the assets and liabilities related to 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 within 12 months. The Gas companies assets and liabilities are a disposal group. However, the Gas companies are not classified as discontinued operations at 31 December 2013, as they do not represent a major line of business of the Group.

(in millions of Russian roubles, unless otherwise stated)

Gas companies contributed revenue of RR'mln 5,652 and net income of RR'mln 1,388 to the Group for the year ended 31 December 2013. Gas companies contributed revenue of RR'mln 293 and net loss of RR'mln 924 to the Group for the period from the date of acquisition to 31 December 2012.

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

	31 December 2013
Assets classified as held for sale	
Property, plant and equipment	41,551
Inventories	292
Trade and other receivables	617
Cash and cash equivalents	1,138
Other current assets	17
Total assets of the disposal group classified as held for sale	**43,615**
Liabilities classified as held for sale	
Trade and other payables	(864)
Deferred tax liability	(5,552)
Total liabilities of the disposal group classified as held for sale	**(6,416)**
Total net assets of the disposal group classified as held for sale	**37,199**

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. The disposal of the Gas companies is expected to be completed during 2014, and the disposal of CJSC Irelyakhneft and OJSC ALROSA-Gaz is expected to be completed within 1 year since the disposal of Gas companies. Rosneft's obligations to acquire CJSC Irelyakhneft and OJSC ALROSA-Gaz are contingent on the completion of the acquisition of Gas Companies. While management believes that the completion of the Gas companies disposal within set period of time is probable, there is 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 consolidated financial information.

5.2. Acquisition of OJSC Nizhne-Lenskoe

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

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

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

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

OJSC Nizhne-Lenskoe contributed revenue of RR'mln 4,131 and net profit of RR'mln 602 to the Group for the period from the date of acquisition to 31 December 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 these consolidated financial statements.

(in millions of Russian roubles, unless otherwise stated)

5.3. Disposal of controlling interest in OJSC MMC Timir

On 2 April 2013 the Group and Evraz plc signed an agreement to sell a controlling 51.0 per cent. interest in OJSC MMC Timir to Evraz plc for a total cash consideration of RR'mln 4,950 to be paid in several installments within 16 months after the transaction. As a result of the transaction, Evraz plc holds 51.0 per cent. interest in OJSC MMC Timir, the Group holds 49.0 per cent. interest minus one share and State corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) holds one share.

As a result of the transaction the Company lost an ability to control financial and operating activity of OJSC MMC Timir. Accordingly OJSC MMC Timir was deconsolidated since 2 April 2013. The details of assets and liabilities of OJSC MMC Timir at the date of deconsolidation were as follows:

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

Consideration receivable includes cash consideration of RR'mln 4,950 as described above (of which RR'mln 2,970 is outstanding as at 31 December 2013) as well as loans in the amount of RR'mln 1,122 issued by the Group to OJSC MMC Timir before disposal of controlling interest. Consideration receivable was reduced by the amount of transaction costs incurred by the Group in the amount of RR'mln 71.

The remaining 49.0 per cent. interest investment in OJSC MMC Timir was recorded at fair value as an investment in joint venture.

5.4. 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 2013 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 2014-2030 that reflects the expected period of production activity on the existing deposits. Management assessed the recoverable amount of the goodwill based on the value in use model. The pre-tax discount rate used in the analysis was 11.8 per cent. (31 December 2012: 10.8 per cent.), which presents the weighted average cost of capital for the Group adjusted for the effect of tax. Based on results of the analysis, management concluded that there is no impairment for goodwill as at 31 December 2013 and 31 December 2012.

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 2013	**Year ended 31 December 2012**
Pre-tax discount rate	11.8%	10.8%
Producer price index for 2014-2018	3.3% - 8.3%	4.1% - 6.9%
Producer price index for 2019-2030	3.0% - 4.0%	3.0% - 3.8%
Average diamond price, RR / carat	3,807	3,606
EBITDA margin	29% - 48%	19% - 40%

Management believes that their judgments are reasonable and supportable in the current economic environment. However, as compared to the estimates used in the impairment test, if diamond prices fall by 18.0 per cent. (31 December 2012: 15.0 per cent.) or US$ depreciates against Russian Rouble by 18.0 per cent. (31 December 2012: 10.0 per cent.) or discount rate increases to 25.0 per cent. (31 December 2012: 20.0 per cent.), there will be no excess of value in use over carrying value of assets allocated to the respective cash generating unit.

(in millions of Russian roubles, unless otherwise stated)

5.5. Associates and joint ventures

Name	Country of incorporation	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	
		2013	**2012**	**2013**	**2012**	**2013**	**2012**
OJSC MMC Timir	Russia	49.0	-	2,190	-	(47)	-
Catoca Mining Company Ltd	Angola	32.8	32.8	1,704	1,898	939	1,146
OJSC Almazergienbank	Russia	22.8	-	442	-	20	-
Other	Russia	20-50	20-50	222	217	5	3
Total carrying value of investment				**4,558**	**2,115**	**917**	**1,149**

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 December 2013 and 31 December 2012 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 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.

In April 2012 Catoca declared dividends for the year ended 31 December 2011; the Group's share of these dividends amounted to RR'mln 1,382 before taxation in the amount of RR'mln 138. Currency translation loss recognised in the consolidated other comprehensive loss for the year ended 31 December 2012 in respect of investment in Catoca totalled RR'mln 120.

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

	Catoca Mining Company Ltd		OJSC MMC Timir		OJSC Almazergien bank		Other		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Non-current assets	6,852	6,154	5,576	-	-	-	439	466	12,867	6,620
Current assets	5,637	5,566	22	-	-	-	87	38	5,746	5,604
Total assets	12,489	11,720	5,598	-	20,940	-	526	504	39,553	12,224
Non-current liabilities	2,415	1,105	288	-	-	-	28	35	2,731	1,140
Current liabilities	4,876	4,828	841	-	-	-	52	32	5,769	4,860
Total liabilities	7,291	5,933	1,129	-	19,001	-	80	67	27,501	6,000
Net assets	5,198	5,787	4,469	-	1,939	-	446	437	12,052	6,224
Group's share in net assets	1,704	1,898	2,190	-	442	-	222	217	4,558	2,115
Revenue	18,465	18,003	-	-	1,880	-	269	252	20,614	18,255
Profit/(loss) for the year	3,273	4,093	(96)	-	88	-	12	11	3,277	4,104
Dividends declared	(4,120)	(4,214)	-	-	-	-	-	-	(4,120)	(4,214)

(in millions of Russian roubles, unless otherwise stated)

6. CASH AND CASH EQUIVALENTS

Restricted cash

Restricted cash included within non-current assets in the consolidated statement of financial position of RR'mln 249 and RR'mln 286 as at 31 December 2013 and 31 December 2012, 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 25).

At 31 December 2013 and 31 December 2012 the weighted average interest rate on the restricted cash balances is approximately nil per cent.

Cash and cash equivalents

	31 December 2013	31 December 2012
Cash in banks and on hand	5,468	6,018
Deposit accounts	3,802	224
Total cash and cash equivalents	**9,270**	**6,242**

At 31 December 2013 the weighted average interest rate on the cash and cash equivalents' balances of the Group was 2.61 per cent. (31 December 2012: 0.13 per cent.).

As at 31 December 2013 and 31 December 2012 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:

	External credit rating at 31.12.2013	Rating agency	31 December 2013	31 December 2012
OJSC Bank VTB	Baa2	Moody's	4,525	1,128
Current accounts of MAK Bank LLC in the Central Bank of the Russian Federation	Not applicable	Not applicable	920	2,042
OJSC Gazprombank	Baa3	Moody's	917	154
Cash of MAK Bank LLC on hand and in cash machines	Not applicable	Not applicable	866	1,210
ABN AMRO Bank N.V.	A2	Moody's	373	-
OJSC Alfa-Bank	Ba1	Moody's	173	27
OJSC Sberbank	Baa1	Moody's	164	90
Lloyds TSB Bank	A2	Moody's	115	152
National Westminster Bank	A3	Moody's	108	47
The Bank of New York Mellon S.A.	Aa2	Moody's	100	-
CJSC UniCredit Bank	Baa2	Moody's	81	42
Julius Baer Bank	A1	Moody's	59	48
OJSC Bank BFA	A+	Expert RA	50	-
AKB Derzgava	B3	Moody's	44	69
HSBC	Aa3	Moody's	39	53
Other banks	Ba1 – Ba3	Moody's	736	1,180
Total cash and cash equivalents			**9,270**	**6,242**

(in millions of Russian roubles, unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Land and Improvements	Plant and Equipment	Transport	Production Licenses	Assets under Construction	Other	TOTAL
Cost at 1 January 2012	**61,545**	**83,787**	**53,493**	**17,865**	**11,028**	**36,168**	**3,102**	**266,988**
Additions	451	965	3,763	1,983	-	27,150	196	34,508
Acquisition of Gas companies (note 5)	103	6,019	155	24	24,766	6,290	7	37,364
Transfers	4,297	10,066	5,740	120	-	(20,315)	92	-
Disposals	(2,285)	(1,715)	(1,772)	(407)	(224)	(665)	(65)	(7,133)
Foreign exchange differences	(13)	(229)	(3)	(42)	-	3	(19)	(303)
Change in estimate of provision for land recultivation (note 13)	-	1,952	-	-	-	-	-	1,952
Cost at 31 December 2012	**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**
Accumulated depreciation and impairment losses at 01.01.2012	**(20,827)**	**(26,803)**	**(34,383)**	**(12,776)**	**(295)**	**(1,025)**	**(1,345)**	**(97,454)**
Charge for the year ended 31 December 2012	(2,320)	(4,745)	(5,009)	(1,175)	(100)	-	(187)	(13,536)
Disposals	607	671	1,214	371	38	-	79	2,980
Impairment of property, plant and equipment	(617)	-	-	-	-	(3)	-	(620)
Accumulated depreciation and impairment losses at 31.12.2012	**(23,157)**	**(30,877)**	**(38,178)**	**(13,580)**	**(357)**	**(1,028)**	**(1,453)**	**(108,630)**
Charge for the year ended 31 December 2013	(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 31.12.2013	**(24,758)**	**(35,401)**	**(42,203)**	**(13,906)**	**(458)**	**(1,028)**	**(1,500)**	**(119,254)**
Net book value at 31.12.2012	**40,941**	**69,968**	**23,198**	**5,963**	**35,213**	**47,603**	**1,860**	**224,746**
Net book value at 31.12.2013	**41,310**	**64,529**	**27,386**	**8,595**	**14,005**	**57,163**	**2,289**	**215,277**

Capitalised borrowing costs

As at 31 December 2013 borrowing costs totalling RR’mln 292 (as at 31 December 2012: RR’mln 276) were capitalised in property, plant and equipment. For the year ended 31 December 2013 the capitalisation rate applied to qualifying assets totalling RR’mln 4,376 (31 December 2012 : RR’mln 3,891) was 6.67 per cent. (31 December 2012: 7.08 per cent.). In accordance with transitional rules of revised IAS 23, borrowing costs are capitalised for projects commencing after 1 January 2009.

(in millions of Russian roubles, unless otherwise stated)

Finance leases

Property, plant and equipment include an aircraft which the Group received under a finance lease agreement. As at 31 December 2013 the carrying value of this aircraft is RR'mln 572 (31 December 2012: RR'mln 623). Property, plant and equipment include also the mining equipment and tranposrt which the Group received under finance lease agreements. As at 31 December 2013 the carrying value of this equipment is RR'mln 877 (31 December 2012: RR'mln 105).

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 2013 and 31 December 2012 there were no such indicators (apart as discussed below), accordingly the Group did not conduct an impairment test of its property plant and equipment as at those dates.

The impairment loss totalling RR'mln 617 recognised for the year ended 31 December 2012 relates to certain assets which were sold to a third party after the reporting date at a price below their net book value.

8. INVENTORIES

	31 December 2013	31 December 2012
Diamonds	31,411	27,147
Ores and concentrates	9,795	10,825
Mining and construction materials	16,145	13,842
Consumable and other supplies	3,260	2,856
Total inventories	**60,611**	**54,670**

9. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 December 2013	31 December 2012
Loans issued	2,891	2,248
Receivables from associates (note 27)	284	-
Notes receivable	108	-
Advances to suppliers	47	-
Long-term VAT recoverable	28	79
Other long-term receivables	78	1
Total long-term accounts receivable	**3,436**	**2,328**

Current accounts receivable	31 December 2013	31 December 2012
Consideration receivable for disposed controlling interest in OJSC MMC Timir (note 5.3)*	2,970	-
Prepaid taxes, other than income tax	2,878	1,975
Loans issued	2,067	2,662
VAT recoverable	1,685	1,657
Receivables from associates (note 27)	1,647	411
Advances to suppliers	1,347	2,406
Trade receivables for supplied diamonds	795	812
Other trade receivables	2,678	2,801
Total current accounts receivable	**16,067**	**12,724**

*The consideration is receivable from Evraz plc, which credit rating as at 31 December 2013 is B+ (Stable) assessed by Standard & Poors.

The fair value of each class of short-term trade and other accounts receivable at 31 December 2013 and 31 December 2012 approximates their carrying value.

(in millions of Russian roubles, unless otherwise stated)

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 2013		31 December 2012	
	Effective interest rates	**Market interest rates**	**Effective interest rates**	**Market interest rates**
Loans issued	7.9%	13.9%	9.7%	15.3%
Notes receivable	10.1%	6.8%	-	-
Other long-term receivables	10.0%	12.6%	10.0%	12.0%

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 2013		31 December 2012	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Loans issued	2,891	2,263	2,248	1,889
Receivables from associates (note 27)	284	281	-	-
Notes receivable	108	107	-	-
Other long-term receivables	78	78	1	1

Trade and other accounts receivables relates to Level 3 fair value measurement hierarchy described in Note 30.

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

Long-term accounts receivable	**31 December 2013**	**Bad debt write-off**	**Bad debt expense**	**31 December 2012**
Loans issued	3,820	-	-	3,820
	3,820	**-**	**-**	**3,820**
Current accounts receivable				
Loans issued	343	(27)	5	365
Other trade receivables	832	(199)	291	740
	1,175	**(226)**	**296**	**1,105**

Long-term accounts receivable	**31 December 2012**	**Bad debt write-off**	**Bad debt expense / (reversal of bad debt expense)**	**1 January 2012**
Loans issued	3,820	-	-	3,820
	3,820	**-**	**-**	**3,820**
Current accounts receivable				
Receivables from associates	-	-	(1)	1
Notes receivable	-	(80)	-	80
Loans issued	365	-	203	162
Other trade receivables	740	(545)	138	1,147
	1,105	**(625)**	**340**	**1,390**

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 2013				31 December 2012			
	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	-	61	3,759	3,820
	-	**61**	**3,759**	**3,820**	**-**	**61**	**3,759**	**3,820**
Current accounts receivable								
Loans issued	9	263	71	343	203	60	102	365
Other trade receivables	287	152	307	746	138	322	280	740
	296	**415**	**378**	**1,089**	**341**	**382**	**382**	**1,105**

(in millions of Russian roubles, unless otherwise stated)

For the purpose of analysis of credit quality of debtors management classified accounts receivable of the Group as follows:

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					
Loans issued	220	1,121	495	231	2,067
Receivables from associates	791	16	840	-	1,647
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**

31 December 2012	Large customers	Medium and small customers	Entities controlled by the Government	Individuals	Total
Long-term accounts receivable					
Loans issued	-	759	335	1,154	2,248
Other long-term receivables	-	1	-	-	1
Total long-term accounts receivable	**-**	**760**	**335**	**1,154**	**2,249**
Current accounts receivable					
Loans issued	392	1,153	922	195	2,662
Trade receivables for supplied diamonds	120	173	519	-	812
Receivables from associates	403	8	-	-	411
Other trade receivables	44	1,570	813	374	2,801
Total current accounts receivable	**959**	**2,904**	**2,254**	**569**	**6,686**

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 2013 trade and other receivables in the amount of RR'mln 9,942 (as at 31 December 2012: RR'mln 8,476) 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 2013 accounts receivable in the amount of RR'mln 606 (as at 31 December 2012: RR'mln 459) 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 2013 and 31 December 2012 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 2013	31 December 2012
Up to 3 months	240	190
3 to 6 months	53	75
6 to 12 months	97	-
More than 1 year	216	194
Total past due but not impaired	**606**	**459**

As at 31 December 2013 13 individual debtors of the Group (31 December 2012: 15 individual debtors) had the outstanding balance with the Group exceeding RR'mln 100. As at 31 December 2013 total amount of such accounts receivable was RR'mln 7,397 (31 December 2012: RR'mln 4,794).

As at 31 December 2013 the amount of undrawn credit facilities provided by the Group's subsidiary MAK Bank LLC to third parties comprised RR'mln 257 (31 December 2012: RR'mln 285).

(in millions of Russian roubles, unless otherwise stated)

10. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 31 December 2013 and 31 December 2012 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 2013 and 31 December 2012 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 2013 and 31 December 2012, the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 35,601 and RR'mln 39,657 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 2013 subsidiaries of the Group held 4,852,800 ordinary shares of the Company (31 December 2012: 151,521,030 shares). The Group management controls the voting rights of these shares. On 28 October 2013, as a result of the international offering, one of the Group's subsidiaries sold 150,237,555 shares of the Company (note 1).

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 7,253,717,750 and 7,215,583,230 weighted average shares outstanding for the years ended 31 December 2013 and 31 December 2012, 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 2011	**(145)**	**(542)**	**41**	**-**	**(646)**
Effect of adoption of IAS 19 Revised (net of tax)	-	-	-	(4,005)	(4,005)
Balance at 1 January 2012	**(145)**	**(542)**	**41**	**(4,005)**	**(4,651)**
Currency translation differences	(783)	-	-	-	(783)
Actuarial remeasurement on post employment benefit obligation	-	-	-	(3,217)	(3,217)
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)**

Dividends

On 29 June 2013 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2012 totalling RR'mln 8,175, including dividends on shares held by subsidiaries of the Group totalling RR'mln 162. Dividends per share amounted to RR 1.10.

On 30 June 2012 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2011 totalling RR'mln 7,439, including dividends on shares held by subsidiaries of the Group totalling RR'mln 135. Dividends per share amounted to RR 1.01.

(in millions of Russian roubles, unless otherwise stated)

11. LONG-TERM DEBT

	31 December 2013	31 December 2012
Banks:		
US$ denominated floating rate	19,638	18,224
US$ denominated fixed rate	9,328	6,075
RR denominated fixed rate	8	8
	28,974	**24,307**
Eurobonds	49,088	45,548
RR denominated non-convertible bonds	20,044	36,000
Finance lease obligation	584	454
Other RR denominated fixed rate loans	1,187	1,822
	99,877	**108,131**
Less: current portion of long-term debt (note 12)	(17,581)	(17,774)
Total long-term debt	**82,296**	**90,357**

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**

At 31 December 2012 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	-	-	18,224	-	-	18,224
US$ denominated fixed rate	-	-	6,075	-	-	6,075
RR denominated fixed rate	-	-	-	-	8	8
Eurobonds	-	15,175	-	-	30,373	45,548
RR denominated non-convertible bonds	16,000	-	20,000	-	-	36,000
Finance lease obligation	454	-	-	-	-	454
Other RR denominated fixed rate loans	1,320	302	-	-	200	1,822
Total long-term debt	**17,774**	**15,477**	**44,299**	**-**	**30,581**	**108,131**

(in millions of Russian roubles, unless otherwise stated)

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 2013		31 December 2012	
	Effective interest rates	**Market interest rates**	**Effective interest rates**	**Market interest rates**
Banks				
US$ denominated floating rate	3.9%	6.5%	4.0%	7.2%
US$ denominated fixed rate	4.8%	6.5%	4.9%	7.2%
RR denominated fixed rate	14.9%	12.2%	14.9%	10.3%
Eurobonds	8.1%	4.5%	8.1%	4.4%
RR denominated non-convertible bonds	8.9%	7.7%	8.6%	6.1%
Finance lease obligation	11.5%	11.5%	7.6%	7.6%
Other RR denominated fixed rate loans	6.4%	12.2%	6.8%	10.3%

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 2013		31 December 2012	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Banks				
US$ denominated floating rate	19,638	18,815	18,224	22,343
US$ denominated fixed rate	9,328	9,021	6,075	5,660
RR denominated fixed rate	8	9	8	9
Eurobonds	49,088	50,147	45,548	50,755
RR denominated non-convertible bonds	20,044	20,412	36,000	39,187
Finance lease obligation	584	584	454	456
Other RR denominated fixed rate loans	1,187	1,108	1,822	1,741

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 30.

As at 31 December 2013 and 31 December 2012 there were no long-term loans secured with the assets of the Group.

Eurobonds

	Year ended 31 December 2013	**Year ended 31 December 2012**
Balance at the beginning of the reporting period	**45,548**	**48,278**
Amortisation of discount	5	5
Exchange losses / (gains)	3,535	(2,735)
Balance at the end of the reporting period	**49,088**	**45,548**

Finance lease obligation

	Minimum lease payments 31 December 2013	**Discounted value of minimum lease payments 31 December 2013**	**Minimum lease payments 31 December 2012**	**Discounted value of minimum lease payments 31 December 2012**
Within 1 year	257	241	480	454
After 1 year	419	343	-	-
Total finance lease obligation	**676**	**584**	**480**	**454**

Finance lease obligations relate to the aircraft and certain mining equipment and transport recorded as property, plant and equipment items in these consolidated financial statements (note 7).

(in millions of Russian roubles, unless otherwise stated)

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

	31 December 2013	31 December 2012
Banks:		
US$ denominated floating rate	16,365	-
US$ denominated fixed rate	20,619	2,582
RR denominated fixed rate	115	-
	37,099	**2,582**
European commercial paper	-	9,138
Other US$ denominated fixed rate loans	-	9
Other RR denominated fixed rate loans	1,615	2,841
	38,714	**14,570**
Add: current portion of long-term debt (note 11)	17,581	17,774
Total short-term debt and current portion of long-term debt	**56,295**	**32,344**

As at 31 December 2013 and 31 December 2012 there were no short-term loans secured with the assets of the Group.

European commercial paper

ALROSA Finance S.A., a subsidiary of the Group, established a program for issuing European commercial paper (ECP). The program allows for the issue of US$ denominated short-term fixed rate commercial paper with maturity dates within 364 days.

	Year ended 31 December 2013	Year ended 31 December 2012
Balance at the beginning of the reporting period	**9,138**	**-**
Issued	8,363	36,667
Repayment	(18,077)	(29,528)
Exchange losses	576	1,999
Balance at the end of the reporting period	**-**	**9,138**

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 2013		31 December 2012	
	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%	4.0%	6.1%
RR denominated fixed rate	11.1%	11.0%	-	-
European commercial paper	-	-	4.7%	6.1%
Other US$ denominated fixed rate loans	-	-	6.1%	6.1%
Other RR denominated fixed rate loans	1.1%	1.1%	1.1%	1.1%

Loans from banks relate to Level 2 fair value measurement hierarchy described in note 30. 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 2013		31 December 2012	
	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	2,582	2,565
RR denominated fixed rate	115	114	-	-
European commercial paper	-	-	9,138	9,113
Other US$ denominated fixed rate loans	-	-	9	9
Other RR denominated fixed rate loans	1,615	1,610	2,841	2,827

(in millions of Russian roubles, unless otherwise stated)

13. OTHER PROVISIONS

	31 December 2013	31 December 2012
Provision for social obligations	892	2,816
Provision for land recultivation	3,076	2,416
Other provisions	**3,968**	**5,232**

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 2013 the Group has partially fulfilled these obligations in the amount of RR'mln 882 and will continue to do so during 2014-2015. The current portion of provision for social obligation as at 31 December 2013 in the amount of 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 2013	Year ended 31 December 2012
At the beginning of the year	**2,416**	**522**
Unwinding of discount	188	44
Utilised	(42)	(102)
Change in estimate of provision	514	1,952
At the end of the year	**3,076**	**2,416**

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 2012 and 2013 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 2013 was 8.9 per cent. (31 December 2012: 8.6 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 year.

14. PROVISION FOR PENSION OBLIGATIONS

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 2013	31 December 2012	1 January 2012
Present value of obligations	20,122	19,175	14,449
Fair value of plan assets	(9,017)	(7,188)	(5,987)
Pension obligations for the funded plan	11,105	11,987	8,462
Present value of unfunded obligation	1,052	1,056	792
Net liability	**12,157**	**13,043**	**9,254**

(in millions of Russian roubles, unless otherwise stated)

Changes in the present value of funded and unfunded 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 2012 (Restated)	**14,449**	**(5,987)**	**792**	**9,254**
Current service cost	220	-	32	252
Interest expense / (income)	1,177	(497)	64	744
	1,397	**(497)**	**96**	**996**
Remeasurements:				
Return on plan assets, excluding amounts included in interest expense / (income)	-	(260)	-	(260)
Loss from changes in demographic actuarial assumptions	22	-	10	32
Loss from changes in financial actuarial assumptions	2,500	-	165	2,665
Loss from experience adjustments	1,573	-	62	1,635
	4,095	**(260)**	**237**	**4,072**
Contributions to plan:				
Employer contributions	-	(1,279)	-	(1,279)
Benefits paid	(767)	835	(68)	-
	(767)	**(444)**	**(68)**	**(1,279)**
At 31 December 2012 (Restated)	**19,174**	**(7,188)**	**1,057**	**13,043**
At 1 January 2013 (Restated)	**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 expense / (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**

Net expense recognised in the 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 146 (year ended 31 December 2012: RR'mln 208), RR'mln 18 (year ended 31 December 2012: RR'mln 31) and RR'mln 23 (year ended 31 December 2012: RR'mln 14), respectively.

Expense recognised through profit and loss	Year ended 31 December 2013	Year ended 31 December 2012
Current service cost	417	252
Past service cost and curtailment	(230)	-
Interest expense	889	744
Total expense recognised through profit and loss	**1,076**	**996**

(in millions of Russian roubles, unless otherwise stated)

Expense recognised through other comprehensive income	Year ended 31 December 2013	Year ended 31 December 2012
Loss from changes in demographic actuarial assumptions	2,211	32
(Gain) / loss from changes in financial actuarial assumptions	(2,164)	2,665
(Gain) / loss from experience adjustments	(68)	1,375
Total (gain) / loss recognised through other comprehensive income	**(21)**	**4,072**

Change in amount of remeasurements of employee benefit obligations charged to other comprehensive income	Year ended 31 December 2013	Year ended 31 December 2012
Remeasurement amount at 1 January	8,185	4,113
Change in remeasurement amount	(21)	4,072
Remeasurement amount at 31 December	**8,164**	**8,185**

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 11.43 years.

	Year ended 31 December 2013	Year ended 31 December 2012
Discount rate (nominal)	8.0%	7.1%
Future salary increases (nominal)	7.0%	7.0%
Future pension increases (nominal)	5.5%	5.5%

In the year ended 31 December 2013 the actual income on plan assets was RR'mln 482 (year ended 31 December 2012: RR'mln 399).

The Group expects to contribute RR'mln 1,494 to the defined benefit plans during the year beginning 1 January 2014.

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 2013	Year ended 31 December 2012
Expected age of retirement		
Male	57	57
Female	56	55
Source - table of mortality dated:	1998 - adjusted	1998
The average life expectancy of current employees in the expected retirement age		
Male	20.57	15.63
Female	25.84	23.03
The average life expectancy of current pensioners in the expected retirement age		
Male	18.21	15.63
Female	24.54	23.03
The average life expectancy of current employees in 60 years		
Male	18	14
Female	22	19
The average life expectancy of current pensioners in 60 years		
Male	16	14
Female	21	19

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.

(in millions of Russian roubles, unless otherwise stated)

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 6.16%
Future salary increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 0.05%
Future pension increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 6.25%
Employee turnover	Increase / decrease by 10%	Decrease / increase by 0.17%
Mortality level	Increase / decrease by 10%	Decrease / increase by 3.47%

The above results of the sensitivity analysis are based on 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 there was used evaluation method analogous to the assessment of the current value of liabilities (projected unit credit method), recognized in the statement of financial position.

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

	Year ended 31 December 2013, %	**Year ended 31 December 2012, %**
Russian corporate bonds	35.6	10.5
Bank deposits	37.2	52.4
Russian Government and municipal bonds	7.0	15.8
Equity securities of Russian issuers	20.2	20.7
Debt securities of Russian issuers	0.0	0.6
Total plan assets	**100.0**	**100.0**

All categories of plan assets are measured at fair value.

As at 31 December 2013 26,279,305 shares of the Company and 3,782 shares of its subsidiary OJSC Alrosa-Nurba (31 December 2012: 17,675,610 shares of the Company and nil shares of OJSC Alrosa-Nurba) with the fair values of RR'mln 924 and RR'mln 229 respectively (31 December 2012: RR'mln 530 and RR'mln nil 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 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 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

The some of the Group 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 consists of equities and bonds, although the Group also invests in cash equivalents.

(in millions of Russian roubles, unless otherwise stated)

15. TRADE AND OTHER PAYABLES

	31 December 2013	31 December 2012
Accrual for employee flights and holidays	6,995	6,494
Wages and salaries	5,514	4,142
Trade payables	5,815	4,114
Current accounts of third parties in MAK Bank LLC	1,751	1,622
Current portion of provision for social obligation (note 13)	1,122	-
Interest payable	998	1,313
Advances from customers	643	364
Payables to associates	7	57
Other payables and accruals	1,156	1,024
Total trade and other payables	**24,001**	**19,130**

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 2013 and 31 December 2012 approximates their carrying value.

16. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

	31 December 2013	31 December 2012
Payments to social funds	1,662	1,338
Property tax	964	878
Extraction tax	658	753
Value added tax	475	355
Personal income tax (employees)	732	499
Tax penalties	-	1
Other taxes and accruals	267	59
Total taxes payable, other than income tax	**4,758**	**3,883**

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

	Year ended 31 December 2013	Year ended 31 December 2012
Property tax	3,634	3,390
Other taxes and accruals	511	468
Total taxes other than income tax expense	**4,145**	**3,858**

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 2013	Year ended 31 December 2012
Current tax expense	10,283	11,223
Deferred tax benefit	(1,296)	(63)
Adjustments recognised in the period for current tax of prior periods	677	(643)
Total income tax expense	**9,664**	**10,517**

(in millions of Russian roubles, unless otherwise stated)

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

	Year ended 31 December 2013	Year ended 31 December 2012
Profit before income tax	41,501	44,151
Theoretical tax charge at statutory rate of 20 per cent. thereon	8,300	8,830
Prior periods adjustments recognised in the current period	677	(643)
Tax effect of expenses and losses not deductible for income tax purposes	687	2,330
Total income tax expense	**9,664**	**10,517**

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.

	31 December 2013	Tax effect of movement in temporary differences recorded in profit or loss	Tax effect of acquisition of OJSC Nizhne-Lenskoe	Tax effect of reclassification of assets held for sale	Tax effect of subsidiaries disposal	31 December 2012
Deferred tax liabilities						
Property, plant and equipment	4,403	(327)	1,916	(5,552)	83	8,283
Write down of inventories	3,899	585	(151)	-	-	3,465
Deferred tax assets						
Long term investments	(204)	(470)	-	-	-	266
Accruals and provisions	(1,194)	(660)	-	-	-	(534)
Exploration costs written off	(513)	33	-	-	-	(546)
Provision for pension obligations	(1,678)	(5)	-	-	-	(1,673)
Impairment of receivables	(949)	(98)	-	-	-	(851)
Other deductible temporary differences	(482)	(354)	-	-	-	(128)
Net deferred tax liability	**3,282**	**(1,296)**	**1,765**	**(5,552)**	**83**	**8,282**

	31 December 2012	Tax effect of movement in temporary differences recorded in profit or loss	Tax effect of acquisition of gas companies	Tax effect of adoption of IAS 19 (revised) carried through other comprehensive income	1 January 2012
Deferred tax liabilities					
Property, plant and equipment	8,283	(2,184)	5,478	-	4,989
Write down of inventories	3,465	1,052	40	-	2,373
Long term investments	266	(70)	-	-	336
Deferred tax assets					
Derivative financial instruments	-	401	-	-	(401)
Accruals and provisions	(534)	6	-	-	(540)
Exploration costs written off	(546)	1	-	-	(547)
Provision for pension obligations	(1,673)	(16)	-	(521)	(1,136)
Impairment of receivables	(851)	(80)	-	-	(771)
Tax losses carried forward	-	878	-	-	(878)
Other deductible temporary differences	(128)	(51)	-	-	(77)
Net deferred tax liability	**8,282**	**(63)**	**5,518**	**(521)**	**3,348**

As at 31 December 2013 and 31 December 2012 the Group had not recorded a deferred tax liability in respect to taxable temporary differences of RR'mln 7,144 and RR'mln 9,341, 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.

(in millions of Russian roubles, unless otherwise stated)

17. REVENUE

	Year ended 31 December 2013	Year ended 31 December 2012
Revenue from diamond sales:		
Export	127,045	103,012
Domestic	21,655	32,020
Revenue from diamonds for resale	599	1,385
Total revenue from diamond sales	**149,299**	**136,417**
Other revenue:		
Transport	4,621	5,394
Social infrastructure	2,623	2,989
Trading	1,664	1,394
Construction	491	449
Sales of gas	5,652	293
Other	4,155	3,944
Total revenue	**168,505**	**150,880**

Export duties totalling RR’mln 8,517 for the year ended 31 December 2013 (year ended 31 December 2012: RR’mln 6,851) were netted against revenues from export of diamonds.

In the years ended 31 December 2013 and 31 December 2012 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 2013	Year ended 31 December 2012
Wages, salaries and other staff costs	32,764	28,451
Depreciation	13,815	11,943
Fuel and energy	11,016	10,474
Extraction tax	10,509	8,621
Materials	8,845	8,428
Services	3,370	3,668
Transport	2,559	2,557
Cost of diamonds for resale	597	1,262
Other	282	329
Movement in inventory of diamonds, ores and concentrates	(2,020)	(7,266)
Total cost of sales	**81,737**	**68,467**

Wages, salaries and other staff costs include payments to social funds in the amount of RR’mln 5,987 (year ended 31 December 2012: RR’mln 5,377). These payments include mandatory contributions to State pension plan in the amount of RR’mln 5,712 (year ended 31 December 2012: RR’mln 4,470).

Depreciation totalling RR’mln 1,830 (year ended 31 December 2012: RR’mln 1,593) and staff costs totalling RR’mln 2,878 (year ended 31 December 2012: RR’mln 2,978) 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 2013	Year ended 31 December 2012
Wages, salaries and other staff costs	5,621	5,732
Services and other administrative expenses	3,996	2,437
Impairment of accounts receivable (note 9)	296	340
Total general and administrative expenses	**9,913**	**8,509**

Wages, salaries and other staff costs include payments to social funds in the amount of RR’mln 545 (year ended 31 December 2012: RR’mln 484). These payments include mandatory contributions to State pension plan in the amount of RR’mln 520 (year ended 31 December 2012: RR’mln 402).

(in millions of Russian roubles, unless otherwise stated)

20. SELLING AND MARKETING EXPENSES

	Year ended 31 December 2013	Year ended 31 December 2012
Wages, salaries and other staff costs	1,323	1,242
Services and other selling and marketing expenses	1,055	776
Total selling and marketing expenses	**2,378**	**2,018**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 141 (year ended 31 December 2012: RR'mln 188). These payments include mandatory contributions to State pension plan in the amount of RR'mln 135 (year ended 31 December 2012: RR'mln 156).

21. OTHER OPERATING INCOME

	Year ended 31 December 2013	Year ended 31 December 2012
Gain on disposal of OJSC MMC Timir (note 5.3)	2,552	-
Negative goodwill on acquisition of Gas companies (note 5.1)	-	1,995
Other	1,466	1,092
Total other operating income	**4,018**	**3,087**

22. OTHER OPERATING EXPENSES

	Year ended 31 December 2013	Year ended 31 December 2012
Social costs	4,609	9,249
Exploration expenses	9,230	7,727
Taxes other than income tax, extraction tax and payments to social funds (note 16)	4,145	3,858
Loss on disposal of property, plant and equipment	585	2,221
Other	1,846	1,670
Total other operating expenses	**20,415**	**24,725**

In the years ended 31 December 2013 and 31 December 2012 the amounts of operating cash outflows associated with exploration expenses were equal to the respective amounts recognised within other operating expenses.

Social costs consist of:

	Year ended 31 December 2013	Year ended 31 December 2012
Maintenance of local infrastructure	1,525	5,306
Charity	2,497	3,211
Hospital expenses	205	316
Education	112	87
Other	270	329
Total social costs	**4,609**	**9,249**

In 2012 the Group entered into an agreement with the Republic of Sakha (Yakutia) to support its social and economic development and recognised a provision in the amount of RR'mln 2,816 in respect of future expenses associated with these obligations (note 13). The corresponding expense is included in maintenance of local infrastructure expenses within social costs.

23. FINANCE INCOME

	Year ended 31 December 2013	Year ended 31 December 2012
Interest income	234	292
Exchange gains	396	2,725
Total finance income	**630**	**3,017**

(in millions of Russian roubles, unless otherwise stated)

24. FINANCE COSTS

	Year ended 31 December 2013	Year ended 31 December 2012
Interest expense:		
Eurobonds	3,777	3,663
RR denominated non-convertible bonds	2,324	2,288
European commercial paper	240	1,273
Bank loans	2,286	945
Other	1,181	43
Unwinding of discount of provisions (note 13)	262	44
Exchange loss	6,847	798
Total finance costs	**16,917**	**9,054**

25. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December 2013	Year ended 31 December 2012
Profit before income tax	41,501	44,151
Adjustments for:		
Share of net profit of associates and joint ventures (note 5)	(917)	(1,149)
Interest income (note 23)	(234)	(292)
Interest expense (note 24)	10,070	8,256
Loss on disposal of property, plant and equipment (note 22)	585	2,221
Impairment of property, plant and equipment (note 7)	-	620
Negative goodwill on acquisition of Gas companies (note 21)	-	(1,995)
Gain on disposal of subsidiaries (note 21)	(2,660)	-
Provision for social obligation (note 13)	-	2,816
Depreciation	14,304	11,943
Adjustment for inventory used in construction	(2,106)	(2,007)
Adjustments for non-cash financing activity	(39)	(361)
Payments to restricted cash account (note 6)	37	(49)
Unrealised foreign exchange effect on non-operating items	6,882	(2,324)
Net operating cash flow before changes in working capital	67,423	61,830
Net increase in inventories	(2,923)	(8,013)
Net decrease / (increase) in trade and other receivables, excluding dividends receivable	848	(3,645)
Net increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(2,238)	2,266
Net increase in taxes payable other than income tax	1,138	520
Cash generated from operations	**64,248**	**52,958**
Income tax paid	(10,715)	(10,951)
Net cash inflows from operating activities	**53,533**	**42,007**

26. 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 international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the ability of the Group to obtain new financing and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

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. 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 December 2013 and 31 December 2012 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 2013 and 31 December 2012 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 2013.

(d) Capital commitments

The Group has contractual commitments for capital expenditures of approximately RR'mln 4,898 (31 December 2012: RR'mln 7,602).

(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. The Company recognised a provision for these future expenses in the amount of RR'mln 3,076 as at 31 December 2013 (RR'mln 2,416 as at 31 December 2012).

(in millions of Russian roubles, unless otherwise stated)

27. 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 2013 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 2013 8 per cent. of the Company's shares were owned by administrations or 8 districts of the Republic of Sakha (Yakutia). Following the Extraordinary General Meeting of Shareholders in December 2013, the 15 seats on the Supervisory Board 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 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 16, 17, 18 and 26.

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 December 2013 the accounts payable to the parties under Governmental control totalled RR'mln 518 (31 December 2012: RR'mln 1,239). As at 31 December 2013 the accounts receivable from the parties under Governmental control (excluding loans issued to these parties) totalled RR'mln 2,165 (31 December 2012: RR'mln 1,832). As at 31 December 2013 and 31 December 2012 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 years ended 31 December 2013 and 31 December 2012 the Group had the following significant transactions with parties under Governmental control:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Sales of diamonds	10,551	19,704
Other sales	8,681	2,576
Electricity and heating purchases	3,910	4,812
Other purchases	2,227	1,607

As at 31 December 2013 and 31 December 2012 the Group has no contractual commitments to sell goods or services to the parties under control of the Government. As at 31 December 2013 the Group has contractual commitments to purchase goods and services from the parties under control of the Government in the amount of approximately RR'mln 4,467 (31 December 2012: RR'mln 4,290).

(in millions of Russian roubles, unless otherwise stated)

As at 31 December 2013 and 31 December 2012 the amount of loans received by the Group from the banks under Governmental control was as follows:

	31 December 2013	31 December 2012
Long-term bank loans		
US$ denominated fixed rate	2,782	-
US$ denominated floating rate	19,638	18,224
Total long-term bank loans	**22,420**	**18,224**
Short-term bank loans		
US$ denominated fixed rate	2,946	2,582
Total short-term bank loans	**2,946**	**2,582**
Total bank loans	**25,366**	**20,806**

The average effective interest rates on the loans received by the Group from the banks under Governmental control at the end of the reporting period were as follows:

	31 December 2013	31 December 2012
Long-term bank loans		
US$ denominated fixed rate	4.8%	-
US$ denominated floating rate	3.9%	4.0%
Short-term bank loans		
US$ denominated fixed rate	2.1%	4.0%

In the year ended 31 December 2013 interest expense accrued in respect of the loans received by the Group from the entities under Governmental control totalled RR'mln 1,047 (year ended 31 December 2012: RR'mln 596).

As at 31 December 2013 the amount of loans issued by the Group to the entities under Governmental control totalled RR'mln 724 (31 December 2012: RR'mln 1,256). The loans are denominated in Russian Roubles. The long-term part of these loans totalled RR'mln 229, the average effective interest rate on these loans is 12.5 per cent. (As at 31 December 2012: 9.3 per cent.). The short-term part of the loans totalled RR'mln 495, the average effective interest rate on these loans is 10.1 per cent. (31 December 2012: 9.7 per cent.). In the year ended 31 December 2013 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR'mln 97 (year ended 31 December 2012: RR'mln 116).

Acquisitions of Gas companies from the entities affiliated with OJSC Bank VTB and OJSC Nizhne-Lenskoe from the Government of Republic of Sakha (Yakutia) are disclosed in note 5.

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 2013 and 31 December 2012 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 year ended 31 December 2013 totalling RR'mln 773 (year ended 31 December 2012: RR'mln 919). The portion of provision for pension obligations attributable to key management as at 31 December 2013 equals to RR'mln 62 (31 December 2012: RR'mln 58). 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 2013 equals to RR'mln 6 (year ended 31 December 2012: RR'mln 6).

(in millions of Russian roubles, unless otherwise stated)

Associates and Joint Ventures

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

Long-term accounts receivable	**31 December 2013**	**31 December 2012**
OJSC MMC Timir, loans issued (note 5.3)	284	-
Total long-term accounts receivable	**284**	**-**

Current accounts receivable	**31 December 2013**	**31 December 2012**
Catoca, dividends and other receivable	785	403
OJSC MMC Timir, loans issued (note 5.3)	840	-
Other	22	8
Total current accounts receivable	**1,647**	**411**

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. In May 2012 Catoca declared dividends for the year ended 31 December 2011; the Group's share of these dividends amounted to RR'mln 1,382 before taxation in the amount of RR'mln 138. During the year ended 31 December 2013 Catoca paid dividends for the Group in cash in the amount of RR'mln 965 (during the year ended 31 December 2012 – in the amount of RR'mln 979). In the year ended 31 December 2013 the Group recognised exchange gain related to dividends receivable from Catoca in the amount of RR'mln 36 (in the year ended 31 December 2012 –RR'mln 26).

As at 31 December 2013 and 31 December 2012 the accounts receivable from associates and joint ventures were non-interest bearing, had a maturity within one year and were denominated mostly in US$.

As at 31 December 2013 and 31 December 2012 the Group has no any contractual commitments to sell or purchase goods and services to / from its associates and joint ventures.

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

28. 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)**	
	31.12.2013	**31.12.2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
OJSC ALROSA-Nyurba	(668)	(687)	886	947	24,573	22,679	7,153	2,533	7,153	2,533
MAK Bank LLC	113	106	8	(3)	717	943	34	(22)	34	(22)
OJSC Severalmaz	105	111	(4)	(6)	1,260	1,058	(1,015)	(1,484)	(1,015)	(1,484)
OJSC Viluyskaya GES-3	(66)	(67)	1	2	2,908	2,370	376	836	376	836
Hydroshikapa S.A.R.L.	39	(31)	70	34	477	420	155	76	155	76
Total	**(477)**	**(568)**	**961**	**974**	**29,935**	**27,470**	**6,703**	**1,939**	**6,703**	**1,939**
Other not material to the Group	138	120	(41)	26						
Per financial statements	**(339)**	**(448)**	**920**	**1,000**						

Name	**Non-current Assets**		**Current Assets**		**Non-current liabilities**		**Current liabilities**	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
OJSC ALROSA-Nyurba	2,119	821	8,984	8,992	1,338	1,560	3,906	2,289
MAK Bank LLC	3,304	3,260	1,912	4,004	235	489	4,350	6,173
OJSC Severalmaz	20,113	14,882	2,933	2,688	10,289	-	922	4,718
OJSC Viluyskaya GES-3	10,776	10,731	626	518	6,392	-	421	7,008
Hydroshikapa S.A.R.L.	2,900	2,524	158	366	3,796	-	327	4,028
Total	**39,212**	**32,218**	**14,613**	**16,568**	**22,050**	**2,049**	**9,926**	**24,216**

(in millions of Russian roubles, unless otherwise stated)

Name	OJSC ALROSA-Nyurba		MAK Bank LLC		OJSC Severalmaz		OJSC Viluyskaya GES-3		Hydroshikapa S.A.R.L.	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Cash Inflow / (Outflow) from Operating Activity	10,575	8,385	(1,588)	784	(2,330)	(251)	914	794	116	26
Income tax paid	(2,130)	(914)	-	-	-	-	(218)	(76)	-	-
Net Cash Inflows / (Outflows) from Operating Activities	8,445	7,471	(1,588)	784	(2,330)	(251)	696	718	116	26
Net Cash (Outflow) / Inflow from Investing Activities	(1,210)	(47)	100	(265)	(4,109)	(3,731)	(416)	(673)	-	-
Net Cash (Outflow) /Inflow from Financing Activities	(7,162)	(7,819)	(11)	(13)	6,148	4,102	(302)	(14)	(219)	(164)
Net Increase/(Decrease) in Cash and Cash Equivalents	**73**	**(395)**	**(1,499)**	**506**	**(291)**	**120**	**(22)**	**31**	**(103)**	**(138)**
Cash and eash equivalents at the beginning of the period	136	587	3,683	3,176	350	231	120	89	141	279
Exchange gains/(losses) on cash and cash equivalents	12	(56)	1	1	1	(1)	-	-	-	-
Cash and Cash Equivalents at the End of the Period	**221**	**136**	**2,185**	**3,683**	**60**	**350**	**98**	**120**	**38**	**141**

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:

Subsidiary	**Dividends paid**	
	Year ended 31 December 2013	**Year ended 31 December 2012**
OJSC ALROSA-Nyurba	899	731
OJSC Severalmaz	2	-
MAK Bank LLC	1	-
Total dividends paid by subsidiaries to non-controlling shareholders	**902**	**731**

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 222; OJSC Severalmaz – RR'mln 461; OJSC Viluyskaya GES-3 – RR'mln 61; MAK Bank LLC – RR'mln 104. These restrictions apply to 2.0 per cent. of the subsidiaries' total assets as disclosed above.

29. 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.

(in millions of Russian roubles, unless otherwise stated)

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 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 2013	Diamonds segment	Transportation	Social infrastructure	Construction activity	Trading	Electricity production	Other activities	Total
Revenue	157,816	5,661	3,461	4,301	1,659	3,385	11,975	188,258
Intersegment revenue	-	(1,038)	(645)	(3,625)	(142)	(2,890)	(3,622)	(11,962)
Cost of sales, incl.	55,046	6,582	6,987	4,343	1,165	2,385	9,058	85,566
Depreciation	10,385	569	47	179	57	503	1,320	13,060
Gross margin	**102,770**	**(921)**	**(3,526)**	**(42)**	**494**	**1,000**	**2,917**	**102,692**
Year ended 31 December 2012								
Revenue	143,268	5,797	3,407	418	1,636	2,790	5,693	163,009
Intersegment revenue	-	(113)	(372)	(26)	(246)	(2,122)	(2,423)	(5,302)
Cost of sales, incl.	42,683	6,032	8,944	571	1,199	2,098	4,367	65,894
Depreciation	8,382	695	97	79	61	510	793	10,617
Gross margin	**100,585**	**(235)**	**(5,537)**	**(153)**	**437**	**692**	**1,326**	**97,115**

Reconciliation of sales is presented below:

	Year ended 31 December 2013	Year ended 31 December 2012
Segment revenue	**188,258**	**163,009**
Elimination of intersegment revenue	(11,962)	(5,302)
Reclassification of custom duties [1]	(8,517)	(6,851)
Other adjustments and reclassifications	726	24
Revenue as per Statement of Profit or Loss and Other Comprehensive Income	**168,505**	**150,880**

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

(in millions of Russian roubles, unless otherwise stated)

Reconciliation of cost of sales including depreciation is presented below:

	Year ended 31 December 2013	Year ended 31 December 2012
Segment cost of sales	**85,566**	**65,894**
Adjustment for depreciation of property, plant and equipment	756	1,326
Elimination of intersegment purchases	(10,990)	(5,302)
Accrued provision for pension obligation [1]	(1,634)	73
Reclassification of extraction tax [2]	7,402	7,603
Adjustment for inventories [3]	331	1,065
Accrual for employee flights and holidays [4]	231	(300)
Other adjustments	-	92
Reclassification of exploration expenses [5]	(3,948)	(2,389)
Reclassification of cost of sales [6]	181	-
Other reclassifications	3,842	405
Cost of sales as per Statement of Profit or Loss and Other Comprehensive Income	**81,737**	**68,467**

[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 prepared under IFRS, with a corresponding 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
[6] Reclassification of cost of sales – reclassification of certain subsidiaries' sales/cost of sales to other income and expenses

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

	Year ended 31 December 2013	Year ended 31 December 2012
Belgium	76,549	63,328
Russian Federation	40,213	47,383
India	21,983	20,578
Israel	16,984	10,909
China	5,232	3,486
United Arab Emirates	4,199	2,566
USA	1,801	1,078
Armenia	519	285
Angola	477	420
United Kingdom	262	214
Other countries	286	633
Total	**168,505**	**150,880**

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

	31 December 2013	31 December 2012
Russian Federation	218,170	225,755
Angola	2,900	2,351
Other countries	447	273
Total non-current assets	**221,517**	**228,379**

30. 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.

(in millions of Russian roubles, unless otherwise stated)

- 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 December 2013				**At 31 December 2012**			
	Level 1	Level 2	Level 3	**Total carrying value**	Level 1	Level 2	Level 3	**Total carrying value**
Available-for-sale investments	-	-	243	**243**	-	-	104	**104**
Total	**-**	**-**	**243**	**243**	**-**	**-**	**104**	**104**

The description of valuation technique and description of inputs used in the fair value measurement for Level 3 measurements at 31 December 2013:

	Fair value	**Valuation technique**	**Inputs used**
Available-for-sale investments	243	Net assets valuation	Financial statements of the investee
Total	**243**		

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

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

	Quoted price in an active market (Level 1)	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**	**Total**
Trade and other receivables				
Current accounts receivable	-	-	10,157	10,157
Loans issued	-	-	2,891	2,891
Receivables from associates (note 27)	-	-	284	284
Notes receivable	-	-	108	108
Other long-term receivables	-	-	78	78
Total assets	**-**	**-**	**13,518**	**13,518**
Long-term debt				
Loans from banks	-	28,974	-	28,974
Eurobonds	49,088	-	-	49,088
RR denominated non-convertible bonds	20,044	-	-	20,044
Finance lease obligation	-	-	584	584
RR denominated fixed rate loans	-	1,187	-	1,187
Total non-current liabilities	**69,132**	**30,161**	**584**	**99,877**
Short-term debt				
Loans from banks	-	37,099	-	37,099
RR denominated fixed rate loans	-	1,615	-	1,615
Total current liabilities	**-**	**38,714**	**-**	**38,714**
Total liabilities	**69,132**	**68,875**	**584**	**138,591**

(in millions of Russian roubles, unless otherwise stated)

As at 31 December 2012 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	-	-	6,686	6,686
Loans issued	-	-	2,248	2,248
Other long-term receivables	-		1	1
Total assets	**-**	**-**	**8,935**	**8,935**
Long-term debt				
Loans from banks	-	24,307	-	24,307
Eurobonds	45,548	-	-	45,548
RR denominated non-convertible bonds	36,000	-	-	36,000
Finance lease obligation	-	-	454	454
RR denominated fixed rate loans	-	1,822	-	1,822
Total non-current liabilities	**81,548**	**26,129**	**454**	**108,131**
Short-term debt				
Loans from banks	-	2,582	-	2,582
European commercial paper	9,138	-	-	9,138
Other US$ denominated fixed rate loans	-	9	-	9
RR denominated fixed rate loans	-	2,841	-	2,841
Total current liabilities	**9,138**	**5,432**	**-**	**14,570**
Total liabilities	**90,686**	**31,561**	**454**	**122,701**

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.