AK ALROSA

IFRS CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (UNAUDITED)

31 MARCH 2012

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■ АУДИТ ■ КОНСАЛТИНГ ■ ПРАВО ■

Accountants &
business advisers

INDEPENDENT ACCOUNTANTS' REPORT
to the Shareholders and Board of Directors of AK "ALROSA"

On the basis of information provided by management, we have compiled, in accordance with the International Standards on Auditing applicable to compilation engagements, the unaudited consolidated statement of financial position of AK "ALROSA" ("the Company") and its subsidiaries ("the Group") as at 31 March 2012, unaudited condensed interim consolidated statements of comprehensive income, cash flows and statement of changes in equity for the three months ended 31 March 2012 and the related notes to the unaudited condensed interim consolidated financial information in compliance to IAS 34 "Interim financial reporting". Management of the Company is responsible for this unaudited condensed interim consolidated financial information. We have neither audited nor reviewed the accompanying unaudited condensed interim consolidated financial information and, accordingly, do not imply or express an opinion or any other form of assurance on them.

OOO "Financial and Accounting Consultants"
Moscow, Russia
18 June 2012

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Financial Position (unaudited)

	Notes	31 March 2012	31 December 2011
Assets			
Non-current Assets			
Goodwill		1,439	1,439
Property, plant and equipment	6	207,844	169,534
Investments in associates	4	2,614	2,350
Available-for-sale investments		138	157
Long-term accounts receivable	8	2,202	1,833
Restricted cash	5	310	237
Total Non-current Assets		**214,547**	**175,550**
Current Assets			
Inventories	7	45,839	44,429
Prepaid income tax		18	213
Current accounts receivable	8	13,231	8,758
Cash and cash equivalents	5	16,034	12,014
Total Current Assets		**75,122**	**65,414**
Total Assets		**289,669**	**240,964**
Equity			
Share capital	9	12,473	12,473
Share premium		10,431	10,431
Treasury shares	9	(249)	(249)
Retained earnings and other reserves		103,708	91,159
Equity attributable to owners of AK "ALROSA"		**126,363**	**113,814**
Non-Controlling Interest in Subsidiaries	9	**(479)**	**(717)**
Total Equity		**125,884**	**113,097**
Liabilities			
Non-current Liabilities			
Long-term debt	10	71,377	75,529
Provision for pension obligations		4,693	5,028
Provision for land recultivation		340	522
Deferred tax liabilities		9,603	3,478
Total Non-current Liabilities		**86,013**	**84,557**
Current Liabilities			
Short-term loans and current portion of long-term debt	11	55,564	20,024
Derivative financial instruments		-	1,995
Trade and other payables	12	16,114	15,591
Income tax payable		668	1,851
Other taxes payable	13	5,421	3,364
Dividends payable		5	485
Total Current Liabilities		**77,772**	**43,310**
Total Liabilities		**163,785**	**127,867**
Total Equity and Liabilities		**289,669**	**240,964**

Signed on 18 June 2012 by the following members of management:

Fedor B. Andreev
President

Elena L. Timonina
Chief accountant

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Comprehensive Income (unaudited)

		Three months ended	
	Notes	**31 March 2012**	**31 March 2011**
Sales	14	37,200	29,600
Cost of sales	15	(16,490)	(12,697)
Royalty	13	(877)	(877)
Gross profit		**19,833**	**16,026**
General and administrative expenses	16	(2,460)	(1,459)
Selling and marketing expenses	17	(458)	(162)
Net gain from derivative financial instruments		1,995	1,487
Other operating income		105	74
Other operating expenses	18	(4,780)	(3,828)
Operating profit		**14,235**	**12,138**
Finance income	19	4,413	4,091
Finance costs	20	(1,783)	(1,912)
Share of net profit of associates	4	452	330
Profit before income tax		**17,317**	**14,647**
Income tax	13	(4,629)	(2,937)
Profit for the period		**12,688**	**11,710**
Other comprehensive income			
Currency translation differences		105	(144)
Other comprehensive income / (loss) for the period		**105**	**(144)**
Total comprehensive for the period		**12,793**	**11,566**
Profit attributable to:			
Owners of AK “ALROSA”		12,444	11,571
Non-controlling interest		244	139
Profit for the period		**12,688**	**11,710**
Total comprehensive income attributable to:			
Owners of AK “ALROSA”		12,549	11,427
Non-controlling interest		244	139
Total comprehensive income for the period		**12,793**	**11,566**
Basic and diluted earnings per share for profit attributable to the owners of AK ALROSA (in Roubles)	9	1.76	1.58

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

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

	Notes	Three months ended 31 March 2012	Three months ended 31 March 2011
Net Cash Inflow from Operating Activities	21	**7,850**	**13,165**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(6,979)	(5,506)
Proceeds from sales of fixed assets		728	90
Acquisition of available-for-sale investments		-	(4)
Proceeds from sale of available-for-sale investments		19	-
Interest received		41	38
Acquisition of gas production assets less cash acquired on acquisition of subsidiaries	4	(32,756)	-
Net Cash Outflow from Investing Activities		**(38,947)**	**(5,382)**
Cash Flows from Financing Activities			
Repayments of loans		(873)	(3,214)
Loans received		37,629	1,673
Purchase of non-controlling interest		(6)	-
Interest paid		(826)	(1,047)
Dividends paid		(480)	(175)
Net Cash Inflow / (Outflow) from Financing Activities		**35,444**	**(2,763)**
Net Increase in Cash and Cash Equivalents		**4,347**	**5,020**
Cash and cash equivalents at the beginning of the period		12,014	4,136
Exchange losses on cash and cash equivalents		(327)	(137)
Cash and Cash Equivalents at the End of the Period		**16,034**	**9,019**

(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
	Number of shares outstanding	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total			
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 period		-	-	-	-	11,571	11,571		139	11,710
Other comprehensive income										
Currency translation differences		-	-	-	(144)	-	(144)		-	(144)
Total other comprehensive income		-	-	-	(144)	-	(144)		-	(144)
Total comprehensive income for the period		**-**	**-**	**-**	**(144)**	**11,571**	**11,427**		**139**	**11,566**
Balance at 31 March 2011	**7,340,121,030**	**12,473**	**10,431**	**(39)**	**(336)**	**81,789**	**104,318**		**(142)**	**104,176**
Balance at 31 December 2011	**7,216,276,100**	**12,473**	**10,431**	**(249)**	**(646)**	**91,805**	**113,814**		**(717)**	**113,097**
Comprehensive income										
Profit for the period		-	-	-	-	12,444	12,444		244	12,688
Other comprehensive income										
Currency translation differences		-	-	-	105	-	105		-	105
Total other comprehensive income		-	-	-	105	-	105		-	105
Total comprehensive income for the period		**-**	**-**	**-**	**105**	**12,444**	**12,549**		**244**	**12,793**
Transactions with owners										
Purchase of non-controlling interest		-	-	-	-	-	-		(6)	**(6)**
Total transactions with owners		-	-	-	-	-	-		(6)	**(6)**
Balance at 31 March 2012	**7,216,276,100**	**12,473**	**10,431**	**(249)**	**(541)**	**104,249**	**126,363**		**(479)**	**125,884**

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 March 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.

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 29.33 and 32.20 as at 31 March 2012 and 31 December 2011, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 39.17 and 41.67 as at 31 March 2012 and 31 December 2011, respectively.

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.

Recent accounting pronouncements

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.

In 2012 the Group has adopted all IFRS, amendments and interpretations which were effective as at 1 January 2012 and which are relevant to its operations.

Standards, Amendments or Interpretations effective in 2012:

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 did not affect the Group's condensed interim consolidated financial information.

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 did not affect the Group's condensed interim consolidated financial information.

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" (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets and liabilities. Key features 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 only payments of principal and interest (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.

The Group is currently assessing the impact of the standard on the 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.

(in millions of Russian roubles, unless otherwise stated)

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	
			31 March 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
OAO ALROSA-Nyurba	Diamonds production	Russia	88	88
OOO MAK Bank	Banking activity	Russia	88	88
ZAO Geotransgaz	Gas production	Russia	100	-
OOO Urengoyskaya Gazovaya Company	Gas production	Russia	100	-

As at 31 March 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 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 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. To finance the acquisition of gas production assets the Group issued two series of European commercial paper (see note 11).

As the result of termination of put option agreement the Group recognised gain on disposal totalled RR'mln 1,995 in condensed consolidated interim statement of comprehensive income.

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. The fair values of the acquired assets and liabilities are determined on a provisional basis in this condensed consolidated interim financial information. Management is required to finalise the accounting within 12 months of the date of acquisition.

Net assets of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company" at the date of acquisition are as follows:

	Carrying amount immediately before acquisition	Provisional fair value
Property, plant and equipment	7,649	36,159
Inventories	517	517
Trade and other receivables	1,194	1,194
Cash	297	297
Deferred tax asset / (liability)	343	(4,797)
Trade and other payables	(317)	(317)
Fair value of acquired net assets		**33,053**
Total purchase consideration		**33,053**

(in millions of Russian roubles, unless otherwise stated)

Associates

Name	Country of incorporation	Percentage of ownership interest held at		Carrying value of investment at		Group's share of net profit / (loss) for the three months ended	
		31 March 2012	31 December 2011	31 March 2012	31 December 2011	31 March 2012	31 March 2011
Catoca Mining Company Ltd	Angola	33	33	2,379	2,116	451	331
OAO Almazny Mir	Russia	47	47	183	182	1	3
Other	Russia	20-50	20-50	52	52	-	(4)
				2,614	2,350	452	330

As at 31 March 2012 and 31 December 2011 the percentage 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. Currency translation loss recognised in the condensed consolidated interim statement of comprehensive income for the three months ended 31 March 2012 in respect of investment in "Catoca Mining Company Ltd" totalled RR'mln 188 (three months ended 31 March 2011: RR'mln 115).

5. CASH AND CASH EQUIVALENTS

Restricted cash

Restricted cash included within non-current assets in the condensed consolidated interim statement of financial position of RR'mln 310 and RR'mln 237 as at 31 March 2012 and 31 December 2011, 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 21). At 31 March 2012 and 31 December 2011 the weighted average interest rate on the restricted cash balances is approximately nil percent.

Cash and cash equivalents

	31 March 2012	31 December 2011
Cash in banks and on hand	7,380	5,221
Deposit accounts	8,654	6,793
	16,034	12,014

At 31 March 2012 the weighted average interest rate on the cash balances of the Group was 1.89 percent (31 December 2011: 3.88 percent).

(in millions of Russian roubles, unless otherwise stated)

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**
Three months ended 31 March 2011			
Net book value as at 31 December 2010	124,535	43,485	168,020
Foreign exchange differences	(338)	(18)	(356)
Additions	2,811	2,545	5,356
Transfers	162	(162)	-
Other disposals – at cost	(656)	(559)	(1,215)
Other disposals – accumulated depreciation	415	-	415
Change in estimate of provision for land recultivation	(329)	-	(329)
Impairment of property, plant and equipment	-	(89)	(89)
Depreciation charge for the period	(2,881)	-	(2,881)
Net book value as at 31 March 2011	**123,719**	**45,202**	**168,921**
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**
Three months ended 31 March 2012			
Net book value as at 31 December 2011	134,391	35,143	169,534
Foreign exchange differences	(457)	-	(457)
Additions	1,240	6,671	7,911
Additions through acquisition of gas production assets (note 4)	32,657	3,502	36,159
Transfers	1,529	(1,529)	-
Other disposals – at cost	(1,433)	(99)	(1,532)
Other disposals – accumulated depreciation	604	-	604
Change in estimate of provision for land recultivation	(270)	-	(270)
Impairment of property, plant and equipment	-	(1)	(1)
Depreciation charge for the period	(4,104)	-	(4,104)
Net book value as at 31 March 2012	**164,157**	**43,687**	**207,844**
As at 31 March 2012			
Cost	264,086	44,713	308,799
Accumulated depreciation and impairment losses	(99,929)	(1,026)	(100,955)
Net book value as at 31 March 2012	**164,157**	**43,687**	**207,844**

Change in estimate of provision for land recultivation recognised for the three months ended 31 March 2012 is explained by decrease of the principal amount of liability due to amendments introduced by the Company’s management to the “Program for improvement of environmental situation in the area of operating activity of the Company” in 2012.

7. INVENTORIES

	31 March 2012	31 December 2011
Diamonds	21,228	21,102
Ores and concentrates	11,269	9,604
Mining and construction materials	9,966	10,628
Consumable supplies	2,591	2,038
Diamonds for resale	785	1,057
	45,839	44,429

(in millions of Russian roubles, unless otherwise stated)

8. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 March 2012	31 December 2011
Loans issued	2,092	1,718
Long-term VAT recoverable	108	114
Other long-term receivables	2	1
	2,202	1,833

Current accounts receivable	31 March 2012	31 December 2011
Advances to suppliers	3,841	1,406
Loans issued	2,281	2,263
Trade receivables for supplied diamonds	1,670	718
Prepaid taxes, other than income tax	1,415	1,099
VAT recoverable	660	485
Notes receivable	142	172
Receivables from associates (see note 23)	114	139
Other trade receivables	3,108	2,476
	13,231	8,758

Trade and other receivables are presented net of impairment provision of RR'mln 5,358 and RR'mln 5,210 as at 31 March 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 31 March 2012 and 31 December 2011and consists of 7,364,965,630 ordinary shares, including treasury shares, at RR 0.5 par value share. In addition as at 31 March 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 three months ended 31 March 2012 the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 9,301 (for the three months ended 31 March 2011 – RR'mln 6,080). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation, and accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in this condensed consolidated interim financial information.

Treasury shares

As at 31 March 2012 and 31 December 2011 subsidiaries of the Group held 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 7,216,276,100 and 7,340,121,030 weighted average shares outstanding for the three months ended 31 March 2012 and 31 March 2011, respectively.

There are no dilutive financial instruments outstanding.

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 0.25.

(in millions of Russian roubles, unless otherwise stated)

Non-controlling interest in subsidiaries

	Three months ended 31 March 2012	Three months ended 31 March 2011
Non-controlling interest at the beginning of the period	(717)	(281)
Non-controlling interest share of net profit of subsidiaries	244	139
Purchase of non-controlling interest	(6)	-
Non-controlling interest at the end of the period	(479)	(142)

10. LONG-TERM DEBT

	31 March 2012	31 December 2011
Banks:		
US$ denominated fixed rate	14,812	16,446
	14,812	**16,446**
Eurobonds	43,977	48,278
RR denominated non-convertible bonds	26,000	26,000
Finance lease obligation	466	512
Other RR denominated fixed rate loans	1,546	1,515
	86,801	**92,751**
Less: current portion of long-term debt (see note 11)	(15,424)	(17,222)
	71,377	**75,529**

As at 31 March 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:

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

Eurobonds

	Three months ended 31 March 2012	Three months ended 31 March 2011
Balance at the beginning of the period	48,278	45,696
Amortisation of discount	8	10
Exchange gains	(4,309)	(3,081)
Balance at the end of the period	43,977	42,625

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

	31 March 2012	31 December 2011
Banks:		
RR denominated fixed rate	-	30
	-	**30**
European commercial paper	36,817	-
Other US$ denominated fixed rate loans	9	10
Other RR denominated fixed rate loans	3,314	2,762
	40,140	**2,802**
Add: current portion of long-term debt (see note 10)	15,424	17,222
	55,564	**20,024**

(in millions of Russian roubles, unless otherwise stated)

During the three months ended 31 March 2012 the Company issues three series of European commercial paper in the amount of US$'mln 1,300 with maturity 7-12 months and interest rates of 3.75-4.25 percent per annum.

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

	31 March 2012	**31 December 2011**
Banks:		
RR denominated fixed rate	-	11.7%
European commercial paper	4.1%	-
Other US$ denominated fixed rate loans	3.5%	3.5%
Other RR denominated fixed rate loans	7.8%	7.9%

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

12. TRADE AND OTHER PAYABLES

	31 March 2012	**31 December 2011**
Accrual for employee flights and holidays	6,840	5,853
Trade payables	2,548	2,822
Wages and salaries	2,301	3,791
Interest payable	1,600	695
Advances from customers	1,294	230
Current accounts of third parties in OOO MAK Bank	313	1,242
Payables to associates	7	7
Other payables and accruals	1,211	951
	16,114	15,591

13. INCOME AND OTHER TAX ASSETS AND LIABILITIES

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

	31 March 2012	**31 December 2011**
Payments to social funds	2,417	888
Value added tax	944	501
Property tax	885	851
Extraction tax	774	475
Personal income tax (employees)	314	545
Tax penalties	3	32
Other taxes and accruals	84	72
	5,421	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	
	31 March 2012	**31 March 2011**
Property tax	819	765
Other taxes and accruals	44	191
	863	956

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 in the amount of RR'mln 3,509 per annum.

(in millions of Russian roubles, unless otherwise stated)

Income tax expense comprises the following:

	Three months ended	
	31 March 2012	**31 March 2011**
Current tax expense	3,754	2,642
Adjustments recognised in the period for current tax of prior periods	(453)	-
Deferred tax expense	1,328	295
	4,629	2,937

14. SALES

	Three months ended	
	31 March 2012	**31 March 2011**
Revenue from diamond sales:		
Export	27,099	19,714
Domestic	7,155	7,111
Revenue from diamonds for resale	279	323
	34,533	27,148
Other revenue:		
Transport	939	731
Social infrastructure	842	802
Trading	106	154
Construction	47	99
Other	733	666
	37,200	29,600

Export duties totalling RR'mln 1,767 for the three months ended 31 March 2012 (were netted against revenues from export of diamonds (three months ended 31 March 2011 - RR'mln 1,251).

15. COST OF SALES

	Three months ended	
	31 March 2012	**31 March 2011**
Wages, salaries and other staff costs	7,308	6,785
Depreciation	3,749	2,585
Fuel and energy	2,453	2,441
Extraction tax	1,701	1,891
Materials	1,413	1,146
Services	844	802
Transport	442	374
Cost of diamonds for resale	267	320
Other	104	58
Movement in inventory of diamonds, ores and concentrates	(1,791)	(3,705)
	16,490	12,697

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 1,211 for the three months ended 31 March 2012 (for the three months ended 31 March 2011: RR'mln 920).

For the three months ended 31 March 2012 depreciation totalling RR'mln 355 (three months ended 31 March 2011: RR'mln 296) and staff costs totalling RR'mln 780 (three months ended 31 March 2011: RR'mln 572) 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	
	31 March 2012	**31 March 2011**
Wages, salaries and other staff costs	1,688	920
Services and other administrative expenses	624	466
Impairment of accounts receivable	148	73
	2,460	1,459

17. SELLING AND MARKETING EXPENSES

	Three months ended	
	31 March 2012	**31 March 2011**
Wages, salaries and other staff costs	313	68
Services and other selling and marketing expenses	145	94
	458	162

18. OTHER OPERATING EXPENSES

	Three months ended	
	31 March 2012	**31 March 2011**
Exploration expenses	2,116	1,079
Social costs	1,398	800
Taxes other than income tax, extraction tax and unified social tax (note 13)	863	956
Loss on disposal of property, plant and equipment	201	710
Impairment of property, plant and equipment	1	89
Other	201	194
	4,780	3,828

Social costs consist of:

	Three months ended	
	31 March 2012	**31 March 2011**
Maintenance of local infrastructure	671	518
Charity	629	109
Hospital expenses	33	54
Education	11	14
Other	54	105
	1,398	800

19. FINANCE INCOME

	Three months ended	
	31 March 2012	**31 March 2011**
Interest income	41	38
Exchange gains	4,372	4,053
	4,413	4,091

20. FINANCE COSTS

	Three months ended	
	31 March 2012	**31 March 2011**
Interest expense:		
Eurobonds	896	881
RR denominated non-convertible bonds	548	543
Bank loans	215	393
European commercial papers	46	-
Commercial paper	-	27
Other	37	8
Unwinding of discount of provision for land recultivation	41	60
	1,783	1,912

(in millions of Russian roubles, unless otherwise stated)

21. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash flows from operations:

	Three months ended 31 March 2012	Three months ended 31 March 2011
Profit before income tax	17,317	14,647
Adjustments for:		
Share of net profit of associates (note 4)	(452)	(330)
Interest income (note 19)	(41)	(38)
Interest expense (note 20)	1,783	1,912
Loss on disposal of property, plant and equipment (note 18)	201	710
Impairment of property, plant and equipment (note 18)	1	89
Net gain from foreign exchange forward contracts	-	(1,267)
Net gain from cross currency interest rate swap contracts	-	(85)
Gain on change of fair value of put options granted by the Group to the buyers of ZAO “Geotransgaz” and OOO “Urengoyskaya Gazovaya Company”	-	(135)
Gain on disposal of put options granted by the Group to the buyers of ZAO “Geotransgaz” and OOO “Urengoyskaya Gazovaya Company” (note 4)	(1,995)	-
Depreciation (note 15)	3,749	2,585
Adjustment for inventory used in construction	(281)	(226)
Net payments from exercising of foreign exchange forward contracts	-	(414)
Net payments from exercising of cross currency interest rate swap contracts	-	(94)
Payments to restricted cash account (note 5)	(73)	(42)
Unrealised foreign exchange effect on non-operating items	(4,538)	(4,291)
Net operating cash flow before changes in working capital	15,671	13,021
Net increase in inventories	(893)	(2,419)
Net increase in trade and other receivables, excluding dividends receivable	(3,648)	(1,530)
Net (decrease) / increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(1,046)	4,514
Net increase in taxes payable, excluding income tax	2,128	1,814
Cash inflows from operating activity	**12,212**	**15,400**
Income tax paid	(4,362)	(2,235)
Net cash inflows from operating activities	**7,850**	**13,165**

22. 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 31 March 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 31 March 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 31 March 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 31 March 2012 the Group has contractual commitments for capital expenditures of approximately RR'mln 10,058 (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 340 as at 31 March 2012 (RR'mln 522 as at 31 December 2011).

23. 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 31 March 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 31 March 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 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.

(in millions of Russian roubles, unless otherwise stated)

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, 14, 15, 18 and 21.

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 March 2012 the accounts payable to the parties under Governmental control totalled RR'mln 345 (31 December 2011: RR'mln 843). As at 31 March 2012 the accounts receivable from the parties under Governmental control (excluding loans issued) totalled RR'mln 1,227 (31 December 2011: RR'mln 1,454). As at 31 March 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 ended 31 March 2012 and 31 March 2011 the Group had the following significant transactions with the parties under Governmental control:

	Three months ended	
	31 March 2012	**31 March 2011**
Sales of diamonds	3,826	3,140
Other sales	555	303
Electricity and heating expenses	1,056	1,817
Other purchases	280	296

As at 31 March 2012 and 31 December 2011 the Group has no contractual commitments to sell goods or services to the parties under control of the Government. As at 31 March 2012 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 2,948 (31 December 2011: RR'mln 4,172).

As at 31 March 2012 the amount of loans received by the Group from the entities under Governmental control totalled RR'mln 14,812 (31 December 2011: RR'mln 16,446). During the three months ended 31 March 2012 interest expense accrued in respect to the loans received by the Group from the entities under Governmental control totalled RR'mln 243 (three months ended 31 March 2011: RR'mln 377).

As at 31 March 2012 the amount of loans issued by the Group to the entities under Governmental control totalled RR'mln 1,018 (31 December 2011: RR'mln 1,310). During the three months ended 31 March 2012 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR'mln 28 (three months ended 31 March 2011: RR'mln 17).

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 three months ended 31 March 2012 totalling RR'mln 120 (three months ended 31 March 2011: RR'mln 264).

(in millions of Russian roubles, unless otherwise stated)

Associates

Significant transactions and balances with associates are summarised as follows:

Current accounts receivable	**31 March 2012**	**31 December 2011**
Catoca Mining Company Ltd.	106	126
Other	9	14
Less: provision for bad debt	(1)	(1)
	114	139

As at 31 March 2012 and 31 December 2011 the accounts receivable from associates were non-interest bearing, had a maturity within one year and were denominated mostly in US$.

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

24. 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:

- 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.

(in millions of Russian roubles, unless otherwise stated)

Three months ended 31 March 2012	Diamonds segment	Transportation	Social infrastructure	Construction activity	Trading	Electricity production	Other activities	Total
Sales	36,300	939	842	46	183	812	734	39,856
Intersegment sales	-	-	-	-	(78)	(686)	(208)	(972)
Cost of sales, incl.	10,788	1,358	1,587	54	99	517	385	14,788
Depreciation	2,271	124	118	21	2	128	71	2,735
Gross margin	**25,512**	**(419)**	**(745)**	**(8)**	**84**	**295**	**349**	**25,068**

Three months ended 31 March 2011	Diamonds segment	Transportation	Social infrastructure	Construction activity	Trading	Electricity production	Other activities	Total
Sales	28,399	731	802	99	154	779	827	31,791
Intersegment sales	-	-	-	-	-	(655)	(358)	(1,013)
Cost of sales, incl.	9,234	1,019	1,698	120	106	461	1,048	13,686
Depreciation	1,955	124	118	32	2	85	72	2,388
Gross margin	**19,165**	**(288)**	**(896)**	**(21)**	**48**	**318**	**(221)**	**18,105**

Reconciliation of sales is presented below:

	Three months ended	
	31 March 2012	**31 March 2011**
Segment sales	**39,856**	**31,791**
Elimination of intersegment sales	(972)	(1,013)
Reclassification of export duties [1]	(1,767)	(1,251)
Other adjustment and reclassifications	83	73
Sales as per Statement of Comprehensive Income	**37,200**	**29,600**

[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	
	31 March 2012	**31 March 2011**
Segment cost of sales	**14,788**	**13,686**
Adjustment for depreciation of property, plant and equipment	1,014	197
Elimination of intersegment purchases	(972)	(1,013)
Accrued provision for pension obligation [1]	(304)	(506)
Reclassification of extraction tax [2]	1,402	1,637
Adjustment for inventories [3]	397	(2,259)
Accrual for employee flights and holidays [4]	402	1,402
Other adjustments	17	(28)
Reclassification of exploration expenses [5]	(757)	(908)
Other reclassifications	503	489
Cost of sales as per Statement of Comprehensive Income	**16,490**	**12,697**

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

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

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

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

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

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

(in millions of Russian roubles, unless otherwise stated)

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

	Three months ended 31 March 2012	**Three months ended 31 March 2011**
Belgium	16,971	13,186
Russian Federation	9,945	9,529
India	5,705	2,639
Israel	2,392	2,265
China	886	502
United Arab Emirates	680	763
Belarus	186	208
Angola	124	176
Armenia	123	97
Switzerland	50	25
Other countries	138	210
Total	**37,200**	**29,600**

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

	31 March 2012	**31 December 2011**
Russian Federation	209,372	170,364
Angola	2,361	2,768
Other countries	272	305
Total	**212,005**	**173,437**