AK ALROSA

IFRS CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (UNAUDITED)

30 SEPTEMBER 2012

CONTENTS

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Financial Position (unaudited)

	Notes	30 September 2012	31 December 2011
Assets			
Non-current Assets			
Goodwill		1,439	1,439
Property, plant and equipment	6	219,870	169,534
Investments in associates	4	1,823	2,350
Available-for-sale investments		105	157
Long-term accounts receivable	8	1,726	1,833
Restricted cash		294	237
Total Non-current Assets		**225,257**	**175,550**
Current Assets			
Inventories	7	59,829	44,429
Prepaid income tax		138	213
Current accounts receivable	8	15,571	8,758
Cash and cash equivalents	5	10,521	12,014
Total Current Assets		**86,059**	**65,414**
Total Assets		**311,316**	**240,964**
Equity			
Share capital	9	12,473	12,473
Share premium		10,431	10,431
Treasury shares	9	(250)	(249)
Retained earnings and other reserves		108,180	91,159
Equity attributable to owners of AK ALROSA		**130,834**	**113,814**
Non-Controlling Interest in Subsidiaries		**(386)**	**(717)**
Total Equity		**130,448**	**113,097**
Liabilities			
Non-current Liabilities			
Long-term debt	10	57,203	75,529
Provision for pension obligations		4,745	5,028
Provision for land recultivation		510	522
Deferred tax liabilities		12,828	3,478
Total Non-current Liabilities		**75,286**	**84,557**
Current Liabilities			
Short-term loans and current portion of long-term debt	11	82,882	20,024
Derivative financial instruments	4	-	1,995
Trade and other payables	12	17,860	15,591
Income tax payable		1,180	1,851
Other taxes payable	13	3,639	3,364
Dividends payable		21	485
Total Current Liabilities		**105,582**	**43,310**
Total Liabilities		**180,868**	**127,867**
Total Equity and Liabilities		**311,316**	**240,964**

Signed on 29 November 2012 by the following members of management:

Fedor B. Andreev
President

Elena L. Timonina
Chief accountant

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

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Comprehensive Income (unaudited)

		Three months ended		Nine months ended	
	Notes	**30 September 2012**	**30 September 2011**	**30 September 2012**	**30 September 2011**
Sales	14	27,791	41,168	104,319	107,315
Cost of sales	15	(13,257)	(14,935)	(47,208)	(38,054)
Royalty	13	(302)	(877)	(907)	(2,632)
Gross profit		**14,232**	**25,356**	**56,204**	**66,629**
General and administrative expenses	16	(1,426)	(1,185)	(5,588)	(4,084)
Selling and marketing expenses	17	(458)	(356)	(1,420)	(1,117)
Net gain/(loss) from derivative financial instruments		-	(131)	-	1,420
Other operating income	18	96	10	2,611	355
Other operating expenses	19	(3,540)	(4,400)	(12,410)	(12,345)
Operating profit		**8,904**	**19,294**	**39,397**	**50,858**
Finance income	20	7,178	89	1,444	183
Finance costs	21	(4,103)	(9,138)	(7,262)	(8,108)
Share of net profit of associates	4	276	324	822	924
Profit before income tax		**12,255**	**10,569**	**34,401**	**43,857**
Income tax	13	(3,632)	(1,308)	(9,562)	(8,329)
Profit for the period		**8,623**	**9,261**	**24,839**	**35,528**
Other comprehensive income					
Net losses arising from change in fair value of available-for-sale investments		-	(26)	-	(26)
Currency translation differences		243	(170)	95	(283)
Other comprehensive (loss) / income for the period		**243**	**(196)**	**95**	**(309)**
Total comprehensive income for the period		**8,866**	**9,065**	**24,934**	**35,219**
Profit attributable to:					
Owners of AK ALROSA		8,605	8,748	24,373	34,845
Non-controlling interest		18	513	466	683
Profit for the period		**8,623**	**9,261**	**24,839**	**35,528**
Total comprehensive income attributable to:					
Owners of AK ALROSA		8,848	8,552	24,468	34,536
Non-controlling interest		18	513	466	683
Total comprehensive income for the period		**8,866**	**9,065**	**24,934**	**35,219**
Basic and diluted earnings per share for profit attributable to the owners of AK ALROSA (in Roubles)		1.20	1.21	3.38	4.80

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

	Notes	Nine months ended 30 September 2012	Nine months ended 30 September 2011
Net Cash Inflow from Operating Activities	22	**19,328**	**40,022**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(21,152)	(13,989)
Acquisition of Gas companies less cash acquired on their acquisition	4	(32,756)	-
Proceeds from sales of fixed assets		280	505
Acquisition of available-for-sale investments		(42)	(19)
Proceeds from sale of available-for-sale investments		-	7
Interest received		225	183
Net Cash Outflow from Investing Activities		**(53,445)**	**(13,313)**
Cash Flows from Financing Activities			
Repayments of loans		(16,133)	(11,527)
Loans received		61,442	13,470
Interest paid		(4,205)	(4,262)
Purchase of treasury shares		(9)	(3,298)
Dividends paid		(8,035)	(2,085)
Net Cash Inflow / (Outflow) from Financing Activities		**33,060**	**(7,702)**
Net Increase in Cash and Cash Equivalents		**(1,057)**	**19,007**
Cash and cash equivalents at the beginning of the period		12,014	4,136
Exchange losses on cash and cash equivalents		(436)	(394)
Cash and Cash Equivalents at the End of the Period		**10,521**	**22,749**

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

	Attributable to owners of AK ALROSA						Non-controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total		
Balance at 31 December 2010	**12,473**	**10,431**	**(39)**	**(192)**	**70,218**	**92,891**	**(281)**	**92,610**
Comprehensive income								
Profit for the period	-	-	-	-	34,845	34,845	683	35,528
Other comprehensive income	-	-	-	(26)	-	(26)	-	(26)
Currency translation differences	-	-	-	(283)	-	(283)	-	(283)
Total other comprehensive income	-	-	-	(309)	-	(309)	-	(309)
Total comprehensive income for the period	**-**	**-**	**-**	**(309)**	**34,845**	**(34,536)**	**683**	**(35,219)**
Transactions with owners								
Dividends (note 9)	-	-	-	-	(1,833)	(1,833)	-	(1,833)
Purchase of own shares	-	-	(62)	-	(3,236)	(3,298)	-	(3,298)
Dividends paid by subsidiaries to the owners of non-controlling interest	-	-	-	-	-	-	(57)	(57)
Total transactions with owners	**-**	**-**	**(62)**	**-**	**(5,069)**	**(5,131)**	**(57)**	**(5,188)**
Balance at 30 September 2011	**12,473**	**10,431**	**(101)**	**(501)**	**99,994**	**122,296**	**345**	**122,641**
Balance at 31 December 2011	**12,473**	**10,431**	**(249)**	**(646)**	**91,805**	**113,814**	**(717)**	**113,097**
Comprehensive income								
Profit for the period	-	-	-	-	24,373	24,373	466	24,839
Other comprehensive income								
Currency translation differences	-	-	-	95	-	95	-	95
Total other comprehensive income	-	-	-	95	-	95	-	95
Total comprehensive income for the period	**-**	**-**	**-**	**95**	**24,373**	**24,468**	**466**	**24,934**
Transactions with owners								
Dividends (note 9)	-	-	-	-	(7,439)	(7,439)	-	(7,439)
Non-controlling interest in disposed subsidiaries	-	-	-	-	-	-	(4)	(4)
Purchase of own shares	-	-	(1)	-	(8)	(9)	-	(9)
Dividends paid by subsidiaries to the owners of non-controlling interest	-	-	-	-	-	-	(131)	(131)
Total transactions with owners	**-**	**-**	**(1)**	**-**	**(7,447)**	**(7,448)**	**(135)**	**(7,583)**
Balance at 30 September 2012	**12,473**	**10,431**	**(250)**	**(551)**	**108,731**	**130,834**	**(386)**	**130,448**

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 30 September 2012 and 31 December 2011 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.

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

As at 30 September 2012 the Group's current liabilities exceeded its current assets by RR'mln 19,523 principally as a result of loans and borrowings due to be repaid during one year after the reporting period. Substantial portion of these loans was obtained in March 2012 to finance the Group's acquisition of Gas companies (see note 4). As at the date of this report RR'mln 28,963 of short-term borrowings were refinanced with long-term financing provided by the banks and long-term debt instruments issued on the Russian market (see note 26). Accordingly, management believes that a going concern basis for the preparation of this condensed consolidated interim financial information is appropriate.

2. BASIS OF PRESENTATION

The condensed consolidated interim financial information is prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). This condensed consolidated interim financial information should be read together with the consolidated financial statements for the year ended 31 December 2011 prepared in accordance with International Financial Reporting Standards ("IFRS").

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 Group's condensed consolidated interim financial information is based on the statutory accounting records, with adjustments and reclassifications for the purpose of fair presentation in accordance with IAS 34.

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

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 30.92 and 32.20 as at 30 September 2012 and 31 December 2011, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 39.98 and 41.67 as at 30 September 2012 and 31 December 2011, respectively.

(in millions of Russian roubles, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies and methods of computation followed by the Group and the critical accounting judgments in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2011. The only exception is income tax expense which is recognised in this condensed consolidated interim financial information based on management's best estimate of the weighted average annual effective income tax rate expected for the full financial year.

The Group has adopted all new standards and interpretations that were effective from 1 January 2012. The application of these new standards and interpretations did not affect this consolidated interim condensed financial information.

Certain new standards, interpretations and amendments to standards and interpretations, as disclosed in the consolidated financial statements for the year ended 31 December 2011, have been issued but are not yet effective and have not been early adopted by the Group. The Group is currently considering the implications of these new accounting pronouncements, their impact on its consolidated financial statements and the timing of their adoption by the Group.

4. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

Name	**Principal activity**	**Country of Incorporation**	**Percentage of ownership interest held**	
			30 September 2012	**31 December 2011**
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	100
ZAO Geotransgaz	Gas production	Russia	100	-
OOO Urengoyskaya gazovaya company	Gas production	Russia	100	-
OAO ALROSA-Nyurba	Diamonds production	Russia	88	88
OOO MAK Bank	Banking activity	Russia	88	88

As at 30 September 2012 and 31 December 2011 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

Acquisition of ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company

In March 2012 the Group and the companies affiliated with OAO Bank VTB agreed to early terminate put option agreements and signed share purchase agreements in accordance to which the Group purchased back a 90 percent interest in ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company ("Gas companies") for a total cash consideration of RR'mln 30,145 (US$'mln 1,036).

Also in March 2012 the Group acquired an additional 10 percent interest in Gas companies from their minority shareholders for a total cash consideration of RR'mln 2,908 (US$'mln 100).

As a result of these transactions the Group acquired 100 percent ownership interest and full control over the Gas companies. These entities hold production licenses for certain gas deposits located in the Tyumen region of the Russian Federation (which expire in 2020 and 2024 with the option to extend the license period) and currently perform construction of production infrastructure at their licensed areas.

The acquisition of Gas companies from OAO Bank VTB, a state-controlled entity, falls under the category of business combinations between entities under common control. Management decided to adopt the acquisition method to account for such transactions.

(in millions of Russian roubles, unless otherwise stated)

Net assets of Gas companies at the date of acquisition are as follows:

Property, plant and equipment	39,249
Inventories	604
Trade and other receivables	500
Cash	297
Deferred tax liability	(7,289)
Trade and other payables	(308)
Fair value of acquired net assets	**33,053**
Cash consideration paid	**33,053**
Fair value of terminated put option	**(1,995)**
Negative goodwill on acquisition of Gas companies	**1,995**

Negative goodwill was recognised at the date of transaction in the amount of the fair value of put options which were early terminated as part of the purchase and not exercised. The entire amount of negative goodwill was recorded as other operating income (see note 18).

Gas companies contributed revenue of RR'mln 205 and net loss of RR'mln 983 to the Group for the period from the date of acquisition to 30 September 2012. If the Group would have acquired Gas companies on 1 January 2012, the acquired entities would have contributed revenue of RR'mln 286 and net loss of RR'mln 954 to the Group for the nine months ended 30 September 2012.

As at the date of acquisition the gross contractual amounts receivable in Gas companies are equal to the fair value of accounts receivable recognised in this condensed consolidated interim financial information. The fair values of the acquired assets and liabilities were determined on a provisional basis in this condensed consolidated interim financial information as the process of determining fair values of certain assets and liabilities is not finalised yet. Management is required to finalise the accounting within 12 months of the acquisition date. Any revisions to the provisional values will be reflected retrospectively from the acquisition date.

Associates

Name	**Country of incorporation**	**Percentage of ownership interest held as at**		**Carrying value of investment as at**	
		30 September 2012	**31 December 2011**	**30 September 2012**	**31 December 2011**
Catoca Mining Company Ltd.	Angola	33	33	1,604	2,116
OAO Almazny Mir	Russia	47	47	188	182
Other	Russia	20-50	20-50	31	52
				1,823	2,350

As at 30 September 2012 and 31 December 2011 the percentage ownership interest of the Group in its associates is equal to the percentage of voting interest.

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

	Three months ended		**Nine months ended**	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Catoca Mining Company Ltd.	271	321	816	924
OAO Almazny Mir	4	1	5	2
Other	1	2	1	(2)
	276	324	822	924

Catoca Mining Company Ltd. ("Catoca") is a diamond-mining venture located in Angola. In May 2012 Catoca declared dividends for the year ended 31 December 2011; the Group's share of these dividends amounted to RR'mln 1,244. Currency translation gain recognised in the condensed consolidated interim statement of comprehensive income for the nine months ended 30 September 2012 in respect of investment in Catoca totalled RR'mln 84. In April 2011 Catoca declared dividends for the year ended 31 December 2010; the Group's share of these dividends amounted to RR'mln 923. Currency translation gain recognised in the condensed consolidated interim statement of comprehensive income for the nine months ended 30 September 2011 in respect of investment in Catoca totalled RR'mln 78.

(in millions of Russian roubles, unless otherwise stated)

5. CASH AND CASH EQUIVALENTS

	30 September 2012	31 December 2011
Current accounts	6,891	5,221
Deposit accounts	3,630	6,793
	10,521	12,014

At 30 September 2012 the weighted average interest rate on the cash balances of the Group was 2.18 percent (31 December 2011: 3.88 percent).

6. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	TOTAL
As at 31 December 2010			
Cost	214,776	44,207	258,983
Accumulated depreciation and impairment losses	(90,241)	(722)	(90,963)
Net book value as at 31 December 2010	**124,535**	**43,485**	**168,020**
Nine months ended 30 September 2011			
Net book value as at 31 December 2010	124,535	43,485	168,020
Foreign exchange differences	220	12	232
Additions	5,301	10,568	15,869
Transfers	11,388	(11,388)	-
Disposals – at cost	(2,850)	(449)	(3,299)
Disposals – accumulated depreciation	1,834	-	1,834
Change in estimate of provision for land recultivation	(374)	-	(374)
Reversal of impairment of property, plant and equipment	-	(200)	(200)
Depreciation charge for the period	(8,680)	-	(8,680)
Net book value as at 30 September 2011	**131,374**	**42,028**	**173,402**
As at 31 December 2011			
Cost	230,820	36,168	266,988
Accumulated depreciation and impairment losses	(96,429)	(1,025)	(97,454)
Net book value as at 31 December 2011	**134,391**	**35,143**	**169,534**
Nine months ended 30 September 2012			
Net book value as at 31 December 2011	134,391	35,143	169,534
Foreign exchange differences	(205)	-	(205)
Additions	4,001	20,427	24,428
Acquisition of Gas companies (note 4)	32,646	6,603	39,249
Transfers	8,691	(8,691)	-
Disposals – at cost	(3,014)	(342)	(3,356)
Disposals – accumulated depreciation	1,778	-	1,778
Change in estimate of provision for land recultivation	(6)	-	(6)
Impairment of property, plant and equipment	-	(48)	(48)
Depreciation charge for the period	(11,504)	-	(11,504)
Net book value as at 30 September 2012	**166,778**	**53,092**	**219,870**
As at 30 September 2012			
Cost	272,933	54,165	327,098
Accumulated depreciation and impairment losses	(106,155)	(1,073)	(107,228)
Net book value as at 30 September 2012	**166,778**	**53,092**	**219,870**

Capitalised borrowing costs

As at 30 September 2012 borrowing costs totalling RR’mln 146 (as at 30 September 2011: RR’mln 76) were capitalised in property, plant and equipment. For the nine months ended 30 September 2012 the capitalisation rate applied to qualifying assets totalling RR’mln 2,062 (nine months ended 30 September 2011: RR’mln 1,323) was 7.09 percent (30 September 2011: 7.26 percent). In accordance with transitional rules of revised IAS 23, borrowing costs are capitalised for projects commencing after 1 January 2009.

(in millions of Russian roubles, unless otherwise stated)

7. INVENTORIES

	30 September 2012	31 December 2011
Diamonds	27,750	21,102
Ores and concentrates	12,442	9,604
Mining and construction materials	16,495	10,628
Consumable supplies	2,768	2,038
Diamonds for resale	374	1,057
	59,829	44,429

8. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	30 September 2012	31 December 2011
Loans	1,542	1,718
Notes receivable	94	-
Long-term VAT recoverable	88	114
LT receivables from related parties	2	1
	1,726	1,833

Current accounts receivable	30 September 2012	31 December 2011
Loans issued	3,485	2,263
VAT recoverable	3,166	485
Advances to suppliers	2,095	1,406
Prepaid taxes, other than income tax	1,472	1,099
Receivables from associates (note 24)	1,375	139
Trade receivables for supplied diamonds	941	718
Notes receivable	-	172
Other trade receivables	3,037	2,476
	15,571	8,758

Trade and other receivables are presented net of impairment provision of RR'mln 5,420 and RR'mln 5,210 as at 30 September 2012 and 31 December 2011, respectively.

9. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 30 September 2012 and 31 December 2011 and consists of 7,364,965,630 ordinary shares, including treasury shares, at RR 0.5 par value share. In addition as at 30 September 2012 and 31 December 2011 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 nine months ended 30 September 2012 the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 22,209 (for the nine months ended 30 September 2011 – RR'mln 23,883). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation, and accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in this condensed consolidated interim financial information.

Treasury shares

At 30 September 2012 subsidiaries of the Group held 149,175,030 (31 December 2011: 148,689,530) ordinary shares of the Company. 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 7,215,790,600 and 7,216,059,928 weighted average shares outstanding for the three and nine months ended 30 September 2012, respectively (for the three and nine months ended 30 September 2011 – 7,216,276,100 and 7,261,277,905, respectively). There are no dilutive financial instruments outstanding.

(in millions of Russian roubles, unless otherwise stated)

Dividends

On 30 June 2012 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2011 totalling RR'mln 7,439. Dividends per share amounted to RR 1.01.

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 0.25.

10. LONG-TERM DEBT

	30 September 2012	31 December 2011
Banks:		
US$ denominated fixed rate	-	16,446
	-	**16,446**
Eurobonds	46,362	48,278
RR denominated non-convertible bonds	26,000	26,000
Finance lease obligation	470	512
Other RR denominated fixed rate loans	1,697	1,515
	74,529	**92,751**
Less: current portion of long-term debt (note 11)	(17,326)	(17,222)
	57,203	**75,529**

As at 30 September 2012 and at 31 December 2011 there were no long-term loans secured with the assets of the Group.

The average effective interest rates at the balance sheet dates were as follows:

	30 September 2012	31 December 2011
US$ denominated fixed rate bank loans	-	6.4%
Eurobonds	8.1%	8.1%
RR denominated non-convertible bonds	8.5%	8.5%
Finance lease obligation	-	7.6%
Other RR denominated fixed rate loans	7.1%	7.0%

Eurobonds

	Nine months ended 30 September 2012	Nine months ended 30 September 2011
Balance at the beginning of the period	48,278	45,696
Amortisation of discount	2	4
Exchange (gains)/losses	(1,918)	2,094
Balance at the end of the period	46,362	47,794

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

	30 September 2012	31 December 2011
Banks:		
US$ denominated fixed rate	23,188	-
RR denominated fixed rate	11	30
	23,199	**30**
European commercial paper	38,811	-
Other RR denominated fixed rate loans	3,516	2,762
Other EUR denominated loans	21	-
Other US$ denominated fixed rate loans	9	10
	65,556	**2,802**
Add: current portion of long-term debt (note 10)	17,326	17,222
	82,882	**20,024**

As at 30 September 2012 and 31 December 2011 there were no short-term loans secured with the assets of the Group.

(in millions of Russian roubles, unless otherwise stated)

The average effective interest rates at the balance sheet dates were as follows:

	30 September 2012	**31 December 2011**
US$ denominated fixed rate bank loans	3.7%	-
RR denominated fixed rate bank loans	13.1%	11.7%
European commercial paper	4.5%	-
Other RR denominated fixed rate loans	3.9%	7.9%
Other EUR denominated fixed rate loans	0.0%	-
Other US$ denominated fixed rate loans	-	3.5%

12. TRADE AND OTHER PAYABLES

	30 September 2012	**31 December 2011**
Accrual for employee flights and holidays	6,020	5,853
Trade payables	4,206	2,822
Interest payable	2,582	695
Wages and salaries	1,845	3,791
Advances from customers	1,728	230
Current accounts of third parties in OOO MAK Bank	581	1,242
Payables to associates	7	7
Other payables and accruals	891	951
	17,860	15,591

13. INCOME AND OTHER TAX ASSETS AND LIABILITIES

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

	30 September 2012	**31 December 2011**
Payments to social funds	1,488	888
Property tax	842	851
Extraction tax	669	475
Value added tax	318	501
Personal income tax (employees)	253	545
Tax penalties	19	32
Other taxes and accruals	50	72
	3,639	3,364

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

	Three months ended		**Nine months ended**	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Property tax	849	782	2,509	2,318
Other taxes and accruals	70	52	298	310
	919	834	2,807	2,628

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 14).

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 till 31 December 2011 in the amount of RR'mln 3,509 per annum. Since 1 January 2012 OAO ALROSA-Nyurba is obliged to make annual fixed royalty payments in the amount of RR'mln 1,209 per annum.

(in millions of Russian roubles, unless otherwise stated)

Income tax expense comprises the following:

	Three months ended		Nine months ended	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Current tax expense	1,438	2,198	7,455	8,416
Adjustments recognised in the period for current tax of prior periods	-	(1,151)	53	(1,151)
Deferred tax expense	2,194	261	2,054	1,064
	3,632	1,308	9,562	8,329

14. SALES

	Three months ended		Nine months ended	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Revenue from diamond sales:				
Export	18,028	28,769	70,813	72,900
Domestic	4,557	8,712	21,421	24,877
Revenue from diamonds for resale	688	27	1,558	350
	23,273	37,508	93,792	98,127
Other revenue:				
Transport	1,890	1,642	4,180	3,514
Social infrastructure	885	585	2,287	2,035
Trading	846	378	1,339	958
Construction	169	148	310	415
Other	728	907	2,411	2,266
	27,791	41,168	104,319	107,315

Export duties totalling RR'mln 1,258 and RR'mln 4,754 for the three and nine months ended 30 September 2012, respectively (three and nine months ended 30 September 2011: RR'mln 1,927 and RR'mln 4,773, respectively) were netted against revenues from export of diamonds.

15. COST OF SALES

	Three months ended		Nine months ended	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Wages, salaries and other staff costs	5,999	4,009	20,868	15,360
Depreciation	3,608	2,939	10,414	7,793
Fuel and energy	2,708	1,861	7,697	6,153
Extraction tax	2,105	2,212	6,321	6,060
Materials	2,484	2,291	5,626	4,767
Services	1,005	668	2,728	1,596
Transport	593	593	1,528	1,646
Cost of diamonds for resale	471	34	1,311	345
Reversal of impairment of inventories	(323)	-	(73)	-
Other	105	29	274	123
Movement in inventory of diamonds, ores and concentrates	(5,498)	299	(9,486)	(5,789)
	13,257	14,935	47,208	38,054

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 1,560 and RR'mln 4,430 for the three and nine months ended 30 September 2012, respectively (for the three and nine months ended 30 September 2011 in the amount of RR'mln 807 and RR'mln 3,465, respectively).

Depreciation totalling RR'mln 1,090 (nine months ended 30 September 2011: RR'mln 887) and staff costs totalling RR'mln 2,161 (nine months ended 30 September 2011: RR'mln 1,694) were incurred by the Group's construction divisions and were capitalised in the respective periods.

(in millions of Russian roubles, unless otherwise stated)

16. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Nine months ended	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Wages, salaries and other staff costs	906	696	3,296	2,312
Services and other administrative expenses	497	463	2,082	1,550
Impairment of accounts receivable	23	26	210	222
	1,426	1,185	5,588	4,084

17. SELLING AND MARKETING EXPENSES

	Three months ended		Nine months ended	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Wages, salaries and other staff costs	280	226	834	673
Services and other selling and marketing expenses	178	130	586	444
	458	356	1,420	1,117

18. OTHER OPERATING INCOME

	Three months ended		Nine months ended	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Negative goodwill on acquisition of Gas companies (note 4)	-	-	1,995	-
Other	96	10	616	355
	96	10	2,611	355

19. OTHER OPERATING EXPENSES

	Three months ended		Nine months ended	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Exploration expenses	1,359	2,056	4,873	5,338
Social costs	722	1,092	3,590	2,712
Taxes other than income tax, extraction tax and payments to social funds (note 13)	919	834	2,807	2,628
Loss on disposal of property, plant and equipment	113	118	332	960
Impairment of property, plant and equipment	47	31	48	200
Loss on disposal of subsidiaries	46	-	46	-
Other	334	269	714	507
	3,540	4,400	12,410	12,345

Social costs consist of:

	Three months ended		Nine months ended	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Charity	158	359	1,635	615
Maintenance of local infrastructure	442	551	1,591	1,580
Hospital expenses	24	29	98	122
Education	16	9	53	37
Other	82	144	213	358
	722	1,092	3,590	2,712

(in millions of Russian roubles, unless otherwise stated)

20. FINANCE INCOME

	Three months ended		Nine months ended	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Interest income	83	89	225	183
Exchange gains	7,095	-	1,219	-
	7,178	89	1,444	183

21. FINANCE COSTS

	Three months ended		Nine months ended	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Interest expense:				
Eurobonds	933	875	2,771	2,594
RR denominated non-convertible bonds	534	543	1,622	1,629
European commercial paper	490	144	941	251
Bank loans	161	372	708	1,040
Commercial paper	-	11	-	57
Other	10	12	29	25
Unwinding of discount of provision for land recultivation	11	3	34	67
Exchange losses	1,964	7,178	1,157	2,445
	4,103	9,138	7,262	8,108

22. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash flows from operations:

	Nine months ended	
	30 September 2012	**30 September 2011**
Profit before income tax	34,401	43,857
Adjustments for:		
Share of net profit of associates (note 4)	(822)	(924)
Interest income (note 20)	(225)	(183)
Interest expense (note 21)	6,105	5,663
Loss on disposal of property, plant and equipment (note 19)	332	960
Impairment of property, plant and equipment (note 19)	48	200
Negative goodwill on acquisition of Gas companies (note 18)	(1,995)	-
Net gain from foreign exchange forward contracts	-	(1,220)
Net gain from cross currency interest rate swap contracts	-	(111)
Net gain from put options granted by the Group to the buyers of Gas companies	-	(89)
Depreciation (note 15)	10,414	7,793
Adjustment for inventory used in construction	(1,419)	(1,180)
Adjustments for non-cash financing activity	75	(4)
Net payments from exercising of foreign exchange forward contracts	-	(1,108)
Net payments from exercising of cross currency interest rate swap contracts	-	(123)
Payments to restricted cash account	(57)	(161)
Unrealised foreign exchange effect on non-operating items	(130)	3,090
Net operating cash flow before changes in working capital	46,727	56,460
Net increase in inventories	(13,827)	(8,140)
Net increase in trade and other receivables, excluding dividends receivable	(4,914)	(1,278)
Net (decrease) / increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(829)	82
Net increase in taxes payable, excluding income tax	351	487
Cash inflows from operating activity	**27,508**	**47,611**
Income tax paid	(8,180)	(7,589)
Net cash inflows from operating activities	**19,328**	**40,022**

23. 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 consequences of the global financial and economic crisis, including the recent sovereign debt crisis, may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group.

(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 30 September 2012 and 31 December 2011 the Group had tax contingencies. These contingencies are estimates that result from uncertainties in interpretation of applicable legislation concerning deduction of certain expenses for income tax purposes and reimbursement of the related input VAT. Management is not able to reliably estimate the range of possible outcomes, but believes that under certain circumstances the magnitude of these tax contingencies may be significant for the Group. Management of the Group believes that the exposure in respect of these tax risks is not probable, therefore as at 30 September 2012 and 31 December 2011 no provision for tax liabilities had been recorded.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 30 September 2012.

(d) Insurance

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

(e) Capital commitments

As at 30 September 2012 the Group has contractual commitments for capital expenditures of approximately RR'mln 21,248 (31 December 2011: RR'mln 7,152).

(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 510 as at 30 September 2012 (RR'mln 522 as at 31 December 2011).

(in millions of Russian roubles, unless otherwise stated)

24. RELATED PARTY TRANSACTIONS

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

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

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

Governments of the Russian Federation and the Republic of Sakha (Yakutia) are the ultimate controlling parties of the Company. As at 30 September 2012 83 percent of the Company's issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Also as at 30 September 2012 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 2012, 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 statement of financial position and in notes 8 and 13. Tax transactions are disclosed in the statement of comprehensive income, cash flow statement and in notes 13, 15, 19 and 22.

Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities under Governmental control. The principal forms of such transactions are diamond sales, electricity purchases and borrowings. Prices of diamonds sales are set by 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 30 September 2012 the accounts payable to the parties under Governmental control totalled RR'mln 276 (31 December 2011: RR'mln 843). As at 30 September 2012 the accounts receivable from the parties under Governmental control (excluding loans issued) totalled RR'mln 2,204 (31 December 2011: RR'mln 1,454). As at 30 September 2012 and 31 December 2011 the accounts receivable from the parties under Governmental control and accounts payable to the parties under Governmental control were non-interest bearing, had a maturity within one year and were denominated in Russian Roubles.

During the three and nine months ended 30 September 2012 and 30 September 2011 the Group had the following significant transactions with the parties under Governmental control:

	Three months ended		**Nine months ended**	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Sales of diamonds	2,950	4,240	12,208	10,664
Electricity and heating expenses	959	632	3,288	3,028
Other sales	649	721	1,949	1,869
Other purchases	376	332	1,044	929

As at 30 September 2012 and 31 December 2011 the Group had no contractual commitments to sell goods or services to the parties under control of the Government. As at 30 September 2012 the Group had contractual commitments to purchase goods and services from the parties under control of the Government in the amount of approximately RR'mln 1,327 (31 December 2011: RR'mln 4,172).

As at 30 September 2012 the amount of loans received by the Group from the entities under Governmental control totalled RR'mln 4,638 (31 December 2011: RR'mln 16,446). During the three and nine months ended 30 September 2012 interest expense accrued in respect to the loans received by the Group from the entities under Governmental control totalled RR'mln 48 and RR'mln 404, respectively (three and nine months ended 30 September 2011: RR'mln 277 and RR'mln 936, respectively).

As at 30 September 2012 the amount of loans issued by the Group to the entities under Governmental control totalled RR'mln 990 (31 December 2011: RR'mln 1,310). During the three and nine months ended 30 September 2012 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR'mln 29 and RR'mln 86, respectively (three and nine months ended 30 September 2011: RR'mln 25 and RR'mln 61, respectively).

(in millions of Russian roubles, unless otherwise stated)

The information about the acquisition of the Gas companies from the entities affiliated with OAO Bank VTB is disclosed in note 4.

Key management compensation

The Supervisory Council of the Company consists of 15 members, including state and management representatives. Representatives of Governments of the Russian Federation 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 21 members, two of whom are also members of the Supervisory Council. Management Committee members are entitled to salary, bonuses, voluntary medical insurance, compensation for serving as members of the Board of directors for certain Group companies 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 the 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-governmental pension fund Almaznaya Osen, and a one-time payment from the Group at their retirement date.

Management committee members received benefits for the three and nine months ended 30 September 2012 totalling RR’mln 112 and RR’mln 744, respectively (three and nine months ended 30 September 2011: RR’mln 146 and RR’mln 515, respectively).

Associates

Significant transactions and balances with associates are summarised as follows:

Current accounts receivable	**30 September 2012**	**31 December 2011**
Catoca Mining Company Ltd., dividends receivable	1,366	126
Other	9	14
Less: provision for bad debt	-	(1)
	1,375	139

In May 2012 Catoca Mining Company Ltd. (“Catoca”) declared dividends for the year ended 31 December 2011; the Group’s share of these dividends amounted to RR’mln 1,244. In April 2011 Catoca declared dividends for the year ended 31 December 2010; the Group’s share of these dividends amounted to RR’mln 923. During the nine months ended 30 September 2012 and 30 September 2011 Catoca did not pay any dividends. The Group recognised exchange gain related to dividends receivable from Catoca in the amount of RR’mln 48 for the nine months ended 30 September 2012 (for the nine months ended 30 September 2011 – exchange gain in the amount of RR’mln 129).

As at 30 September 2012 and 31 December 2011 the accounts receivable from associates were non-interest bearing and were denominated mostly in US$.

As at 30 September 2012 and 31 December 2011 the Group had no any contractual commitments to sell or purchase goods and services to / from its associates.

25. 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 and loss is analysed by the CODM on entity by entity basis. The following items are analysed on the Group level and are not allocated between segments for the purposes of the analysis:

(in millions of Russian roubles, unless otherwise stated)

- general and administrative expenses;
- selling and marketing expenses;
- 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 condensed consolidated interim financial information include those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Nine months ended 30 September 2012	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Sales	98,546	4,397	2,287	310	1,483	1,659	2,736	111,418
Intersegment sales	-	(217)	-	-	(144)	(1,341)	(684)	(2,386)
Cost of sales, incl.	27,238	4,540	5,317	212	202	1,368	2,836	41,713
Depreciation	6,911	341	262	62	5	382	296	8,259
Gross margin	**71,308**	**(143)**	**(3,030)**	**98**	**1,281**	**291**	**(100)**	**69,705**

Nine months ended 30 September 2011	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Sales	102,900	3,632	2,035	415	1,174	1,596	2,404	114,156
Intersegment sales	-	(117)	-	-	(217)	(1,293)	(663)	(2,290)
Cost of sales, incl.	27,312	3,884	4,589	361	414	1,161	1,031	38,752
Depreciation	5,919	364	352	103	7	303	214	7,262
Gross margin	**75,588**	**(252)**	**(2,554)**	**54**	**760**	**435**	**1 373**	**75,404**

Three months ended 30 September 2012	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Sales	24,531	2,032	885	169	846	367	657	29,487
Intersegment sales	-	(142)	-	-	-	(272)	(92)	(506)
Cost of sales, incl.	6,316	1,671	1,705	97	18	428	1,172	11,407
Depreciation	2,296	93	22	14	2	128	117	2,672
Gross margin	**18,215**	**361**	**(820)**	**72**	**828**	**(61)**	**(515)**	**18,080**

Three months ended 30 September 2011	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Sales	39,434	1,760	585	148	469	306	841	43,543
Intersegment sales	-	(117)	-	-	(92)	(248)	(101)	(558)
Cost of sales, incl.	9,306	1,620	1,560	116	150	334	396	13,482
Depreciation	1,959	124	116	36	2	120	69	2,426
Gross margin	**30,128**	**140**	**(975)**	**32**	**319**	**(28)**	**445**	**30,061**

(in millions of Russian roubles, unless otherwise stated)

Reconciliation of sales is presented below:

	Three months ended		Nine months ended	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Segment sales	**29,487**	**43,543**	**111,418**	**114,156**
Elimination of intersegment sales	(506)	(558)	(2,386)	(2,290)
Reclassification of export duties [1]	(1,258)	(1,927)	(4,754)	(4,773)
Other adjustments and reclassifications	68	110	41	222
Sales as per Statement of Comprehensive Income	**27,791**	**41,168**	**104,319**	**107,315**

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

Reconciliation of cost of sales including depreciation is presented below:

	Three months ended		Nine months ended	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Segment cost of sales	**11,407**	**13,482**	**41,713**	**38,752**
Adjustment for depreciation of property, plant and equipment [1]	936	513	2,155	531
Elimination of intersegment purchases	(506)	(558)	(2,386)	(2,290)
Accrued provision for pension obligation [2]	256	183	(258)	(427)
Reclassification of extraction tax [3]	1,965	1,917	5,734	5,320
Adjustment for inventories [4]	366	727	965	(1,945)
Accrual for employee flights and holidays [5]	(423)	(437)	(359)	274
Other adjustments	185	(3)	219	(40)
Reclassification of exploration expenses [6]	(1,219)	(1,048)	(2,173)	(3,182)
Other reclassifications	290	159	1,598	1,061
Cost of sales as per Statement of Comprehensive Income	**13,257**	**14,935**	**47,208**	**38,054**

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

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

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

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

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

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

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

	Three months ended		Nine months ended	
	30 September 2012	**30 September 2011**	**30 September 2012**	**30 September 2011**
Belgium	10,939	18,323	43,592	47,023
Russian Federation	9,548	12,234	33,158	33,910
India	3,728	4,686	14,813	11,266
Israel	2,119	3,015	7,092	7,644
China	665	888	2,219	2,206
United Arab Emirates	136	910	1,594	2,040
Belarus	56	162	445	721
Armenia	14	460	137	981
Angola	92	90	311	463
Other countries	494	400	958	1,061
Total	**27,791**	**41,168**	**104,319**	**107,315**

(in millions of Russian roubles, unless otherwise stated)

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

	30 September 2012	**31 December 2011**
Russian Federation	220,243	170,364
Angola	2,691	2,768
Other countries	286	305
Total	**223,220**	**173,437**

26. SUBSEQUENT EVENTS

As at 31 October 2012 the Company issued Ruble bonds in the amount of RR'mln 10,000 at the fixed rate of 8.85 percent per annum and maturity period of 3 years.

In October 2012 the Company obtained long-term loan from VTB bank in the amount of USD'mln 600 at the floating interest rate (LIBOR + 3.7 percent) and maturity period of 3 years.