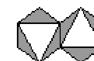
AK ALROSA

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011



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INDEPENDENT AUDITOR'S REPORT

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

1 We have audited the accompanying consolidated financial statements of Open Joint Stock Company AK ALROSA and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2 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

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

4 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.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
27 April 2012

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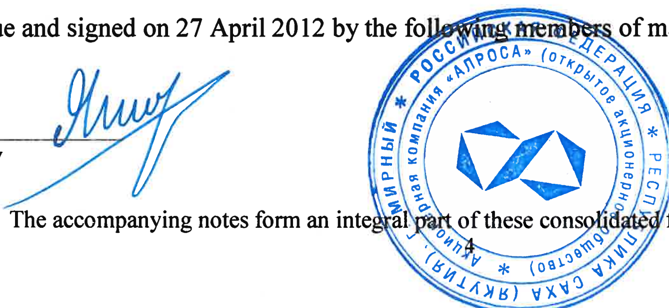
Consolidated Statement of Financial Position

	Notes	31 December 2011	31 December 2010
ASSETS			
Non-current Assets			
Goodwill	5	1,439	1,439
Property, plant and equipment	7	169,534	168,020
Investments in associates	5	2,350	1,975
Available-for-sale investments	5	157	167
Long-term accounts receivable	9	1,833	1,569
Restricted cash	6	237	152
Total Non-current Assets		**175,550**	**173,322**
Current Assets			
Inventories	8	44,429	34,514
Prepaid income tax		213	340
Trade and other receivables	9	8,758	10,115
Cash and cash equivalents	6	12,014	4,136
Total Current Assets		**65,414**	**49,105**
Total Assets		**240,964**	**222,427**
EQUITY			
Share capital	10	12,473	12,473
Share premium		10,431	10,431
Treasury shares	10	(249)	(39)
Retained earnings and other reserves		91,159	70,026
Equity attributable to shareholders of AK ALROSA		**113,814**	**92,891**
Non-Controlling Interest in Subsidiaries	10	**(717)**	**(281)**
Total Equity		**113,097**	**92,610**
LIABILITIES			
Non-current Liabilities			
Long-term debt	11	75,529	89,021
Derivative financial instruments	13	-	2,311
Provision for pension obligations	15	5,028	4,344
Provision for land recultivation	14	522	800
Deferred tax liabilities	17	3,478	2,459
Total Non-current Liabilities		**84,557**	**98,935**
Current Liabilities			
Short-term loans and current portion of long-term debt	12	20,024	12,944
Derivative financial instruments	13	1,995	2,562
Trade and other payables	16	15,591	11,529
Income tax payable		1,851	574
Other taxes payable	17	3,364	3,030
Dividends payable		485	243
Total Current Liabilities		**43,310**	**30,882**
Total Liabilities		**127,867**	**129,817**
Total Equity and Liabilities		**240,964**	**222,427**

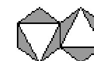
Approved for issue and signed on 27 April 2012 by the following members of management:



Fedor B. Andreev
President

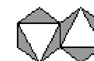
Elena L. Timonina
Chief accountant

The accompanying notes form an integral part of these consolidated financial statements



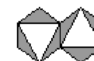
Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Sales	18	137,732	113,394
Cost of sales	19	(56,005)	(63,669)
Royalty	17	(3,509)	(3,509)
Gross profit		**78,218**	**46,216**
General and administrative expenses	20	(6,188)	(7,286)
Selling and marketing expenses	21	(1,639)	(1,366)
Net gain from derivative financial instruments	13	1,646	2,081
Gain on disposal of subsidiaries	5	-	1,427
Loss on disposal of social infrastructure assets	7	(6,531)	-
Other operating income		962	342
Other operating expenses	22	(19,205)	(14,276)
Operating profit		**47,263**	**27,138**
Finance income	23	1,492	1,408
Finance costs	24	(11,682)	(13,604)
Share of net profit of associates	5	1,240	1,034
Profit before income tax		**38,313**	**15,976**
Income tax	17	(11,655)	(4,188)
Profit for the year		**26,658**	**11,788**
Other comprehensive income / (loss)			
Net (losses) / gains arising from change in fair value of available-for-sale investments		(19)	16
Currency translation differences		(435)	(70)
Other comprehensive loss for the year		**(454)**	**(54)**
Total comprehensive income for the year		**26,204**	**11,734**
Profit attributable to:			
Owners of AK ALROSA		26,480	11,690
Non-controlling interest		178	98
Profit for the year		**26,658**	**11,788**
Total comprehensive income attributable to:			
Owners of AK ALROSA		26,026	11,636
Non-controlling interest		178	98
Total comprehensive income for the year		**26,204**	**11,734**
Basic and diluted earnings per share for profit attributable to the owners of AK ALROSA (in Roubles)	10	3.69	1.60



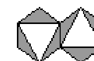
Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Net Cash Inflow from Operating Activities	25	**49,182**	**37,800**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(21,420)	(11,968)
Proceeds from sales of property, plant and equipment		2,085	759
Acquisition of available-for-sale investments		(19)	(28)
Proceeds from sale of available-for-sale investments		47	118
Interest received		332	314
Dividends received from associates		1,081	1,038
Net Cash Outflow from Investing Activities		**(17,894)**	**(9,767)**
Cash Flows from Financing Activities			
Repayments of loans		(24,896)	(184,556)
Loans received		14,720	165,677
Interest paid		(7,351)	(9,412)
Purchase of treasury shares		(3,298)	(201)
Acquisition of non-controlling interest in subsidiaries		(43)	(230)
Dividends paid		(2,134)	(412)
Net Cash Outflow from Financing Activities		**(23,002)**	**(29,134)**
Net Increase / (Decrease) in Cash and Cash Equivalents		**8,286**	**(1,101)**
Cash and cash equivalents at the beginning of the year		4,136	5,094
Exchange (loss) / gain on cash and cash equivalents		(408)	143
Cash and Cash Equivalents at the End of the Year		**12,014**	**4,136**



Consolidated Statement of Changes in Equity

	Attributable to owners of AK ALROSA								Non-controlling interest	Total equity
	Number of shares outstanding	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total		
Balance at 31 December 2009	**7,350,571,965**	**12,473**	**10,431**	**(26)**	**54**	**58,966**	**81,898**	**(1,177)**	**80,721**
Comprehensive income									
Profit for the year		-	-	-	-	11,690	11,690	98	11,788
Other comprehensive income									
Net gains arising from change in fair value of available-for-sale investments		-	-	-	16	-	16	-	16
Currency translation differences		-	-	-	(70)	-	(70)	-	(70)
Total other comprehensive income		-	-	-	(54)	-	(54)	-	(54)
Total comprehensive income for the year		**-**	**-**	**-**	**(54)**	**11,690**	**11,636**	**98**	**11,734**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(250)	(250)	-	(250)
Purchase of non-controlling interest		-	-	-	(192)	-	(192)	(38)	(230)
Purchase of treasury shares	(10,450,935)	-	-	(13)	-	(188)	(201)	-	(201)
Non-controlling interest in disposed subsidiaries (note 5)		-	-	-	-	-	-	1,082	1,082
Dividends paid by subsidiaries to minority shareholders		-	-	-	-	-	-	(246)	(246)
Total transactions with owners		**-**	**-**	**(13)**	**(192)**	**(438)**	**(643)**	**798**	**155**
Balance at 31 December 2010	**7,340,121,030**	**12,473**	**10,431**	**(39)**	**(192)**	**70,218**	**92,891**	**(281)**	**92,610**
Comprehensive income									
Profit for the year		-	-	-	-	26,480	26,480	178	26,658
Other comprehensive income									
Net loss arising from change in fair value of available-for-sale investments		-	-	-	(19)	-	(19)	-	(19)
Currency translation differences		-	-	-	(435)	-	(435)	-	(435)
Total other comprehensive income		-	-	-	(454)	-	(454)	-	(454)
Total comprehensive income for the year		**-**	**-**	**-**	**(454)**	**26,480**	**26,026**	**178**	**26,204**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(1,805)	(1,805)	-	(1,805)
Purchase of treasury shares	(123,844,930)	-	-	(210)	-	(3,088)	(3,298)	-	(3,298)
Purchase of non-controlling interest		-	-	-	-	-	-	(43)	(43)
Dividends paid by subsidiaries to minority shareholders		-	-	-	-	-	-	(571)	(571)
Total transactions with owners		**-**	**-**	**(210)**	**-**	**(4,893)**	**(5,103)**	**(614)**	**(5,717)**
Balance at 31 December 2011	**7,216,276,100**	**12,473**	**10,431**	**(249)**	**(646)**	**91,805**	**113,814**	**(717)**	**113,097**



1. ACTIVITIES

The core activities of Open Joint Stock Company AK ALROSA ("the Company") and its subsidiaries ("the Group") are the exploration and extraction of diamond reserves and the marketing and distribution of raw and cut diamonds. The Company was registered on 13 August 1992 as a closed joint stock company in the Republic of Sakha (Yakutia), which is located within the Russian Federation. On 5 April 2011 the extraordinary shareholders' meeting approved reorganisation of the Company from closed joint-stock company to open joint-stock company.

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 2022. Management believes the Group will be able to extend the licenses' terms after they expire.

As at 31 December 2011 and 31 December 2010 the Company's principal shareholders are the governments of the Russian Federation (50.9 percent of shares) and the Republic of Sakha (Yakutia) (32.0 percent of shares).

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets and financial instruments categorised as at fair value through profit or loss. The consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, except for adoption of the new standards, amendments and interpretations which became effective since 1 January 2011.

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 32.20 and 30.48 as at 31 December 2011 and 31 December 2010, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 41.67 and 40.33 as at 31 December 2011 and 31 December 2010, respectively.

The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the end of the reporting period. As the characteristics of the economic environment of the Russian Federation indicated that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

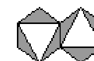
(b) Recent accounting pronouncements

In 2010 the Group early adopted the revised IAS 24 "Related Party Disclosures" which is effective for annual periods beginning on or after 1 January 2011. IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

In 2011 the Group has adopted all IFRS, amendments and interpretations which were effective as at 1 January 2011 and which are relevant to its operations.

Standards, Amendments or Interpretations effective in 2011:

Amendment to IAS 32 "Financial Instruments: Presentation" which is effective for annual periods beginning on or after 1 February 2010. The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The application of this amendment did not affect the Group's consolidated financial statements.



IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit or loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The application of this interpretation did not affect the Group's consolidated financial statements.

Amendment to IFRIC 14 "Prepayments of a Minimum Funding Requirement" (effective for annual periods beginning on or after 1 January 2011). This amendment applies only to the companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The application of this amendment did not affect the Group's consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

- *Amendment to IFRS 3 "Business Combinations"* (i) requires measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) provides guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) clarifies that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3.
- *Amendment to IFRS 7 "Financial Instruments: Disclosures"* clarifies certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, and (iii) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period.
- *Amendment to IAS 1 "Presentation of Financial Statements"* clarifies that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes.
- *Amendment to IAS 27 "Consolidated and Separate Financial Statements"* clarifies the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008).
- *Amendment to IAS 34 "Interim Financial Reporting"* adds additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments.
- *Amendment to IFRIC 13 "Customer Loyalty Programmes"* clarifies measurement of fair value of award credits.

The application of these improvements did not affect the Group's consolidated financial statements.

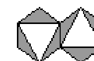
Standards early adopted by the Group in 2011:

In 2011 the Group early adopted *IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"* 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.

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" issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- 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.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Amendment to IFRS 7 "Financial Instruments: Disclosures" which is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The application of this amendment is not expected to materially affect the Group's consolidated financial statements.

Amendment to IAS 12 "Income taxes" which are effective for annual periods beginning on or after 1 January 2012. The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets", which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16 "Property, Plant and Equipment", was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The application of this amendment is not expected to materially affect the Group's consolidated financial statements.

IFRS 10 "Consolidated financial statements" (effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), 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 Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 11 "Joint arrangements" (effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". 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 Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 12 "Disclosure of interest in other entities" (effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), 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 currently found in IAS 27 "Consolidated and Separate Financial Statements" and IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statements' 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 judgments 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 Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 13 "Fair value measurement" (effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on the consolidated financial statements.

Amended IAS 27 "Separate Financial Statements" (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 guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated Financial Statements". The application of this amendment is not expected to affect the Group's consolidated financial statements.

Amended IAS 28 "Investments in Associates and Joint Ventures" (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 Group is currently assessing the impact of the standard on the consolidated financial statements.

Amendments to IAS 1 "Presentation of financial statements" (effective for annual periods beginning on or after 1 July 2012), change the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled 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 Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19 "Employee benefits" (effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the standard on the consolidated financial statements.

Amendment to IFRS 7 "Disclosures—Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The application of this amendment is not expected to affect the Group's consolidated financial statements.

Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The application of this amendment is not expected to affect 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.

A subsidiary is an entity in which the Group has control through the holding of more than half of the voting rights or otherwise has the power to govern the financial and operating policies so as to obtain benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that 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.

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 it is recorded in equity.

Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally

accompanying a shareholding of between 20 and 50 percent 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.

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.

Summary of useful lives and alternative basis for depreciation:

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

The average depreciation rate for the property, plant and equipment depreciated on a units of production basis was 7.9 percent in the year ended 31 December 2011 (year ended 31 December 2010: 5.7 percent).

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. In December 2011 a significant part of local infrastructure assets with net book value of RR'mln 6,531 was transferred free of charge of the local municipalities (see note 7).

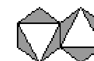
Finance leases

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 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 terms of the "Program for improvement of environmental situation in the area of operating activity of the Company" which was approved by the Management Committee of the Company. In accordance with this Program the Company assumed an obligation to perform recultivation of certain



disturbed lands and tailing pits in the areas of its operating activity. 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". This amount is amortised over the term of the Program. 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) 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.

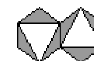
Loans and receivables

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 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.

(i) Derivative financial instruments

As part of trading activities the Group is also party to derivative financial instruments, including forward foreign exchange contracts, cross currency interest rate swaps and 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.



(j) Measurement of trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method.

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.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the consolidated statement of comprehensive income.

(k) Prepayments

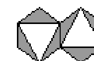
Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial 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 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 in excess of the greater of 10 percent of the fair value of plan assets or 10 percent of the defined benefit obligations are charged or credited to profit or loss over the employees' expected average remaining working lives.

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, together with adjustments for unrecognised actuarial gains or losses and unrecognised past service cost. The Group contributes funds to the non-state pension fund Almaznaya Osen, which invests them in various financial instruments. These investments, which represent the majority of assets of non-state pension fund Almaznaya Osen, 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, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, past service costs are amortised on a straight-line basis over the vesting period.

(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 shipped to the customer (diamonds are always shipped 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

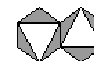
Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge (benefit) comprises current tax and deferred tax and is recognised in the Group's profit or loss except 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 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 Committee 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.

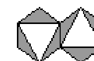
Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of 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 2011 and 31 December 2010 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 (see 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 2011, if the estimated useful lives of property, plant and equipment had been 10 percent longer / shorter with all other variables held constant, depreciation charge for the year would have been RR'mln 719 (year ended 31 December 2010 – RR'mln 711) lower / higher.

Classification of production licenses. Management treats cost of production licenses as an integral part of acquisition cost of tangible mining properties, i.e. land where the respective area of interest is located; accordingly, production licenses are included in property, plant and equipment in these consolidated financial statements. As at 31 December 2011 the net book value of production licenses included in property, plant and equipment is RR'mln 10,733 (as at 31 December 2010: RR'mln 8,349), see also note 7.

Put options granted by the Group to the buyers of ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company: In October 2009 the Group sold a 90 percent interest in ZAO Geotransgaz and a 90 percent interest in OOO Urengoyskaya Gazovaya Company to the companies affiliated with OAO Bank VTB for a total cash consideration of RR'mln 18,615 (US$'mln 620). Simultaneously the Group entered into put option agreements with the buyers and the bank pursuant to which the Group may be required to repurchase 90 percent interest in OOO Urengoyskaya Gazovaya Company and a 90 percent interest in ZAO Geotransgaz during 30 days following 1 October 2012 at a strike price of $US'mln 870 (see note 13).

In making the decision whether the two sold entities should be deconsolidated at the date of transaction management analysed the provisions of relevant legislation and transaction documentation. As in accordance with these documents the Group lost its ability to participate in the governance of the sold entities at the transaction date and as the Group has no control over the potential execution of the put options granted to the buyers, management believes that the decision to deconsolidate ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company at the date of transaction is supportable.

In order to determine the fair value of the put options granted to the buyers of ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company management applied its judgments in respect to fair value of underlying assets at each reporting date. At the execution the actual fair value of the underlying assets may be different.

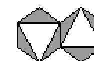
Pension benefits. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will 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 (see note 15).

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. The Group uses derivative financial instruments to manage its risk exposures (foreign exchange risk).

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 2011 and 2010, the Group's borrowings were denominated in US dollars and Russian Roubles (see notes 11 and 12).

To mitigate this risk, the Group's treasury function performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In cases where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favorable interest rate terms. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new debts management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable over the expected period until maturity. In order to reduce the Group's cash flow interest rate risk exposure associated with the RR denominated floating rate loans, in 2008 the Group entered into US$ / RR cross currency interest rate swap transactions (see note 13). The Group did not use derivative instruments to hedge its fair value interest rate risk.



At 31 December 2011 the Group has no US dollar-denominated floating rate borrowings. At 31 December 2010, if interest rates on US dollar-denominated borrowings had been 20 percent higher/lower with all other variables held constant, post-tax profit for the year and equity would have been RR'mln 19 lower/higher, mainly as result of higher/lower interest expense on floating rate borrowings.

At 31 December 2011 the Group has no Russian Roubles-denominated floating rate borrowings and cross currency interest rate swap contracts. At 31 December 2010, if interest rates on Russian Roubles-denominated borrowings had been 30 percent higher/lower with all other variables held constant, post-tax profit for the year and equity would have been RR'mln 39 lower/higher, mainly as result of higher/lower interest expense on floating rate borrowings and gains/losses on cross currency interest rate swap contracts.

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. In 2006 the Group entered into US$ / RR forward sale transactions with several banks to manage its foreign exchange risk arising from future sale transactions adjusted for other transactions (foreign currency denominated borrowings and purchases), see note 13. The Group did not account for these derivative financial instruments as hedges.

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**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Assets						
Cash and cash equivalents	985	781	53	19	160	70
Trade and other receivables	259	471	37	28	49	1
	1,244	**1,252**	**90**	**47**	**209**	**71**
Liabilities						
Trade and other payables	340	777	125	15	7	1
Borrowings	64,734	70,768	-	-	-	-
Derivative financial instruments	1,995	4,873	**-**	**-**	**-**	**-**
	67,069	**76,418**	**125**	**15**	**7**	**1**

At 31 December 2011, if the Russian Rouble had weakened / strengthened by 10 percent against the US dollar with all other variables held constant, post-tax profit for the year would have been RR'mln 5,266 lower / higher and equity would have been RR'mln 4,831 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 2010, if the Russian Rouble had weakened / strengthened by 10 percent against the US dollar with all other variables held constant, post-tax profit for the year would have been RR'mln 7,352 lower / higher and equity would have been RR'mln 7,282 lower / higher, mainly as a result of losses / gains from revaluation of derivative financial instruments and 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 2011, if the Russian Rouble had weakened/strengthened by 10 percent against the Euro with all other variables held constant, post-tax profit for the year and equity would had been RR'mln 3 (at 31 December 2010 – RR'mln 2) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade and other receivables and cash and cash equivalents.

Equity investments price risk. The Group is exposed to movements in the equity securities prices because of available-for-sale investments held by the Group. The major part of available-for-sale investments held by the Group has no active market. To manage price risk arising from available-for-sale investments, the Group diversifies its investment portfolio.

If the prices of available-for-sale investments held by the Group had been 20 percent higher/lower with all other variables held constant, its equity at 31 December 2011 would have been RR'mln 31 (at 31 December 2010 – RR'mln 33) higher/lower and there would have been no impact on post-tax profit.

Credit risk. Credit risk arises from cash and cash equivalents, as well as credit exposures to customers, including outstanding trade receivables, loans issued, derivative financial instruments 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.

	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 2011					
Borrowings	2,437	1,365	22,198	30,327	71,346
Strike price of the put options granted by the Group to the buyers of ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company	-	-	28,011	-	-
Trade payables	1,408	1,312	102	-	-
Current accounts of third parties in OOO MAK Bank	104	207	931	-	-
Interest payable	79	39	577	-	-
Payables to associates	7	-	-	-	-
Other payables and accruals	951	-	-	-	-
	4,986	**2,923**	**51,819**	**30,327**	**71,346**
31 December 2010					
Borrowings	2,328	2,810	16,141	28,940	92,374
Foreign exchange forward contracts and cross currency interest rate swaps	63	925	1,634	-	-
Strike price of the put options granted by the Group to the buyers of ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company	-	-	-	26,518	-
Trade payables	2,170	2	360	-	-
Current accounts of third parties in OOO MAK Bank	101	200	901	-	-
Interest payable	75	37	547	-	-
Payables to associates	59	-	-	-	-
Other payables and accruals	419	-	-	-	-
	5,215	**3,974**	**19,583**	**55,458**	**92,374**

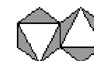
As the amounts included in the table are contractual undiscounted cash flows which include future interest payments, these amounts will not reconcile to the amounts disclosed in the consolidated statement of financial position for borrowings and derivative financial instruments.

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 2011 and 31 December 2010 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 2011, the Group's strategy, which was unchanged from 2010, was to reduce the gearing ratio.

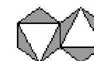
The gearing ratios at 31 December 2011 and 31 December 2010 were as follows:

	31 December 2011	31 December 2010
Total borrowings	95,553	101,965
Less: cash and cash equivalents	(12,014)	(4,136)
Net debt	83,539	97,829
Total equity	113,097	92,610
Total capital	196,636	190,439
Gearing ratio	42%	51%

4. FINANCIAL INSTRUMENTS BY CATEGORY

ASSETS	Loans and receivables		Available for sale		Total	
	31 December		31 December		31 December	
	2011	2010	2011	2010	2011	2010
Non-current assets						
Restricted cash	237	152	-	-	237	152
Available-for-sale investments	-	-	157	167	157	167
Loans issued	1,718	1,372	-	-	1,718	1,372
Other long-term receivables	1	7	-	-	1	7
	1,956	1,531	157	167	2,113	1,698
Current assets						
Trade receivables for supplied diamonds	718	1,325	-	-	718	1,325
Loans issued	2,263	2,393	-	-	2,263	2,393
Receivables from associates	139	157	-	-	139	157
Notes receivable	172	15	-	-	172	15
Other trade receivables	2,476	3,184	-	-	2,476	3,184
Cash and cash equivalents	12,014	4,136	-	-	12,014	4,136
	17,782	11,210	-	-	17,782	11,210
	19,738	**12,741**	**157**	**167**	**19,895**	**12,908**

LIABILITIES	Liabilities at fair value through profit or loss held for trading		Liabilities at amortised cost		Total	
	31 December		31 December		31 December	
	2011	2010	2011	2010	2011	2010
Non-current liabilities						
Long-term debt	-	-	75,529	89,021	75,529	89,021
Derivative financial instruments	-	2,311	-	-	-	2,311
	-	2,311	75,529	89,021	75,529	91,332
Current liabilities						
Short-term loans and current portion of long-term debt	-	-	20,024	12,944	20,024	12,944
Derivative financial instruments	1,995	2,562	-	-	1,995	2,562
Trade payables	-	-	2,822	2,532	2,822	2,532
Current accounts of third parties in OOO MAK Bank	-	-	1,242	1,202	1,242	1,202
Interest payable	-	-	695	660	695	660
Payables to associates	-	-	7	59	7	59
Other payables and accruals	-	-	951	419	951	419
	1,995	2,562	25,741	17,816	27,736	20,378
	1,995	**4,873**	**101,270**	**106,837**	**103,265**	**111,710**



5. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

Name	Principal activity	Country of Incorporation	Percentage of ownership interest held	
			31 December 2011	31 December 2010
ALROSA Finance S.A.	Financial services	Luxembourg	100	100
Sunland Trading S.A.	Diamonds trading	Switzerland	100	100
Arcos Belgium N.V.	Diamonds trading	Belgium	100	100
ZAO Irelyakhneft	Oil production	Russia	100	100
OAO ALROSA-Gaz	Gas production	Russia	100	100
OOO ALROSA-VGS	Capital construction	Russia	100	100
OAO Almazy Anabara	Diamonds production	Russia	100	100
OAO Viluyskaya GES-3	Electricity production	Russia	100	100
OAO GMK Timir	Iron ore production	Russia	100	100
OAO Severalmaz	Diamonds production	Russia	100	90
OOO MAK Bank	Banking activity	Russia	88	88
OAO ALROSA-Nyurba	Diamonds production	Russia	88	88

As at 31 December 2011 and 31 December 2010 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

Deconsolidation of OAO NNGK Sakhaneftegaz

The Group owned a 50.4 percent voting interest in OAO NNGK Sakhaneftegaz as at 31 December 2009. In November 2008 the state authorities initiated the bankruptcy procedures in relation to OAO NNGK Sakhaneftegaz in accordance with the legal claim of its major creditor - OAO NK Rosneft. In February 2010 the bankruptcy administration procedure (last stage of bankruptcy procedure) was started in respect to OAO NNGK Sakhaneftegaz and in accordance with legislation since that date the Group lost its ability to control the financial and operating activity of OAO NNGK Sakhaneftegaz. Accordingly OAO NNGK Sakhaneftegaz and its subsidiary OAO Lenaneftegaz were deconsolidated since February 2010. The details of assets and liabilities of OAO NNGK Sakhaneftegaz and OAO Lenaneftegaz at the date of their deconsolidation are as follows:

Property, plant and equipment	1,190
Available-for-sale investments	195
Inventories	745
Trade and other receivables	367
Trade and other payables	(5,006)
Non-controlling interest	1,082
Net assets of disposed subsidiaries / gain on deconsolidation	**(1,427)**

Goodwill

The amount of goodwill totalling RR'mln 1,439 relates to acquisition of a 49 percent minority interest in OAO 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 OAO Almazy Anabara. As at 31 December 2011 the recoverable amount of goodwill was determined on the basis of the recent management's forecast of future cash flows of OAO Almazy Anabara for the years 2012-2019 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 12.1 percent (31 December 2010: 15.2 percent), 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 2011 and 31 December 2010. The impairment test involves making judgment about several key future business indicators. 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 14 percent (31 December 2010: 11 percent) or US$ depreciates against Russian Rouble by 15 percent (31 December 2010: 12 percent) or discount rate increases to 21 percent (31 December 2010: 20.5 percent), there will be no excess of value in use over carrying value of assets allocated to the respective cash generating unit.

Associates

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 for the year ended 31 December	
		2011	**2010**	**2011**	**2010**	**2011**	**2010**
Catoca Mining Company Ltd	Angola	33	33	2,116	1,705	1,238	1,024
OAO Almazny Mir	Russia	47	47	182	179	1	5
Other	Russia	20-50	20-50	52	91	1	5
				2,350	1,975	1,240	1,034

As at 31 December 2011 and 31 December 2010 the percentage of ownership interest of the Group in its associates is equal to the percentage of voting interest.

Catoca Mining Company Ltd is a diamond-mining venture located in Angola. In April 2011 Catoca Mining Company Ltd declared dividends for the year ended 31 December 2010; the Group's share of these dividends amounted to RR'mln 923. Currency translation income recognised in the consolidated other comprehensive income for the year ended 31 December 2011 in respect of investment in Catoca Mining Company Ltd totalled RR'mln 96. In April 2010 Catoca Mining Company Ltd declared dividends for the year ended 31 December 2009; the Group's share of these dividends amounted to RR'mln 607. Currency translation income recognised in the consolidated other comprehensive income for the year ended 31 December 2010 in respect of investment in Catoca Mining Company Ltd totalled RR'mln 10.

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

	Assets as at 31 December		Liabilities as at 31 December		Revenues for the year ended 31 December		Profit / (loss) for the year ended 31 December	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Catoca Mining Company Ltd	12,829	10,301	6,377	5,103	17,969	16,019	3,774	3,122
OAO Almazny Mir	425	426	38	47	165	164	2	10
Other	69	64	24	22	83	67	3	(1)
	13,323	10,791	6,439	5,172	18,217	16,250	3,779	3,131

Non-current available-for-sale investments

	Year ended 31 December 2011	Year ended 31 December 2010
Available-for-sale investments at the beginning of the year	167	420
Additions	14	41
Net changes in fair value	(19)	16
Disposal as a result of deconsolidation of OAO NNGK Sakhaneftegaz and OAO Lenaneftegaz	-	(195)
Other disposals	(5)	(115)
Available-for-sale investments at the end of the year	157	167

The non-current available-for-sale investments consist of two groups:

- investments which fair values are based on quoted prices in an active market (Level 1 in accordance with the valuation hierarchy) totalling RR'mln 64 (31 December 2010: RR'mln 97);
- investments which fair values are determined based on valuation technique with significant non-observable inputs (Level 3 in accordance with the valuation hierarchy) totalling RR'mln 93 (31 December 2010: RR'mln 70).

6. CASH AND CASH EQUIVALENTS

Restricted cash

Restricted cash included within non-current assets in the consolidated statement of financial position of RR'mln 237 and RR'mln 152 as at 31 December 2011 and 31 December 2010, respectively, is represented by mandatory reserve deposits held with the Central Bank of the Russian Federation by OOO MAK Bank, 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 (see note 25).

At 31 December 2011 and 31 December 2010 the weighted average interest rate on the restricted cash balances is approximately nil percent.

Cash and cash equivalents

	31 December 2011	31 December 2010
Cash in banks and on hand	5,221	3,912
Deposit accounts	6,793	224
	12,014	4,136

At 31 December 2011 the weighted average interest rate on the cash and cash equivalents' balances of the Group was 3.88 percent (31 December 2010: 0.16 percent).

As at 31 December 2011 and 31 December 2010 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 31.12.2011	Rating agency	31 December 2011	31 December 2010
OAO Bank VTB	Baa 1	Moody's	7,601	1,069
Current accounts of OOO MAK Bank in the Central Bank of the Russian Federation	Not applicable	Not applicable	1,602	1,566
Cash of OOO MAK Bank on hand and in cash machines	Not applicable	Not applicable	1,037	659
Lloyds TSB Bank plc	A1	Moody's	193	61
Gazprombank	Baa3	Moody's	187	1
Asian-Pacific Bank	B3	Moody's	126	-
ABN AMRO Bank	Aa 3	Moody's	103	70
HSBC	Aa 2	Moody's	90	33
Julius Bayer Bank	Aa 3	Moody's	88	93
ZAO UniCredit Bank	BBB+	Fitch Ratings	85	3
OAO Sberbank	Baa 1	Moody's	62	56
Other banks	Aa 3–B 3	Moody's	840	525
			12,014	4,136

7. PROPERTY, PLANT AND EQUIPMENT

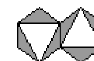
	Buildings	Land and Improvements	Plant and Equipment	Transport	Production Licenses	Assets under Construction	Other	TOTAL
Cost at 31 December 2009	**58,218**	**75,042**	**47,529**	**17,181**	**9,292**	**41,756**	**2,779**	**251,797**
Additions	504	423	1,346	934	-	10,981	308	14,496
Transfers	3,389	2,191	1,892	28	-	(7,534)	34	-
Disposals	(2,037)	(891)	(1,181)	(734)	(682)	(848)	(108)	(6,481)
Disposal of subsidiaries (note 5)	(230)	(609)	(288)	(54)	-	(150)	(24)	(1,355)
Foreign exchange differences	1	28	7	1	-	2	(61)	(22)
Change in estimate of provision for land recultivation (note 14)	-	548	-	-	-	-	-	548
Cost at 31 December 2010	**59,845**	**76,732**	**49,305**	**17,356**	**8,610**	**44,207**	**2,928**	**258,983**
Additions	617	1,918	1,928	1,068	2,418	16,100	364	24,413
Transfers	8,176	9,667	4,319	10	-	(22,247)	75	-
Disposal of social infrastructure assets	(6,320)	(1,873)	-	-	-	-	-	(8,193)
Other disposals	(780)	(2,732)	(2,056)	(617)	-	(1,899)	(139)	(8,223)
Foreign exchange differences	7	342	(3)	48	-	7	(126)	275
Change in estimate of provision for land recultivation (note 14)	-	(267)	-	-	-	-	-	(267)
Cost at 31 December 2011	**61,545**	**83,787**	**53,493**	**17,865**	**11,028**	**36,168**	**3,102**	**266,988**
Accumulated depreciation and impairment losses at 31.12.2009	**(19,663)**	**(21,798)**	**(28,665)**	**(11,599)**	**(225)**	**(764)**	**(1,151)**	**(83,865)**
Charge for the year ended 31 December 2010	(1,309)	(2,853)	(4,291)	(1,098)	(36)	-	(200)	(9,787)
Disposals	320	254	1,108	711	-	-	89	2,482
Disposal of subsidiaries (note 5)	10	31	95	22	-	-	7	165
Reversal of impairment of property, plant and equipment	-	-	-	-	-	42	-	42
Accumulated depreciation and impairment losses at 31.12.2010	**(20,642)**	**(24,366)**	**(31,753)**	**(11,964)**	**(261)**	**(722)**	**(1,255)**	**(90,963)**
Charge for the year ended 31 December 2011	(1,500)	(3,638)	(4,371)	(1,364)	(34)	-	(161)	(11,068)
Disposal of social infrastructure assets	1,175	487	-	-	-	-	-	1,662
Other disposals	140	714	1,741	552	-	-	71	3,218
Impairment of property, plant and equipment	-	-	-	-	-	(303)	-	(303)
Accumulated depreciation and impairment losses at 31.12.2011	**(20,827)**	**(26,803)**	**(34,383)**	**(12,776)**	**(295)**	**(1,025)**	**(1,345)**	**(97,454)**
Net book value at 31.12. 2010	**39,203**	**52,366**	**17,552**	**5,392**	**8,349**	**43,485**	**1,673**	**168,020**
Net book value at 31.12.2011	**40,718**	**56,984**	**19,110**	**5,089**	**10,733**	**35,143**	**1,757**	**169,534**

Capitalised borrowing costs

As at 31 December 2011 borrowing costs totalling RR'mln 180 (as at 31 December 2010: RR'mln 117) were capitalised in property, plant and equipment. For the year ended 31 December 2011 the capitalisation rate applied to qualifying assets totalling RR'mln 2,430 (31 December 2010: RR'mln 1,372) was 7.39 percent (31 December 2010: 8.53 percent). In accordance with transitional rules of revised IAS 23, borrowing costs are capitalised for projects commencing after 1 January 2009.

Finance leases

Property, plant and equipment include an aircraft which the Group received under a finance lease agreement. As at 31 December 2011 the carrying value of this aircraft is RR'mln 758 (31 December 2010: RR'mln 810). Property, plant and equipment include also the mining equipment which OAO Almazy Anabara, a subsidiary of the Group, received under finance lease agreements. As at 31 December 2011 the carrying value of this equipment is RR'mln 169 (31 December 2010: RR'mln 216).



Disposal of social infrastructure assets

In December 2011 the Company transferred free of charge to the local municipalities certain social infrastructure assets (mostly housing facilities located in the areas of the Company's production activity) with net book value of RR'mln 6,531. These assets were previously constructed or purchased by the Company and recognised in its books as property, plant and equipment. This transaction was performed in order to reduce the Company's future expenses associated with maintenance of local infrastructure assets. In accordance with the agreement with local authorities the Company will continue to be responsible for maintenance of the transferred assets through 2015.

The parties did not assume any additional obligations or benefits related to the Company's employees living in the transferred housing facilities. Despite the fact that the Company's employees will continue to live in the transferred housing facilities, the Company discontinued recognition of these social infrastructure assets in its consolidated statement of financial position and recognised the respective loss associated with their disposal as the Company lost ability to physically and legally control these assets.

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 2011 and 31 December 2010 there were no such indicators, accordingly the Group did not conduct an impairment test of its property plant and equipment as at those dates.

The impairment totalling RR'mln 303 recognised for the year ended 31 December 2011 relates to certain frozen assets under construction and buildings, which, in accordance with recent management's plans, were not planned to be used in production activity of the Group. The reversal of impairment of RR'mln 42 recognised for the year ended 31 December 2010 relates to previously impaired assets under construction, which subsequently were used in production activity of the Group or sold.

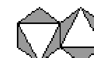
8. INVENTORIES

	31 December 2011	31 December 2010
Diamonds	21,102	15,840
Ores and concentrates	9,604	7,498
Mining and construction materials	10,628	9,886
Consumable and other supplies	2,038	1,267
Diamonds for resale	1,057	23
	44,429	34,514

9. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	**31 December 2011**	**31 December 2010**
Loans issued	1,718	1,372
Long-term VAT recoverable	114	190
Other long-term receivables	1	7
	1,833	1,569

Current accounts receivable	**31 December 2011**	**31 December 2010**
Loans issued	2,263	2,393
Advances to suppliers	1,406	745
Prepaid taxes, other than income tax	1,099	1,403
Trade receivables for supplied diamonds	718	1,325
VAT recoverable	485	893
Notes receivable	172	15
Receivables from associates (see note 27)	139	157
Other trade receivables	2,476	3,184
	8,758	10,115



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 2011		31 December 2010	
	Effective interest rates	Market interest rates	Effective interest rates	Market interest rates
Loans issued	10.0%	11.0%	10.0%	12.0%
Other long-term receivables	10.0%	12.0%	10.0%	14.0%

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 2011		31 December 2010	
	Carrying value	Fair value	Carrying value	Fair value
Loans issued	1,718	1,586	1,372	1,108
Other long-term receivables	1	1	7	5

The fair value of each class of short-term trade and other accounts receivable at 31 December 2011 and 31 December 2010 approximates their carrying value.

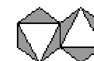
The impairment provision offset against individual receivable balances is as follows:

Long-term accounts receivable	**31 December 2011**	**Bad debt write-off**	**Bad debt expense / (reversal of bad debt expense)**	**31 December 2010**
Loans issued	3,820	-	35	3,785
	3,820	-	35	3,785
Current accounts receivable				
Receivables from associates (see note 27)	1	-	(25)	26
Notes receivable	80	-	-	80
Loans issued	162	(8)	36	134
Other trade receivables	1,147	-	544	603
	1,390	(8)	555	843

Long-term accounts receivable	**31 December 2010**	**Bad debt write-off**	**Bad debt expense / (reversal of bad debt expense)**	**31 December 2009**
Loans issued	3,785	-	(4)	3,789
	3,785	-	(4)	3,789
Current accounts receivable				
Receivables from associates (see note 27)	26	-	-	26
Notes receivable	80	-	-	80
Loans issued	134	(1,405)	1,421	118
Other trade receivables	603	(1,795)	876	1,522
	843	(3,200)	2,297	1,746

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 2011				31 December 2010			
	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	35	26	3,759	3,820	26	3,759	-	3,785
	35	26	3,759	3,820	26	3,759	-	3,785
Current accounts receivable								
Receivables from associates	-	-	1	1	-	-	26	26
Notes receivable	-	-	80	80	-	-	80	80
Loans issued	37	123	2	162	23	109	2	134
Other trade receivables	3	832	312	1,147	11	280	312	603
	40	955	395	1,390	34	389	420	843



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

31 December 2011	Large customers	Medium and small customers	Entities controlled by the Government	Individuals	Total
Long-term accounts receivable					
Loans issued	-	865	51	802	1,718
Other long-term receivables	-	1	-	-	1
	-	866	51	802	1,719
Current accounts receivable					
Loans issued	209	610	1,260	184	2,263
Trade receivables for supplied diamonds	559	159	-	-	718
Receivables from associates	126	13	-	-	139
Notes receivable	-	172	-	-	172
Other trade receivables	27	1,519	532	398	2,476
	921	2,473	1,792	582	5,768

31 December 2010	Large customers	Medium and small customers	Entities controlled by the Government	Individuals	Total
Long-term accounts receivable					
Loans issued	-	663	128	581	1,372
Other long-term receivables	-	7	-	-	7
	-	670	128	581	1,379
Current accounts receivable					
Loans issued	795	846	566	186	2,393
Trade receivables for supplied diamonds	1,083	242	-	-	1,325
Receivables from associates	113	44	-	-	157
Notes receivable	-	15	-	-	15
Other trade receivables	5	1,293	1,520	366	3,184
	1,996	2,440	2,086	552	7,074

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.

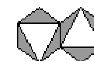
As at 31 December 2011 trade and other receivables in the amount of RR'mln 10,063 (as at 31 December 2010: RR'mln 11,179) were neither past due nor impaired and have no history of overdue payments. Most of these debtors have no individual external credit rating.

As at 31 December 2011 accounts receivable in the amount of RR'mln 528 (as at 31 December 2010: RR'mln 505) 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 2011 and 31 December 2010 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 2011	31 December 2010
Up to 3 months	268	78
3 to 6 months	48	179
6 to 12 months	67	86
More than 1 year	145	162
	528	505

As at 31 December 2011 3 individual debtors of the Group (31 December 2010: 14 individual debtors) had the outstanding balance with the Group exceeding RR'mln 100. As at 31 December 2011 total amount of such accounts receivable was RR'mln 419 (31 December 2010: RR'mln 7,631).



10. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 31 December 2011 and 31 December 2010. As at 31 December 2010 it consisted of 272,726 ordinary shares, including treasury shares, at RR 13,502.5 par value per share. On 30 June 2011 the annual shareholders' meeting decided to split outstanding registered ordinary shares of the Company so that one registered ordinary share with the par value of RR 13,502.5 each should be converted into 27,005 registered ordinary shares. In October 2011 the Company obtained all required approvals from the Federal Financial Markets Service and completed the conversion. Therefore as at 31 December 2011 the Company's share capital consists of 7,364,965,630 ordinary shares, including treasury shares, at RR 0.5 par value share. In addition as at 31 December 2011 and 31 December 2010 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 2011 and 31 December 2010, the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 29,519 and RR'mln 8,777 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 2011 subsidiaries of the Group held 148,689,530 ordinary shares of the Company (31 December 2010: 24,844,600 shares). The Group management controls the voting rights of these shares.

Earnings per share

Earnings per share have been calculated by dividing the profit attributable to owners of AK 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 7,230,164,365 and 7,326,296,468 weighted average shares outstanding for the years ended 31 December 2011 and 31 December 2010, respectively.

There are no dilutive financial instruments outstanding.

Other reserves

	Currency translation	Purchase of non-controlling interest	Available-for-sale investments	Total
Balance at 31 December 2009	**360**	**(350)**	**44**	**54**
Currency translation differences	(70)	-	-	(70)
Purchase of non-controlling interest	-	(192)	-	(192)
Net gains arising from change of fair value of available-for-sale investments	-	-	16	16
Balance at 31 December 2010	**290**	**(542)**	**60**	**(192)**
Currency translation differences	(435)	-	-	(435)
Net loss arising from change of fair value of available-for-sale investments	-	-	(19)	(19)
Balance at 31 December 2011	**(145)**	**(542)**	**41**	**(646)**

Dividends

On 30 June 2011 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2010 totalling RR'mln 1,833. Dividends per share amounted to RR 6,722 (RR 0.25 per share after split).

On 26 June 2010 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2009 totalling RR'mln 250. Dividends per share amounted to RR 917 (RR 0.03 per share after split).

11. LONG-TERM DEBT

	31 December 2011	31 December 2010
Banks:		
US$ denominated floating rate	-	2,206
US$ denominated fixed rate	16,446	22,310
RR denominated floating rate	-	1,556
	16,446	**26,072**
Eurobonds	48,278	45,696
RR denominated non-convertible bonds	26,000	26,000
Finance lease obligation	512	511
Commercial paper	-	464
Other RR denominated fixed rate loans	1,515	1,349
	92,751	**100,092**
Less: current portion of long-term debt (see note 12)	(17,222)	(11,071)
	75,529	**89,021**

At 31 December 2011 long-term loans had the following maturity profile (based on the discounted contractual cash flows):

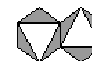
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 years and thereafter	Total
Banks:						
US$ denominated fixed rate	16,439	7	-	-	-	16,446
Eurobonds	-	-	16,093	-	32,185	48,278
RR denominated non-convertible bonds	-	-	-	-	26,000	26,000
Finance lease obligation	30	482	-	-	-	512
Other RR denominated fixed rate loans	753	762	-	-	-	1,515
	17,222	1,251	16,093	-	58,185	92,751

At 31 December 2010 long-term loans had the following maturity profile (based on the discounted 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	2,206	-	-	-	-	2,206
US$ denominated fixed rate	6,678	15,632	-	-	-	22,310
RR denominated fixed rate	1,556	-	-	-	-	1,556
Eurobonds	-	-	-	15,232	30,464	45,696
RR denominated non-convertible bonds	-	-	-	-	26,000	26,000
Finance lease obligation	27	29	23	432	-	511
Commercial paper	464	-	-	-	-	464
Other RR denominated fixed rate loans	140	1,209	-	-	-	1,349
	11,071	16,870	23	15,664	56,464	100,092

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 2011		31 December 2010	
	Effective interest rates	Market interest rates	Effective interest rates	Market interest rates
Banks				
US$ denominated floating rate	-	-	5.5%	4.8%
US$ denominated fixed rate	6.4%	7.2%	6.4%	7.4%
RR denominated floating rate	-	-	10.5%	9.4%
Eurobonds	8.1%	7.3%	8.1%	6.7%
RR denominated non-convertible bonds	8.5%	8.6%	8.5%	8.3%
Finance lease obligation	7.6%	8.0%	7.6%	8.0%
Commercial paper	-	-	27.4%	7.0%
Other RR denominated fixed rate loans	7.0%	10.1%	10.9%	9.5%



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 2011		**31 December 2010**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Banks				
US$ denominated floating rate	-	-	2,206	2,215
US$ denominated fixed rate	16,446	16,405	22,310	22,198
RR denominated floating rate	-	-	1,556	1,558
Eurobonds	48,278	53,181	45,696	49,010
RR denominated non-convertible bonds	26,000	26,245	26,000	26,412
Finance lease obligation	512	496	511	470
Commercial paper	-	-	464	490
Other RR denominated fixed rate loans	1,515	747	1,349	1,367

As at 31 December 2011 and 31 December 2010 there were no long-term loans secured with the assets of the Group.

Eurobonds

	Year ended 31 December 2011	**Year ended 31 December 2010**
Balance at the beginning of the reporting period	45,696	15,099
Amortisation of discount	5	20
Issued	-	30,794
Exchange losses / (gains)	2,577	(217)
Balance at the end of the reporting period	48,278	45,696

Finance lease obligation

	Minimum lease payments 31 December 2011	**Discounted value of minimum lease payments 31 December 2011**	**Minimum lease payments 31 December 2010**	**Discounted value of minimum lease payments 31 December 2010**
Within 1 year	69	30	65	27
Between 2 and 4 years	509	482	547	484
	578	512	612	511

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

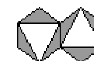
12. SHORT-TERM LOANS AND CURRENT PORTION OF LONG-TERM DEBT

	31 December 2011	**31 December 2010**
Banks:		
US$ denominated fixed rate	-	37
RR denominated fixed rate	30	57
	30	**94**
Other US$ denominated fixed rate loans	10	9
Other RR denominated fixed rate loans	2,762	1,770
	2,802	**1,873**
Add: current portion of long-term debt (see note 11)	17,222	11,071
	20,024	**12,944**

As at 31 December 2011 and 31 December 2010 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 2011	Year ended 31 December 2010
Balance at the beginning of the reporting period	-	11,237
Issued	11,313	9,239
Repayment	(12,485)	(20,906)
Exchange losses	1,172	430
Balance at the end of the reporting period	-	-

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

	31 December 2011		31 December 2010	
	Effective interest rates	Market interest rates	Effective interest rates	Market interest rates
Banks:				
US$ denominated fixed rate	-	-	12.0%	8.2%
RR denominated fixed rate	11.7%	10.4%	11.1%	10.0%
Other US$ denominated fixed rate loans	3.5%	3.8%	3.7%	3.9%
Other RR denominated fixed rate loans	7.9%	8.4%	5.7%	6.1%

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 2011		31 December 2010	
	Carrying value	Fair value	Carrying value	Fair value
Banks:				
US$ denominated fixed rate	-	-	37	37
RR denominated fixed rate	30	30	57	57
Other US$ denominated fixed rate loans	10	9	9	9
Other RR denominated fixed rate loans	2,762	2,942	1,770	1,775

13. DERIVATIVE FINANCIAL INSTRUMENTS

Long-term derivative financial instruments (liabilities)

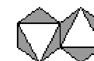
	31 December 2011	31 December 2010
Fair value of put options granted by the Group to the buyers of ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company	-	2,311
	-	2,311

Short-term derivative financial instruments (liabilities)

	31 December 2011	31 December 2010
Fair value of put options granted by the Group to the buyers of ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company	1,995	-
Fair value of foreign exchange forward contracts	-	2,328
Fair value of cross currency interest rate swaps	-	234
	1,995	2,562

Net gain from derivative financial instruments

	Year ended 31 December	
	2011	2010
Net gain from change of fair value of put options granted by the Group to the buyers of ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company	316	1,347
Net gain from foreign exchange forward contracts	1,219	771
Net gain (loss) from cross currency interest rate swap contracts	111	(37)
	1,646	2,081



Put options granted by the Group to the buyers of ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company

In October 2009 the Group sold a 90 percent interest in ZAO Geotransgaz and a 90 percent interest in OOO Urengoyskaya Gazovaya Company to the companies affiliated with OAO Bank VTB for a total cash consideration of RR'mln 18,615 (US$'mln 620). Simultaneously the Group entered into put option agreements with the buyers and the bank pursuant to which the Group may be required to repurchase 90 percent interest in OOO Urengoyskaya Gazovaya Company and a 90 percent interest in ZAO Geotransgaz back during 30 days following 1 October 2012 at a strike price of US$'mln 870.

The fair value of the put options as at 31 December 2011 determined using the option pricing model (Level 3 in accordance the valuation hierarchy) amounted to RR'mln 1,995 (31 December 2010 – RR'mln 2,311). The main inputs to the option pricing model are the fair value of the sold companies, which was assessed by the Group at 31 December 2011 as RR'mln 27,403 or US$'mln 851 (31 December 2010: RR'mln 36,735 or US$'mln 1,205) and its expected volatility, which was estimated by the Group at the level of 34 percent as at 31 December 2011 and 44 percent 31 December 2010 using historical data for comparable companies for the last 3 months and 2 years respectively.

	Year ended 31 December	
	2011	**2010**
Fair value of the put options at the beginning of the year	(2,311)	(3,658)
Change in fair value during the year	316	1,347
Fair value of the put options at the end of the year	(1,995)	(2,311)

At 31 December 2011, if the fair value of sold companies had decreased / increased by 10 percent with all other variables held constant, post-tax profit and equity for the year would have been RR'mln 883 (31 December 2010 – RR'mln 491) lower / higher as a result of losses / gains from revaluation of the put options.

Foreign exchange forward contracts

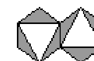
To reduce the Group's US$ / RR foreign exchange risk exposure, in 2006 the Group entered into US$ / RR forward sale transactions with five foreign banks having an investment grade rating within the range Aa2-Aa3 as assessed by Moody's rating agency as at 31 December 2010 under which it agreed to sell US$ for RR during a five-year period starting in September 2006 and ending in September 2011, at a strike price fixed at the exchange rates ranging from RR 26.56 to RR 26.84 per US$ 1, averaged on a quarterly basis. The transactions had varying maturities and amounts spread evenly over the five-year period in the aggregate amount of US$'mln 215 per quarter (US$'mln 4,300 in total over the five-year period). At 31 December 2011 the Group has no obligations under foreign exchange forward contracts. At 31 December 2010 the fair value of the forward foreign exchange contracts totalled RR'mln 2,328 (liability). It represents the net present value of the differences between the cash flows related to these contracts calculated at forward exchange rates expected by the five banks participating in these transactions as at the end of the reporting periods and forward exchange rates fixed by the forward sales contracts concluded by the Company over the five-year period.

	Year ended 31 December	
	2011	**2010**
Fair value of foreign exchange forward contracts at the beginning of the year	(2,328)	(6,300)
Payment from exercising of foreign exchange forward contracts	1,109	3,201
Net gain from change of fair value of foreign exchange forward contracts	1,219	771
Fair value of foreign exchange forward contracts at the end of the year	-	(2,328)

Cross currency interest rate swap contracts

To reduce the Group's interest rate risk exposure associated with the RR denominated floating rate loans from Bank VTB, in 2008 the Group entered into US$ / RR cross currency interest rate swap transactions with VTB Bank Europe Plc having an investment grade rating Baa1 as assessed by Moody's rating agency as at 31 December 2010. Under the swap transactions the Group agreed to convert into US$ the amount due to Bank VTB totalling RR'mln 4,518 at the exchange rate of RR 26.62 and pay fixed interest rates ranging from 9.55 to 9.88 percent in exchange of RR floating interest rates based on three months MosPrime interest rate. The transactions have varying maturities and amounts spread from October 2008 to May 2011. As at 31 December 2011 the Group has no obligations under cross currency interest rate swap contracts. At 31 December 2010 the fair value of the cross currency interest rate swap transactions totalled RR'mln 234 (liability).

	Year ended 31 December	
	2011	**2010**
Fair value of cross currency interest rate swap contracts at the beginning of the year	(234)	(187)
Proceeds from exercising of swap contracts	(1,597)	(181)
Payment from exercising of swap contracts	1,720	171
Net gain / (loss) from change of fair value of cross currency interest rate swap contracts	111	(37)
Fair value of cross currency interest rate swap contracts at the end of the year	-	(234)



The discount rate used to calculate the fair value of the forward foreign exchange contracts and cross currency interest rate swap transactions as at 31 December 2010 was 8.1 percent, which represents the incremental interest rate on RR denominated borrowings applicable to the Group as at the end of the respective reporting period.

The fair values of derivative financial instruments are based on valuation techniques with non-observable inputs (Level 3 in accordance the valuation hierarchy).

14. PROVISION FOR LAND RECULTIVATION

	Year ended 31 December 2011	Year ended 31 December 2010
At the beginning of the reporting period	800	326
Unwinding of discount	71	39
Utilised	(82)	(113)
Change in estimate of provision for land recultivation	(267)	548
At the end of the reporting period	522	800

The Company fulfils the “Program for improvement of environmental situation in the area of operating activity of the Company” which was approved by the Management Committee of the Company. In accordance with this Program the Company assumed an obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity during the period till 2018. The Company recognised a provision for these future expenses in its consolidated financial statements for the years ended 31 December 2011 and 31 December 2010 with a corresponding asset recognised within property, plant and equipment (see note 7). The discount rate used to calculate the net present value of the future cash outflows relating to land recultivation at 31 December 2011 was 8.96 percent (31 December 2010: 15.2 percent), which represents the 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.

15. 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:

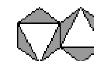
	31 December 2011	31 December 2010
Present value of obligations	14,449	14,119
Fair value of plan assets	(5,987)	(4,528)
Unsecured pension obligations	8,462	9,591
Present value of unfunded obligation	792	592
Unrecognised past service cost	(113)	(146)
Unrecognised actuarial losses	(4,113)	(5,693)
Net liability	5,028	4,344

The amounts recognised in the consolidated statement of comprehensive income in respect of the operation of the defined benefit plan are as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Interest cost	1,160	995
Net actuarial losses	630	281
Immediate recognition of vested prior service cost	395	766
Current service cost	372	258
Recognised past service cost	33	15
Curtailment	-	(70)
Expected return on plan assets	(317)	(442)
Net expense recognised in the statement of comprehensive income	2,273	1,803

Net expense recognised in the statement of comprehensive income is included in cost of sales, general and administrative expenses, selling and marketing expenses in the amount of RR’mln 2,063 (year ended 31 December 2010: RR’mln 1,575), RR’mln 131 (year ended 31 December 2010: RR’mln 171) and RR’mln 79 (year ended 31 December 2010: RR’mln 57), respectively.

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



	31 December 2011	31 December 2010
Benefit obligation at the beginning of the year	14,711	11,650
Actuarial loss / (gain)	(592)	1,850
Interest cost	1,160	995
Past service cost	395	738
Current service cost	372	258
Curtailment	-	(93)
Benefits paid	(805)	(687)
Benefit obligation at the end of the year	15,241	14,711

	31 December 2011	31 December 2010
Fair value of plan assets at the beginning of the year	4,528	5,112
Contributions made	1,589	555
Expected return on plan assets	317	442
Actuarial gain / (loss)	358	(894)
Benefits paid	(805)	(687)
Fair value of plan asset at the end of the year	5,987	4,528

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the end of preceding year. Expected returns on equity investments reflect long-term rates of return experienced in the respective markets.

In the year ended 31 December 2011 the actual income on plan assets was RR'mln 675 (year ended 31 December 2010: actual loss was RR'mln 452).

The Group expects to contribute RR'mln 1,172 to the defined benefit plans during the year beginning 1 January 2012.

Principal actuarial assumptions used:

	31 December 2011	31 December 2010
Discount rate (nominal)	8.3%	8.0%
Expected return on plan assets	8.3%	7.0%
Future salary increases (nominal)	5.5%	5.5%
Future pension increases (nominal)	5.5%	5.5%
Mortality table	Russia 1998	Russia 1998
Expected retirement age – male	57	57
Expected retirement age – female	55	55

Expected staff turnover rates depend on past service - around 16 percent for employees with 2 years of service going down to 6 percent for employees with 10 or more years of service.

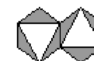
At 31 December 2011 sensitivity of provision for pension obligations to principal actuarial assumptions is as follows:

	Change in assumption	Impact on provision for pension obligations
Discount rate	Increase / decrease by 0.5%	Decrease / increase by 5.31%
Expected return on plan assets	Increase / decrease by 0.5%	Decrease / increase by 5.88%
Future salary increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 0.03%
Future pension increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 5.41%
Employee turnover	Increase / decrease by 10%	Decrease / increase by 0.16%
Mortality level	Increase / decrease by 10%	Decrease / increase by 3.73%

Five-year defined benefit plan disclosure:

	Year ended 31 December				
	2011	2010	2009	2008	2007
Present value of obligations	15,241	14,711	11,650	9,581	11,375
Fair value of plan assets	(5,987)	(4,528)	(5,112)	(3,819)	(3,555)
Deficit in plan	9,254	10,183	6,538	5,762	7,820

	Year ended 31 December				
	2011	2010	2009	2008	2007
Experience adjustments on plan liabilities	(367)	404	133	(278)	(653)
Experience adjustments on plan assets	358	(894)	617	(250)	(52)



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

	31 December 2011, %	31 December 2010, %
Bank deposits	36.7	42.0
Russian Government and municipal bonds	24.2	13.4
Russian corporate bonds	24.1	22.3
Equity securities of Russian issuers	14.3	20.0
Debt securities of Russian issuers	0.7	2.3
	100.0	100.0

16. TRADE AND OTHER PAYABLES

	31 December 2011	31 December 2010
Accrual for employee flights and holidays	5,853	4,482
Wages and salaries	3,791	1,659
Trade payables	2,822	2,532
Current accounts of third parties in OOO MAK Bank	1,242	1,202
Interest payable	695	660
Advances from customers	230	516
Payables to associates	7	59
Other payables and accruals	951	419
	15,591	11,529

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, or a pre-determined allowance.

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2011 and 31 December 2010 approximates their carrying value.

17. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

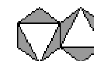
	31 December 2011	31 December 2010
Payments to social funds	888	694
Property tax	851	749
Personal income tax (employees)	545	270
Value added tax	501	625
Extraction tax	475	555
Tax penalties	32	24
Other taxes and accruals	72	113
	3,364	3,030

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

	Year ended 31 December 2011	Year ended 31 December 2010
Property tax	3,207	3,046
Other taxes and accruals	413	407
	3,620	3,453

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 percent on the value of diamonds sold for export in the form of an export duty (see note 18).

In accordance with the amendment to the license agreement registered in May 2007, OAO 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 2007 in the amount of RR’mln 3,509 per annum.



Income tax comprise the following:

	Year ended 31 December 2011	Year ended 31 December 2010
Current tax expense	11,859	4,651
Deferred tax expense / (benefit)	1,019	(315)
Adjustments recognised in the period for current tax of prior periods	(1,223)	(148)
	11,655	4,188

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

	Year ended 31 December 2011	Year ended 31 December 2010
Profit before income tax	38,313	15,976
Theoretical tax charge at statutory rate of 20 percent thereon	7,663	3,195
Tax effect of income not assessable for income tax purposes	-	(285)
Prior periods adjustments recognised in the current period	(1,223)	(148)
Tax effect of expenses and losses not deductible for income tax purposes	5,215	1,426
	11,655	4,188

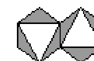
Expenses and losses not deductible for income tax purposes include mostly loss on disposal of property, plant and equipment (including loss on disposal of social infrastructure assets), social expenses and non-deductible wages, salaries and other staff costs.

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 percent.

	31 December 2011	Tax effect of movement in temporary differences recorded in profit or loss	31 December 2010	Tax effect of movement in temporary differences recorded in profit or loss	31 December 2009
Deferred tax liabilities					
Property, plant and equipment	4,989	247	4,742	(1,594)	6,336
Inventories	3,221	(607)	3,828	(287)	4,115
Long-term investments	336	64	272	34	238
Deferred tax assets					
Derivative financial instruments	(401)	576	(977)	1,058	(2,035)
Accrual for employee benefits	(540)	446	(986)	(25)	(961)
Exploration costs written off	(547)	(108)	(439)	(69)	(370)
Provision for pension obligations	(1,006)	(137)	(869)	(250)	(619)
Write-down of inventories	(848)	507	(1,355)	(298)	(1,057)
Impairment of receivables	(771)	91	(862)	(134)	(728)
Asset for tax losses carry-forwards	(878)	-	(878)	1,231	(2,109)
Other deductible temporary differences	(77)	(60)	(17)	19	(36)
Net deferred tax liability	**3,478**	**1,019**	**2,459**	**(315)**	**2,774**

As at 31 December 2011 and 31 December 2010 the Group recognised deferred tax assets for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. These tax losses carry-forwards expire in 2017.

As at 31 December 2011 and 31 December 2010 the Group had not recorded a deferred tax liability in respect to taxable temporary differences of RR'mln 7,600 and RR'mln 4,459, 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.



18. SALES

	Year ended 31 December 2011	Year ended 31 December 2010
Revenue from diamond sales:		
Export	93,959	72,808
Domestic	30,986	22,548
Revenue from diamonds for resale	395	5,915
	125,340	101,271
Other revenue:		
Transport	4,617	4,100
Social infrastructure	2,809	2,347
Trading	904	935
Construction	460	1,755
Other	3,602	2,986
	137,732	113,394

Export duties totalling RR'mln 6,158 for the year ended 31 December 2011 (year ended 31 December 2010: RR'mln 4,920) were netted against revenues from export of diamonds.

In the years ended 31 December 2011 and 31 December 2010 the Group had no customers accounting for more than 10 percent of the Group's revenue.

19. COST OF SALES

	Year ended 31 December 2011	Year ended 31 December 2010
Wages, salaries and other staff costs	25,616	19,387
Depreciation	9,846	8,793
Fuel and energy	8,516	8,331
Extraction tax	7,805	6,896
Materials	6,188	5,860
Services	3,030	3,942
Transport	1,968	1,837
Cost of diamonds for resale	351	5,750
Other	53	190
Movement in inventory of diamonds, ores and concentrates	(7,368)	2,683
	56,005	63,669

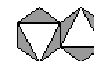
Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 4,093 (year ended 31 December 2010: RR'mln 2,910). These payments include mandatory contributions to State pension plan in the amount of RR'mln 3,394 (year ended 31 December 2010: RR'mln 2,240).

Depreciation totalling RR'mln 1,222 (year ended 31 December 2010: RR'mln 994) and staff costs totalling RR'mln 2,554 (year ended 31 December 2010: RR'mln 1,290) were incurred by the Group's construction divisions and were capitalised into property, plant and equipment in the year.

20. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2011	Year ended 31 December 2010
Wages, salaries and other staff costs	3,343	2,100
Services and other administrative expenses	2,255	2,893
Impairment of accounts receivable (see note 9)	590	2,293
	6,188	7,286

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 133 (year ended 31 December 2010: RR'mln 25). These payments include mandatory contributions to State pension plan in the amount of RR'mln 110 (year ended 31 December 2010: RR'mln 19).



21. SELLING AND MARKETING EXPENSES

	Year ended 31 December 2011	Year ended 31 December 2010
Wages, salaries and other staff costs	1,011	705
Services and other selling and marketing expenses	628	661
	1,639	1,366

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 158 (year ended 31 December 2010: RR'mln 100). These payments include mandatory contributions to State pension plan in the amount of RR'mln 131 (year ended 31 December 2010: RR'mln 75).

22. OTHER OPERATING EXPENSES

	Year ended 31 December 2011	Year ended 31 December 2010
Exploration expenses	7,071	4,249
Social costs	4,382	2,881
Taxes other than income tax, extraction tax and payments to social funds (note 17)	3,620	3,453
Loss on disposal of property, plant and equipment	2,920	2,433
Impairment / (reversal of impairment) of property, plant and equipment	303	(42)
Other	909	1,302
	19,205	14,276

In the years ended 31 December 2011 and 31 December 2010 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 2011	Year ended 31 December 2010
Maintenance of local infrastructure	2,096	1,252
Charity	1,485	537
Hospital expenses	214	667
Education	59	41
Other	528	384
	4,382	2,881

23. FINANCE INCOME

	Year ended 31 December 2011	Year ended 31 December 2010
Interest income	332	322
Exchange gains	1,160	1,086
	1,492	1,408

24. FINANCE COSTS

	Year ended 31 December 2011	Year ended 31 December 2010
Interest expense:		
Bank loans	1,104	5,663
Eurobonds	3,510	1,738
RR denominated non-convertible bonds	2,167	1,117
Commercial paper	61	202
European commercial paper	348	929
Other	9	246
Unwinding of discount of provision for land recultivation (note 14)	71	39
Exchange loss	4,412	3,670
	11,682	13,604

25. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December 2011	Year ended 31 December 2010
Profit before income tax	38,313	15,976
Adjustments for:		
Share of net profit of associates (note 5)	(1,240)	(1,034)
Interest income (note 23)	(332)	(322)
Interest expense (note 24)	7,270	9,934
Loss on disposal of property, plant and equipment (note 22)	2,920	2,433
Impairment / (reversal of impairment) of property, plant and equipment (note 22)	303	(42)
Loss on disposal of social infrastructure assets (note 7)	6,531	-
Gain on disposal of subsidiaries (notes 5)	-	(1,427)
Net gain from derivative financial instruments (note 13)	(1,646)	(2,081)
Depreciation (note 19)	9,846	8,793
Adjustment for inventory used in construction	(1,673)	(1,096)
Adjustments for non-cash financing activity	(183)	(339)
Net payments from exercising of foreign exchange forward contracts (note 13)	(1,109)	(3,201)
Net (payments) / proceeds from exercising of cross currency interest rate swap contracts (note 13)	(123)	10
Payments to restricted cash account (note 6)	(85)	(45)
Unrealised foreign exchange effect on non-operating items	3,397	2,423
Net operating cash flow before changes in working capital	62,189	29,982
Net (increase) / decrease in inventories	(9,915)	9,616
Net decrease in trade and other receivables, excluding dividends receivable	1,095	2,220
Net increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	4,711	855
Net increase / (decrease) in taxes payable other than income tax	334	(624)
Cash generated from operations	**58,414**	**42,049**
Income tax paid	(9,232)	(4,249)
Net cash inflows from operating activities	**49,182**	**37,800**

26. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment of the Russian Federation

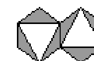
Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market, including relatively high inflation and high interest rates. The future economic direction of the Russian Federation is largely dependent upon 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.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

(b) Taxes

Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As Russian tax legislation does not provide definitive guidance in certain



areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As at 31 December 2011 and 31 December 2010 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 2011 and 31 December 2010 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 2011.

(d) Insurance

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

(e) Capital commitments

The Group has contractual commitments for capital expenditures of approximately RR'mln 7,152 (31 December 2010: RR'mln 5,156).

(f) Restoration, rehabilitation and environmental costs

Under its license agreements, the Group is not responsible for any significant restoration, rehabilitation and environmental expenditures that may be incurred subsequent to the cessation of production at each mine, apart from the obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. The Company recognised a provision for these future expenses in the amount of RR'mln 522 as at 31 December 2011 (RR'mln 800 as at 31 December 2010).

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 ultimate controlling parties of the Company. As at 31 December 2011 83 percent of the Company issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Also as at 31 December 2011 8 percent of the Company's shares were owned by administrations or 8 districts of the Republic of Sakha (Yakutia). Following the General Meeting of Shareholders in June 2011, the 15 seats on the Supervisory Council include 12 representatives of the Russian Federation and the Republic of Sakha (Yakutia), including 4 independent directors nominated by the Government of the Russian Federation, 2 management representatives and 1 representative of districts of the Republic of Sakha (Yakutia). Governmental, federal and local economic and social policies affect the Group's financial position, results of operations and cash flows.

Tax balances are disclosed in the consolidated statement of financial position and in notes 9 and 17. Tax transactions are disclosed in the consolidated statement of comprehensive income, consolidated statement of cash flows and in notes 17, 18, 19, 22 and 25.

Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities under Governmental control. The principal forms of such transactions are diamond sales, electricity purchases and borrowings. Prices of diamonds sales are set by 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 2011 the accounts payable to the parties under Governmental control totalled RR'mln 843 (31 December 2010: RR'mln 679). As at 31 December 2011 the accounts receivable from the parties under Governmental control (excluding loans issued to these parties) totalled RR'mln 1,454 (31 December 2010: RR'mln 2,100). As at 31 December 2011 and 31 December 2010 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 2011 and 31 December 2010 the Group had the following significant transactions with parties under Governmental control:

	Year ended 31 December 2011	**Year ended 31 December 2010**
Sales of diamonds	13,053	8,719
Other sales	2,409	2,515
Electricity and heating purchases	4,499	4,841
Other purchases	1,379	1,358

As at 31 December 2011 and 31 December 2010 the Group has no contractual commitments to sell goods or services to the parties under control of the Government. As at 31 December 2011 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 4,172 (31 December 2010: RR'mln 3,803).

As at 31 December 2011 and 31 December 2010 the amount of loans received by the Group from the banks under Governmental control was as follows:

	31 December 2011	**31 December 2010**
Long-term bank loans		
US$ denominated fixed rate	7	22,311
RR denominated floating rate	-	1,556
	7	23,867
Short-term bank loans		
US$ denominated fixed rate	16,439	-
RR denominated fixed rate	-	49
	16,439	49
	16,446	**23,916**

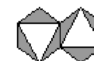
The average effective interest rates on the loans received by the Group from the banks under Governmental control at the end of the reporting period were as follows:

	31 December 2011	**31 December 2010**
Long-term bank loans		
US$ denominated fixed rate	7.8%	6.4%
RR denominated floating rate	-	10.5%
Short-term bank loans		
US$ denominated fixed rate	6.4%	-
RR denominated fixed rate	-	11.0%

In the year ended 31 December 2011 interest expense accrued in respect of the loans received by the Group from the entities under Governmental control totalled RR'mln 1,167 (year ended 31 December 2010: RR'mln 5,380).

As at 31 December 2011 the amount of loans issued by the Group to the entities under Governmental control totalled RR'mln 1,310 (31 December 2010: RR'mln 694). These loans are short-term, denominated in Russian Roubles, the average effective interest rate on these loans is 13.9 percent (31 December 2010: 13.6 percent). In the year ended 31 December 2011 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR'mln 88 (year ended 31 December 2010: RR'mln 66).

In December 2011 the Company transferred free of charge to the local municipalities certain social infrastructure assets with net book value of RR'mln 6,531 (see note 7).



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 Committee of the Company.

The Management Committee consists of 19 members, two of whom are also members of the Supervisory Council. Management Committee 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 Committee is determined by the terms of employment contracts.

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 2011 totalling RR'mln 622 (year ended 31 December 2010: RR'mln 309). The portion of provision for pension obligations attributable to key management as at 31 December 2011 equals to RR'mln 52 (31 December 2010: RR'mln 41). The amount of expenses recognised in the consolidated statement of comprehensive income in respect of the operation of the defined benefit plan for key management in the year ended 31 December 2011 equals to RR'mln 11 (year ended 31 December 2010: RR'mln 9).

Associates

Significant balances and transactions with associates are summarised as follows:

Current accounts receivable	**31 December 2011**	**31 December 2010**
Catoca Mining Company Ltd, dividends receivable	126	113
Other	14	70
Less: provision for bad debt	(1)	(26)
	139	157

In April 2011 Catoca Mining Company Ltd declared dividends for the year ended 31 December 2010; the Group's share of these dividends amounted to RR'mln 923. In April 2010 Catoca Mining Company Ltd declared dividends for the year ended 31 December 2009; the Group's share of these dividends amounted to RR'mln 607. During the year ended 31 December 2011 Catoca Mining Company Ltd paid dividends for the Group in cash in the amount of RR'mln 1,081 (during the year ended 31 December 2010 – in the amount of RR'mln 1,038). In the year ended 31 December 2011 the Group recognised exchange gain related to dividends receivable from Catoca Mining Company Ltd in the amount of RR'mln 171 (in the year ended 31 December 2010 –RR'mln 66).

As at 31 December 2011 and 31 December 2010 the accounts receivable from associates were non-interest bearing, had a maturity within one year and were denominated mostly in US$.

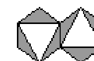
Transactions with the Group's pension plan are disclosed in note 15.

28. SEGMENT INFORMATION

The Management Committee 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 Committee 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 Committee 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;
- capital expenditure.

The following reportable segments were identified:

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

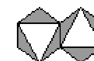
Year ended 31 December 2011	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Sales	131,499	4,755	2,809	460	1,143	2,377	3,787	146,830
Intersegment sales	-	(137)	-	-	(239)	(1,918)	(978)	(3,272)
Cost of sales, incl.	36,335	5,379	6,642	450	471	1,742	3,031	54,050
Depreciation	8,048	490	462	122	9	434	283	9,848
Gross margin	**95,164**	**(624)**	**(3,833)**	**10**	**672**	**635**	**756**	**92,780**

Year ended 31 December 2010	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Sales	106,192	4,234	2,347	1,755	1,406	2,449	5,151	123,534
Intersegment sales	-	(133)	-	-	(471)	(1,931)	(932)	(3,467)
Cost of sales, incl.	42,440	4,583	5,484	2,246	837	1,321	5,024	61,935
Depreciation	7,931	488	572	142	9	333	264	9,739
Gross margin	**63,752**	**(349)**	**(3,137)**	**(491)**	**569**	**1,128**	**127**	**61,599**

Reconciliation of sales is presented below:

	Year ended 31 December 2011	**Year ended 31 December 2010**
Segment sales	**146,830**	**123,534**
Elimination of intersegment sales	(3,272)	(3,467)
Reclassification of custom duties [1]	(6,158)	(4,920)
Reclassification of sales [2]	-	(1,431)
Other adjustments and reclassifications	332	(322)
Sales as per Statement of Comprehensive Income	**137,732**	**113,394**

[1] Reclassification of custom duties – export duties netted against revenues from export of diamonds
[2] Reclassification of sales – reclassification of certain subsidiaries' sales/cost of sales to other income and expenses



Reconciliation of cost of sales including depreciation is presented below:

	Year ended 31 December 2011	Year ended 31 December 2010
Segment cost of sales	**54,050**	**61,935**
Adjustment for depreciation of property, plant and equipment	(2)	(947)
Elimination of intersegment purchases	(3,272)	(3,467)
Accrued provision for pension obligation [1]	621	1,248
Reclassification of extraction tax [2]	6,735	6,067
Adjustment for inventories [3]	(209)	2,839
Accrual for employee flights and holidays [4]	749	127
Other adjustments	(43)	(466)
Reclassification of exploration expenses [5]	(1,632)	(3,027)
Reclassification of cost of sales [6]	-	(1,394)
Other reclassifications	(992)	754
Cost of sales as per Statement of Comprehensive Income	**56,005**	**63,669**

[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 2011	Year ended 31 December 2010
Russian Federation	43,079	36,334
Belgium	59,527	48,582
India	16,863	11,286
Israel	9,501	9,397
China	2,799	2,501
United Arab Emirates	2,082	2,032
Armenia	1,163	696
Belarus	848	763
USA	737	634
Angola	619	885
Other countries	514	284
Total	**137,732**	**113,394**

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

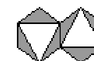
	31 December 2011	31 December 2010
Russian Federation	170,364	168,357
Angola	2,768	2,997
Other countries	305	270
	173,437	**171,624**

29. EVENTS AFTER THE REPORTING PERIOD

Acquisition of gas production assets

On 6 March 2012 the Group acquired a 10 percent interest in ZAO Geotransgaz and a 10 percent interest in OOO Urengoyskaya Gazovaya Company from their minority shareholder for a total cash consideration of RR'mln 2,908 (US$'mln 100).

On 29 March 2012 the Group and the companies affiliated with OAO Bank VTB agreed to early terminate put option agreements (see note 13) and signed share purchase agreements in accordance to which the Group purchased back a 90 percent interest in ZAO Geotransgaz and a 90 percent interest in OOO Urengoyskaya Gazovaya Company for a total cash consideration of RR'mln 30,145 (US$'mln 1,036) which included acquisition of interest-bearing promissory notes with par value of RR'mln 8,581 (US$'mln 295) previously issued by ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company and held by the companies affiliated with OAO Bank VTB.



As a result of these transactions the Group acquired full control over ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company. These companies perform development of gas deposits located in the Tyumen region of the Russian Federation. Management of the Group is in the process of allocation of the purchase price between identifiable assets, liabilities and contingent liabilities of the businesses acquired. At this stage no information regarding the results of this procedure could be practically disclosed in these consolidated financial statements.

To finance the transactions the Group issued two series of European commercial paper in the amount of RR'mln 30,280 (nominal amount – US$'mln 1,037) with maturity 9-12 months and interest rates of 4.125-4.25 percent per annum.

Dividends

On 24 April 2012 the Company's Supervisory Council recommended the annual shareholders' meeting which is scheduled for 30 June 2012 to approve dividends for the year ended 31 December 2011 in the amount of RR'mln 7,439 (RR 1.01 per share).