AK “ALROSA”

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

CONTENTS

INDEPENDENT AUDITOR'S REPORT

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

1 We have audited the accompanying consolidated financial statements of Open Joint Stock Company AK "ALROSA" and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
16 May 2011

ZAO PricewaterhouseCoopers Audit
White Square Office Center, 10 Butyrsky Val, Moscow, Russia 125047
T: +7 (495) 967 60 00, F: +7 (495) 967 6001, www.pwc.com

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Financial Position

	Notes	31 December 2010	31 December 2009
ASSETS			
Non-current Assets			
Goodwill	5	1,439	1,439
Property, plant and equipment	7	168,020	167,932
Investments in associates	5	1,975	1,530
Available-for-sale investments	5	167	420
Long-term accounts receivable	9	1,569	2,231
Restricted cash	6	152	107
Total Non-current Assets		**173,322**	**173,659**
Current Assets			
Inventories	8	34,514	44,873
Prepaid income tax		340	196
Trade and other receivables	9	10,115	12,417
Cash and cash equivalents	6	4,136	5,094
Total Current Assets		**49,105**	**62,580**
Total Assets		**222,427**	**236,239**
EQUITY			
Share capital	10	12,473	12,473
Share premium		10,431	10,431
Treasury shares	10	(39)	(26)
Retained earnings and other reserves		70,026	59,020
Equity attributable to shareholders of AK "ALROSA"		**92,891**	**81,898**
Non-Controlling Interest in Subsidiaries	10	**(281)**	**(1,177)**
Total Equity		**92,610**	**80,721**
LIABILITIES			
Non-current Liabilities			
Long-term debt	11	89,021	23,581
Derivative financial instruments	13	2,311	6,502
Provision for pension obligations	15	4,344	3,096
Provision for land recultivation	14	800	326
Deferred tax liabilities	17	2,459	2,774
Total Non-current Liabilities		**98,935**	**36,279**
Current Liabilities			
Short-term loans and current portion of long-term debt	12	12,944	94,371
Derivative financial instruments	13	2,562	3,643
Trade and other payables	16	11,529	17,238
Income tax payable		574	318
Other taxes payable	17	3,030	3,511
Dividends payable		243	158
Total Current Liabilities		**30,882**	**119,239**
Total Liabilities		**129,817**	**155,518**
Total Equity and Liabilities		**222,427**	**236,239**

Signed on 16 May 2011 by the following members of management:

Fedor B. Andreev
President

Elena L. Timonina
Chief accountant

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Sales	18	113,394	77,949
Cost of sales	19	(63 669)	(43,689)
Royalty	17	(3 509)	(3,509)
Gross profit		**46 216**	**30,751**
General and administrative expenses	20	(7,286)	(8,316)
Selling and marketing expenses	21	(1,366)	(1,173)
Net gain from derivative financial instruments	13	2,081	11,475
Gain on disposal of subsidiaries	5, 13	1,427	2,438
Other operating income		342	341
Other operating expenses	22	(14,276)	(12,135)
Operating profit		**27,138**	**23,381**
Finance income	23	1,408	6,138
Finance costs	24	(13,604)	(23,417)
Share of net profit of associates	5	1,034	559
Profit before income tax		**15,976**	**6,661**
Income tax	17	(4,188)	(3,198)
Profit for the year		**11,788**	**3,463**
Other comprehensive income			
Net gains arising from change in fair value of available-for-sale investments		16	44
Currency translation differences		(70)	109
Other comprehensive income for the year		**(54)**	**153**
Total comprehensive income for the year		**11,734**	**3,616**
Profit attributable to:			
Owners of AK “ALROSA”		11,690	3,437
Non-controlling interest		98	26
Profit for the year		**11,788**	**3,463**
Total comprehensive income attributable to:			
Owners of AK “ALROSA”		11,636	3,594
Non-controlling interest		98	22
Total comprehensive income for the year		**11,734**	**3,616**

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Net Cash Inflow from Operating Activities	25	**37,800**	**13,986**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(11,968)	(12,536)
Proceeds from sales of property, plant and equipment		759	1,509
Acquisition of available-for-sale investments		(28)	-
Proceeds from sale of available-for-sale investments		118	29
Net cash flow arising on disposal of subsidiaries	13	-	18,615
Interest received		314	134
Receipts of cash from long-term deposit accounts		-	11,285
Dividends received from associates		1,038	615
Net Cash (Outflow) / Inflow from Investing Activities		**(9,767)**	**19,651**
Cash Flows from Financing Activities			
Repayments of loans		(184,556)	(100,286)
Loans received		165,677	86,268
Interest paid		(9,412)	(20,408)
Purchase of treasury shares		(201)	(104)
Acquisition of non-controlling interest in subsidiaries		(230)	(94)
Dividends paid		(412)	(1,916)
Net Cash Outflow from Financing Activities		**(29,134)**	**(36,540)**
Net Decrease in Cash and Cash Equivalents		**(1,101)**	**(2,903)**
Cash and cash equivalents at the beginning of the year		5,094	7,569
Exchange gain on cash and cash equivalents		143	428
Cash and Cash Equivalents at the End of the reporting period		**4,136**	**5,094**

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Changes in Equity

	Attributable to owners of AK "ALROSA"							Non-controlling interest	Total equity
	Number of shares outstanding	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total		
Balance at 31 December 2008	**272,326**	**12,473**	**10,431**	**(24)**	**(62)**	**55,631**	**78,449**	**(431)**	**78,018**
Comprehensive income									
Profit for the year		-	-	-	-	3,437	3,437	26	3,463
Other comprehensive income									
Net gains arising from change in fair value of available-for-sale investments		-	-	-	48	-	48	(4)	44
Currency translation differences		-	-	-	109	-	109	-	109
Total other comprehensive income		-	-	-	157	-	157	(4)	153
Total comprehensive income for the year		**-**	**-**	**-**	**157**	**3,437**	**3,594**	**22**	**3,616**
Transactions with owners									
Purchase of non-controlling interest		-	-	-	(41)	-	(41)	(53)	(94)
Purchase of treasury shares	(133)	-	-	(2)	-	(102)	(104)	-	(104)
Non-controlling interest in disposed subsidiaries (note 13)		-	-	-	-	-	-	(578)	(578)
Dividends paid by subsidiaries to minority shareholders		-	-	-	-	-	-	(137)	(137)
Total transactions with owners		**-**	**-**	**(2)**	**(41)**	**(102)**	**(145)**	**(768)**	**(913)**
Balance at 31 December 2009	**272,193**	**12,473**	**10,431**	**(26)**	**54**	**58,966**	**81,898**	**(1,177)**	**80,721**
Comprehensive income									
Profit for the year		-	-	-	-	11,690	11,690	98	11,788
Other comprehensive income									
Net gains arising from change in fair value of available-for-sale investments		-	-	-	16	-	16	-	16
Currency translation differences		-	-	-	(70)	-	(70)	-	(70)
Total other comprehensive income		-	-	-	(54)	-	(54)	-	(54)
Total comprehensive income for the year		**-**	**-**	**-**	**(54)**	**11,690**	**11,636**	**98**	**11,734**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(250)	(250)	-	(250)
Purchase of non-controlling interest		-	-	-	(192)	-	(192)	(38)	(230)
Purchase of treasury shares	(387)	-	-	(13)	-	(188)	(201)	-	(201)
Non-controlling interest in disposed subsidiaries (note 5)		-	-	-	-	-	-	1,082	1,082
Dividends paid by subsidiaries to minority shareholders		-	-	-	-	-	-	(246)	(246)
Total transactions with owners		**-**	**-**	**(13)**	**(192)**	**(438)**	**(643)**	**798**	**155**
Balance at 31 December 2010	**271,806**	**12,473**	**10,431**	**(39)**	**(192)**	**70,218**	**92,891**	**(281)**	**92,610**

1. ACTIVITIES

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

The Group operates mining facilities in Mirny, Udachny, Aikhal, Nyurba and Anabar (located in Eastern Siberia) and Arkhangelsk. Licenses for the Group’s major diamond deposits expire between 2015 and 2022. Management believes the Group will be able to extend the licenses’ terms after they expire.

As at 31 December 2010 and 31 December 2009 the Company’s principal shareholders are the governments of the Russian Federation (50.9 percent of shares) and the Republic of Sakha (Yakutia) (32.0 percent of shares).

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets and financial instruments categorised as at fair value through profit or loss. The consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, except for adoption certain of the new standards, amendments and interpretations which became effective since 1 January 2010.

Group companies incorporated in Russia maintain their statutory accounting records and prepare statutory financial reports in accordance with the Regulations on Accounting and Reporting of the Russian Federation (“RAR”) and their functional currency is the Russian Rouble (“RR”). Group companies incorporated in other countries maintain their statutory accounting records in accordance with relevant legislation and in the appropriate functional currency.

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 30.48 and 30.24 as at 31 December 2010 and 31 December 2009, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 40.33 and 43.39 as at 31 December 2010 and 31 December 2009, respectively.

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

Reclassification of comparative information in the statement of comprehensive income

Net income from cross currency interest rate swap contracts totalling RR’mln 789 was reclassified from other operating income for the year ended 31 December 2009 to net gain from derivative financial instruments. This change was made in order to present the information about the Group’s activity in a format considered to be more useful to the users of the consolidated financial statements.

(b) Recent accounting pronouncements

In 2010 the Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2010 and which are relevant to its operations.

Standards, Amendments or Interpretations effective in 2010:

IFRIC 17 “Distributions of Non-cash Assets to Owners” which is effective for annual periods beginning on or after 1 July 2009. The interpretation provides guidance on accounting for distribution of assets other than cash (non-cash assets) as dividends to its owners acting in their capacity as owners. It also clarifies the situations, when an entity gives its owners a choice of receiving either non-cash assets or a cash alternative. The application of this interpretation did not affect the Group’s consolidated financial statements.

IFRIC 18 “Transfers of Assets from Customers” which is effective for annual periods beginning on or after 1 July 2009. The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The application of this interpretation did not affect the Group’s consolidated financial statements.

Amendment to IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” which is effective for annual periods beginning on or after 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group. The application of this amendment did not affect the Group’s consolidated financial statements.

Amendment to IAS 38 ”Intangible Assets” which is effective for annual periods beginning on or after 1 July 2009. The amendment clarifies guidance on measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The application of this amendment did not affect the Group’s consolidated financial statements.

Amendment to IAS 1 “Presentation of Financial Statements” which is effective for annual periods beginning on or after 1 January 2010. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The application of this amendment did not affect the Group’s consolidated financial statements.

Amendment to IAS 36 “Impairment of Assets” which is effective for annual periods beginning on or after 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, “Operating segments” (that is, before the aggregation of segments with similar economic characteristics). The application of this amendment did not affect the Group’s consolidated financial statements.

Amendments to IFRS 2 “Share-based Payment” which are effective for annual periods beginning on or after 1 January 2010. The amendments provide a clear basis to determine the classification of share-based payment awards in consolidated financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The application of these amendments did not affect the Group’s consolidated financial statements.

Amendment to IFRS 5 “Non-current assets held for sale and discontinued operations” which is effective for annual periods beginning on or after 1 January 2010. The amendment clarifies disclosure`s requirements for non-current assets (or disposal groups) classified as held for sale or discontinued operations. The application of this amendment did not affect the Group’s consolidated financial statements.

Amendment to IFRIC 9 “Re-assessment of embedded derivatives” which is effective for annual periods beginning on or after 1 January 2010. The amendment states that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope. The application of this amendment did not affect the Group’s consolidated financial statements.

Standards early adopted by the Group in 2010:

In 2010 the Group early adopted the revised IAS 24 “Related Party Disclosures” which is effective for annual periods beginning on or after 1 January 2011. IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The related parties disclosure (see note 27) in these consolidated financial statements was prepared in accordance with the requirements of the revised standard.

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

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

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.

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

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

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

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

- Amendment to IAS 34 "Interim Financial Reporting" adds additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments.
- Amendment to IFRIC 13 "Customer Loyalty Programmes" clarifies measurement of fair value of award credits.

The application of these improvements is not expected to materially affect the Group's consolidated financial statements.

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

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

New standards issued in May 2011 that are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

- IFRS 10 "Consolidated financial statements" 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.
- IFRS 11 "Joint arrangements" 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 "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.
- IFRS 12 "Disclosure of interest in other entities" 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 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet this objective, there is a new requirement to disclosure significant judgments and assumptions in determining whether an entity controls, jointly controls or significantly influences its interests in other entities.
- As a consequence of above changes IAS 27 is renamed "Separate financial statements". It continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged.
- IFRS 13 "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise 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 new standards on the consolidated financial statements.

(c) Principles of consolidation

In 2008 the Group early adopted the revised IAS 27 "Consolidated and Separate Financial Statements" and the revised IFRS 3 "Business Combinations".

The Group comprises the Company and its subsidiaries. The effects of transactions between subsidiaries within the Group are eliminated and accounting policies of the subsidiaries and associates are conformed to those of the Company.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of obtaining control. Costs directly attributable to the acquisition are recognised as expenses. The date of obtaining control is the acquisition date. The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

The difference, if any, between the carrying amount of non-controlling interest and the amount paid to acquire it is recorded in equity.

Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial cost for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are recycled to profit or loss where appropriate.

(d) Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

(e) Property, plant and equipment

Property, plant and equipment comprises costs incurred in developing areas of interest as well as the costs related to the construction and acquisition of mining assets.

Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

(in millions of Russian roubles, unless otherwise stated)

Expenditure related to geophysical analysis and exploration is expensed until it is determined to be probable that economically recoverable reserves exist. Exploration costs are classified as exploration expenses within other operating expenses. All expenses incurred subsequently are considered as development costs and are capitalised as part of property, plant and equipment. They are depreciated from the date of commencement of mining activities at the exact area of interest. Depreciation of these development costs is calculated on a units of production method for each area of interest.

Production stripping costs attributable to future production are capitalised as part of property, plant and equipment and depreciated on a units of production basis to match the economic benefits derived from them.

Gains and losses arising from the disposal of property, plant and equipment are included in the profit or loss as incurred.

At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use, the carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Costs on borrowings are capitalised as part of the cost of qualifying assets during the period of time that is required to construct and prepare the asset for its intended use.

Depreciation

Property, plant and equipment are depreciated from the date, when they are ready for the commencement of commercial mining activities.

Depreciation of buildings and land and improvements related to extraction of minerals is calculated on a units of production basis for each area of interest. For the purpose of this calculation at the end of each reporting period management uses information with respect to volumes of diamonds contained in ore reserves approved by the Ministry of Natural Resources of Russia. These quantities do not always correspond directly to generally accepted international categories of reserves but represent reserves for which geological and engineering data demonstrate with reasonable certainty to be recoverable in the future years from existing areas of interest under existing economic and operating conditions. Depreciation of production licenses is calculated on a straight-line basis over the period they are valid. Depreciation of other assets is calculated on a straight-line basis over their estimated useful life.

Summary of useful lives and alternative basis for depreciation:

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

The average depreciation rate for the property, plant and equipment depreciated on a units of production basis was 5.7 percent in the year ended 31 December 2010 (year ended 31 December 2009: 5.6 percent).

Local infrastructure assets

Local infrastructure assets constructed or purchased by the Group (including dwelling houses for the Group's employees located in the areas of the Group's production activity) are included in the financial statements at historical cost and depreciated during their useful lives as set out above. These assets are an integral part of the Group's production activities.

Finance leases

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of future finance charges, are included in debts. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to the statement of comprehensive income over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

(f) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reassessed at each reporting period, and are included in the consolidated financial statements at their expected net present values using discount rates appropriate to the Group in the economic environment in the Russian Federation at the end of each reporting period.

The provision for land recultivation is determined based on the terms of the “Program for improvement of environmental situation in the area of operating activity of the Company” which was approved by the Management Committee of the Company. In accordance with this Program the Company assumed an obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. The initial provision for land recultivation together with any changes in estimation is recorded in the consolidated statement of financial position, with a corresponding amount recorded as part of property, plant and equipment in accordance with IAS 16 “Property, Plant and Equipment”. This amount is amortised over the term of the Program. Changes in the provision for land recultivation resulting from the passage of time are reflected in the profit or loss each period under finance costs. Other changes in the provision relating to a change in the discount rate applied, in the expected pattern of settlement of the obligation or in the estimated amount of the obligation are treated as a change in accounting estimate in the period of the change. The effects of such changes are added to, or deducted from, the cost of the related asset.

(g) Inventories

Inventories of diamonds, extracted ore and concentrates, mining and construction stores and consumable supplies are valued at the lower of cost or net realisable value. Cost of inventory is assigned using weighted average cost formula.

Cost of extracted ore and concentrates is calculated using the quantities determined based on surveyors’ measurements of the volumes of ore and concentrates remaining at the period end. Cost of inventories include those directly attributable to mining the diamonds, extracting the ore and producing concentrates, and those directly attributable to bringing mining and construction stores and consumable supplies to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

(h) Non derivative financial assets

The Group classifies its financial assets in the following categories:

- available-for-sale financial assets, and
- loans and receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

Purchases of available-for-sale investments on public financial markets are recognised on the settlement date, which is the date that the investment is delivered to the Group. The available-for sale investments are initially recognised at fair value plus transaction costs. Available-for-sale investments are subsequently carried at fair value. Unrealised gains and losses arising from changes in the carrying value of these investments are included in the Group’s other comprehensive income or loss in the period in which they arise. Interest income, dividend income and realised gains and losses from the disposal of available-for-sale investments or impairment losses, if any, are included in the Group’s profit or loss in the period in which they arise.

Available-for-sale investments of the Group principally comprise non-marketable securities, which are not publicly traded or listed on a stock exchange. For these investments, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows. In assessing the fair value, management makes assumptions that are based on market conditions existing at the end of each reporting period. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are carried at amortised cost using the effective interest method. Gains and losses are recognised within the profit or loss section of the consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

(i) Derivative financial instruments

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

(j) Measurement of trade and other receivables

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

Impairment losses are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

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

(k) Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

(l) Components of cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and instruments with maturity at the date of inception of less than three months, which are considered by the Group at the time of deposit to have minimal fair value and default risks. Cash and cash equivalents are carried at amortised cost using the effective interest method.

(m) Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as a current asset and liability, except for VAT related to certain assets under construction included within non-current assets. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods borrowings are stated at amortised cost using the effective yield method; any difference between the amount at initial recognition and the redemption amount is recognised as interest expense over the period to maturity of the borrowings.

Borrowing costs (the interests) directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

(o) Pension and other post-retirement benefits

In the normal course of business the Group contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, made on behalf of employees directly involved in production of diamonds, are included within wages, salaries and other staff costs in cost of production and apportioned between work-in-process (inventory of diamonds and ores and concentrates) and cost of sales. Mandatory contributions to the State pension plan made on behalf of other employees, are expensed as incurred and included within wages, salaries and other staff costs in general and administrative expenses and selling and marketing expenses.

The Group also operates a defined benefit pension plan. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is charged to the relevant category in the consolidated statement of comprehensive income so as to spread the regular cost over the service lives of employees (the cost of providing pensions to employees involved in production process is apportioned between cost of production and work-in-progress). The pension obligation is measured at the present value of the estimated future cash outflows using the interest rates on governmental securities, which have the terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10 percent of the fair value of plan assets or 10 percent of the defined benefit obligations are charged or credited to profit or loss over the employees' expected average remaining working lives.

Non-state pension fund "Almaznaya Osen" administers the Group's defined benefit plan. The amount of pension benefit that an employee will receive on retirement is usually dependent on one or more factors such as age, years of service and average salary for the year preceding the year of retirement. The liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and unrecognized past service cost. The Group contributes funds to the non-state pension fund "Almaznaya Osen", which invests them in governmental securities and other financial instruments. These investments, which represent the majority of assets of non-state pension fund "Almaznaya Osen", are considered the pension fund plan assets, as these assets are available to be used only to pay or fund employee benefits, are not available to the Group's own creditors (even in bankruptcy), and cannot be returned to the Group, unless either the remaining assets of the non-state pension fund are sufficient to meet all the related employee benefit obligations of the pension plan, or the assets are returned to the Group to reimburse it for employee benefits already paid.

Past service costs are recognised immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, past service costs are amortised on a straight-line basis over the vesting period.

(p) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

(q) Equity

Share capital

Share capital consists of ordinary shares, which are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Treasury shares

Where the Group companies purchase the Company's equity share capital, the consideration paid including any attributable transaction costs is deducted from total equity as treasury shares until they are re-sold. Where such shares are subsequently sold, any consideration received net of income taxes is included in equity. Treasury shares are recorded at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are approved at the General Meeting of Shareholders on or before the end of the reporting period.

(r) Revenue recognition

Revenues are recognised when goods are shipped to the customer, as this is the date on which the risks and rewards of ownership are transferred to the customer. Sales are shown net of VAT and export duties, and after eliminating sales within the Group.

Revenue for "bill and hold" sales, in which delivery of goods is delayed at the buyer's request but the buyer takes title and accepts billing, is recognised, provided:

- it is probable that delivery will be made;
- the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognised;
- the buyer specifically acknowledges the deferred delivery instructions; and
- the usual payment terms apply.

Revenue is not recognised when there is simply an intention to acquire the goods in time for delivery.

Revenue from rendering of transport services is recognised in financial statements in the period when the services are rendered.

Interest income is recognised on accrual basis that takes into account the effective yield on the asset.

Dividend income is recognised when the shareholder's right to receive payment is established and inflow of economic benefits is probable.

(s) Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge (benefit) comprises current tax and deferred tax and is recognised in the Group's profit or loss except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit or loss. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains at their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at every end of the reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

(t) Foreign currencies

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies, are translated into functional currencies at the official exchange rate prevailing at the reporting date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the Group's profit or loss.

The statements of financial position of foreign subsidiaries are translated into Russian Roubles at the exchange rate prevailing at the end of the respective reporting period. Statements of comprehensive income of foreign entities are translated at the average exchange rate for the reporting period. Exchange differences arising from the translation of the net assets of foreign subsidiaries are recognised as translation differences and included in other comprehensive income.

(u) Social costs

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

(v) Non-cash transactions

Non-cash transactions are measured at the fair value of the consideration received or receivable. Non-cash transactions have been excluded from the financing activities components in the accompanying consolidated statement of cash flows.

(w) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Committee of the Company, which is the Group's chief operating decision-maker.

(x) Critical accounting estimates and judgements in applying accounting policies

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of revenues and expenses during the reporting year. Actual results may differ from such estimates. In particular, significant areas of estimation and critical judgments in applying accounting policies made by management in preparing these financial statements include:

Impairment provision for receivables. The impairment provision for trade receivables is based on management's assessment of the probability of collection of individual customer accounts receivable. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates.

When there is no expectation of recovering additional cash for an amount receivable, amount receivable is written off against associated provision.

Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment of property, plant and equipment. The estimation of forecast cash flows involves the application of a number of significant judgements and estimates to certain variables including volumes of production, prices of diamonds, operating costs, capital investments, diamonds reserves estimates and macroeconomic factors such as inflation and discount rates. In addition, judgement is applied in determining the cash generating units assessed for impairment.

***Tax legislation*.** Russian tax, currency and customs legislation is subject to varying interpretations (see note 26).

Useful lives of property, plant and equipment. Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Management believes diamond production licenses will be extended past their current expiration dates. The Group has a history of renewal of its production licenses and there were no any cases in the past when any of the Group's production licenses were not extended. Because of the extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

In the year ended 31 December 2010, if the estimated useful lives of property, plant and equipment had been 10 percent longer / shorter with all other variables held constant, depreciation charge for the year would have been RR'mln 711 (year ended 31 December 2009 – RR'mln 706) lower / higher.

Classification of production licenses. Management treats cost of production licenses as an integral part of acquisition cost of tangible mining properties, i.e. land where the respective area of interest is located; accordingly, production licenses are included in property, plant and equipment in these consolidated financial statements. As at 31 December 2010 the net book value of production licenses included in property, plant and equipment is RR'mln 8,349 (as at 31 December 2009: RR'mln 9,067), see also note 7.

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

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

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

Pension benefits. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the yield to maturity on federal loan bonds denominated in the currency in which the benefits will be paid, and with terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based on current market conditions (see note 15).

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including market risk (currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on minimising potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments to manage its risk exposures (foreign exchange risk).

Cash flow and fair value interest rate risk. As the Group has no significant interest-bearing assets. The Group's principal interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2010 and 2009, the Group's borrowings were denominated in US dollars and Russian Roubles (see notes 11 and 12).

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

(in millions of Russian roubles, unless otherwise stated)

At 31 December 2010, if interest rates on US dollar-denominated borrowings had been 20 percent higher/lower with all other variables held constant, post-tax profit for the year and equity would have been RR’mln 19 (at 31 December 2009 - RR’mln 20) lower/higher, mainly as result of higher/lower interest expense on floating rate borrowings.

At 31 December 2010, if interest rates on Russian Roubles-denominated borrowings had been 30 percent higher/lower with all other variables held constant, post-tax profit for the year and equity would have been RR’mln 39 (at 31 December 2009 - RR’mln 28) lower/higher, mainly as result of higher/lower interest expense on floating rate borrowings and gains/losses on cross currency interest rate swap contracts.

Foreign exchange risk. The Group exports production to European and other countries and attracts a substantial amount of foreign currency denominated borrowings and is, thus, exposed to foreign exchange risk arising from various contracts, primarily with respect to the US dollar and to a lesser extent the Euro. In 2006 the Group entered into US$ / RR forward sale transactions with several banks to manage its foreign exchange risk arising from future sale transactions adjusted for other transactions (foreign currency denominated borrowings and purchases), see note 13. The Group does not account for these derivative financial instruments as hedges.

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

	US Dollar		**Euro**		**Other foreign currency**	
	31 December		**31 December**		**31 December**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Assets						
Cash and cash equivalents	781	1,337	19	3	70	79
Trade and other receivables	471	895	28	366	1	2
	1,252	**2,232**	**47**	**369**	**71**	**81**
Liabilities						
Trade and other payables	777	690	15	23	1	-
Borrowings	70,768	67,377	-	212	-	-
Derivative financial instruments	4,873	10,145	-	-	-	-
	76,418	**78,212**	**15**	**235**	**1**	**-**

At 31 December 2010, if the Russian Rouble had weakened / strengthened by 10 percent against the US dollar with all other variables held constant, post-tax profit for the year would have been RR’mln 7,352 (at 31 December 2009 – RR’mln 9,018) lower / higher and equity would have been RR’mln 7,282 (at 31 December 2009 – RR’mln 9,480) lower / higher, mainly as a result of losses / gains from revaluation of derivative financial instruments and foreign exchange losses / gains on translation of US dollar-denominated borrowings and accounts payable partially offset by foreign exchange gains / losses on translation of US dollar-denominated cash and cash equivalents and accounts receivable.

At 31 December 2010, if the Russian Rouble had weakened/strengthened by 10 percent against the Euro with all other variables held constant, post-tax profit for the year and equity would had been RR’mln 2 (at 31 December 2009 – RR’mln 11) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade and other receivables and cash and cash equivalents.

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

At 31 December 2010, if the prices of available-for-sale investments held by the Group had been 20 percent higher/lower with all other variables held constant, its equity would have been RR’mln 33 (at 31 December 2009 – RR’mln 84) higher/lower and there would have been no impact on post-tax profit.

Credit risk. Credit risk arises from cash and cash equivalents, as well as credit exposures to customers, including outstanding trade receivables, loans issued, derivative financial instruments and other financial assets. Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to have minimal risk of default. Due to the fact that most of the counterparties do not have individual external credit rating, the Group has policies in place to ensure that sales of products and services and loans issued are made to counterparties with positive credit history. These procedures include assessment of financial position, past experience and other factors. To support certain receivables from customers of diamonds the Group may require either collateral, or bank or any other third party’s guarantee. Although collections of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

(in millions of Russian roubles, unless otherwise stated)

Liquidity risk. Liquidity risk management includes maintaining sufficient cash balances, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group management maintains flexibility in funding by ensuring availability under committed credit lines and expected cash flows from operating activities. Management monitors a rolling forecast of the Group's liquidity reserve (comprises undrawn borrowing facility and cash and equivalents) on the basis of expected cash flow. This is carried out at Group level monthly and annually. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet any net cash outflows and maintaining debt financing plans.

The table below analyses the Group's liabilities for financial instruments into relevant maturity grouping based on the remaining period at the statement of financial position to contractual maturity date.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 3 years	Over 3 years
31 December 2010					
Borrowings	2,328	2,810	16,141	28,940	92,374
Foreign exchange forward contracts and cross currency interest rate swaps	63	925	1,634	-	-
Strike price of the put options granted by the Group to the buyers of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company"	-	-	-	26,518	-
Trade payables	2,170	2	360	-	-
Current accounts of third parties in OOO "MAK-Bank"	101	200	901	-	-
Interest payable	75	37	547	-	-
Payables to associates	59	-	-	-	-
Other payables and accruals	419	-	-	-	-
	5,215	**3,974**	**19,583**	**55,458**	**92,374**
31 December 2009					
Borrowings	5,900	247	99,438	11,199	18,252
Foreign exchange forward contracts and cross currency interest rate swaps	56	757	3,027	3,218	-
Strike price of the put options granted by the Group to the buyers of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company"	-	-	-	26,309	-
Trade payables	4,477	-	-	-	-
Accounts payable of OAO "NNGK Sakhaneftegaz" to the companies of former "YUKOS" Group	3,719	-	-	-	-
Current accounts of third parties in OOO "MAK-Bank"	74	147	662	-	-
Interest payable	52	104	467	-	-
Payables to associates	48	-	-	-	-
Other payables and accruals	474	-	-	-	-
Financial guarantees	-	-	1,546	-	-
	14,800	**1,255**	**105,140**	**40,726**	**18,252**

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

Capital risk management. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

As at 31 December 2010 the Group is not subject to any externally imposed capital requirements other than the requirement stipulated by the Russian legislation that the charter capital of a joint-stock company should not exceed its net assets.

The Group monitors capital mostly on the basis of the gearing ratio for the purpose of maintaining major debt parameters at the optimal level. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position, less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt. During 2010, the Group's strategy, which was unchanged from 2009, was to reduce the gearing ratio.

(in millions of Russian roubles, unless otherwise stated)

The gearing ratios at 31 December 2010 and 31 December 2009 were as follows:

	31 December 2010	31 December 2009
Total borrowings	101,965	117,952
Less: cash and cash equivalents	(4,136)	(5,094)
Net debt	97,829	112,858
Total equity	92,610	80,721
Total capital	190,439	193,579
Gearing ratio	51%	58%

4. FINANCIAL INSTRUMENTS BY CATEGORY

ASSETS	Loans and receivables		Available for sale		Total	
	31 December		31 December		31 December	
	2010	2009	2010	2009	2010	2009
Non-current assets						
Restricted cash	152	107	-	-	152	107
Available-for-sale investments	-	-	167	420	167	420
Loans issued	1,372	1,324	-	-	1,372	1,324
Notes receivable	-	317	-	-	-	317
Other long-term receivables	7	14	-	-	7	14
	1,531	1,762	167	420	1,698	2,182
Current assets						
Trade receivables for supplied diamonds	1,325	638	-	-	1,325	638
Loans issued	2,393	3,648	-	-	2,393	3,648
Receivables from associates	157	478	-	-	157	478
Notes receivable	15	641	-	-	15	641
Other trade receivables	3,184	4,183	-	-	3,184	4,183
Cash and cash equivalents	4,136	5,094	-	-	4,136	5,094
	11,210	14,682	-	-	11,210	14,682
	12,741	**16,444**	**167**	**420**	**12,908**	**16,864**

LIABILITIES	Liabilities at fair value through profit or loss-held for trading		Liabilities at amortised cost		Total	
	31 December		31 December		31 December	
	2010	2009	2010	2009	2010	2009
Non-current liabilities						
Long-term debt	-	-	89,021	23,581	89,021	23,581
Derivative financial instruments	2,311	6,502	-	-	2,311	6,502
	2,311	6,502	89,021	23,581	91,332	30,083
Current liabilities						
Short-term loans and current portion of long-term debt	-	-	12,944	94,371	12,944	94,371
Derivative financial instruments	2,562	3,643	-	-	2,562	3,643
Trade payables	-	-	2,532	4,477	2,532	4,477
Accounts payable of OAO "NNGK Sakhaneftegaz" to the companies of former "YUKOS" Group	-	-	-	3,719	-	3,719
Current accounts of third parties in OOO "MAK-Bank"	-	-	1,202	882	1,202	882
Interest payable	-	-	660	622	660	622
Payables to associates	-	-	59	48	59	48
Other payables and accruals	-	-	419	474	419	474
	2,562	3,643	17,816	104,593	20,378	108,236
	4,873	**10,145**	**106,837**	**128,174**	**111,710**	**138,319**

(in millions of Russian roubles, unless otherwise stated)

5. GROUP STRUCTURE AND INVESTMENTS

The Company’s significant consolidated subsidiaries are as follows:

Name	Principal activity	Country of Incorporation	Percentage of ownership interest held	
			31 December 2010	31 December 2009
“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	90	95
OOO “MAK Bank”	Banking activity	Russia	88	88
OAO “ALROSA-Nyurba”	Diamonds production	Russia	88	88
OAO “NNGK Sakhaneftegaz”	Oil & gas industry	Russia	-	50

As at 31 December 2010 and 31 December 2009 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

Deconsolidation of OAO “NNGK Sakhaneftegaz”

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

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

Goodwill

The amount of goodwill totalling RR’mln 1,439 relates to acquisition of a 49 percent minority interest in OAO “Almazy Anabara” in December 2007. The goodwill is attributable to the operational synergies expected to arise after this acquisition as a result of more effective integration of operational activity of this subsidiary into the Group’s one. As of the date of acquisition goodwill was attributed to the diamond mining businesses of OAO “Almazy Anabara”. As at 31 December 2010 the recoverable amount of goodwill was determined on the basis of the recent management’s forecast of future cash flows of OAO “Almazy Anabara” for the years 2011-2019 that reflects the expected period of production activity on the existing deposits. Management assessed the recoverable amount of the goodwill based on the value in use model. The pre-tax discount rate used in the analysis was 15.2 percent, which presents the weighted average cost of capital for the Group adjusted for the effect of tax. Based on results of the analysis management concluded that there is no impairment for goodwill as at 31 December 2010. The impairment test involves making judgment about several key future business indicators. Management believes that their judgements are reasonable and supportable in the current economic environment. However, as compared to the estimates used in the impairment test, if diamond prices fall by 11 percent or US$ depreciates against Russian Rouble by 12 percent or discount rate increases to 20.5 percent, there will be no excess of value in use over carrying value of assets allocated to the respective cash generating unit.

(in millions of Russian roubles, unless otherwise stated)

Associates

Name	Country of incorporation	Percentage of ownership interest held as at 31 December		Carrying value of investment as at 31 December		Group's share of net profit / (loss) for the year ended 31 December	
		2010	**2009**	**2010**	**2009**	**2010**	**2009**
"Catoca Mining Company Ltd"	Angola	33	33	1,705	1,278	1,024	561
OAO "Almazny Mir"	Russia	47	47	179	174	5	2
Other	Russia	-	-	91	78	5	(4)
				1,975	1,530	1,034	559

As at 31 December 2010 and 31 December 2009 the percentage of ownership interest of the Group in its associates is equal to the percentage of voting interest.

"Catoca Mining Company Ltd" is a diamond-mining venture located in Angola. In April 2010 "Catoca Mining Company Ltd" declared dividends for the year ended 31 December 2009; the Group's share of these dividends amounted to RR'mln 607. Currency translation income recognised in the consolidated other comprehensive income for the year ended 31 December 2010 in respect of investment in "Catoca Mining Company Ltd" totalled RR'mln 10. In June 2009 "Catoca Mining Company Ltd" declared dividends for the year ended 31 December 2008; the Group's share of these dividends amounted to RR'mln 887. Currency translation income recognised in the consolidated other comprehensive income for the year ended 31 December 2009 in respect of investment in "Catoca Mining Company Ltd" totalled RR'mln 46.

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

	Assets as at 31 December		Liabilities as at 31 December		Revenues for the year ended 31 December		Profit (loss) for the year ended 31 December	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
"Catoca Mining Company Ltd"	10,301	9,764	5,103	5,867	16,019	13,270	3,122	1,710
OAO "Almazny Mir"	426	399	47	28	164	158	10	5
Other	64	82	22	19	67	69	(1)	(11)
	10,791	10,245	5,172	5,914	16,250	13,497	3,131	1,704

Non-current available-for-sale investments

	Year ended 31 December 2010	Year ended 31 December 2009
Available-for-sale investments at the beginning of the reporting period	420	512
Additions	41	-
Net changes in fair value	16	44
Disposal as a result of deconsolidation of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz"	(195)	-
Other disposals	(115)	(136)
Available-for-sale investments at the end of the reporting period	167	420

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

- investments which fair values are based on quoted prices in an active market (Level 1 in accordance with the valuation hierarchy) totalling RR'mln 97 (31 December 2009: RR'mln 70)
- investments which fair values are determined based on valuation technique with significant non-observable inputs (Level 3 in accordance with the valuation hierarchy) totalling RR'mln 70 (31 December 2009: RR'mln 350).

(in millions of Russian roubles, unless otherwise stated)

6. CASH AND CASH EQUIVALENTS

Restricted cash

Restricted cash included within non-current assets in the consolidated statement of financial position of RR'mln 152 and RR'mln 107 as at 31 December 2010 and 31 December 2009, respectively, is represented by mandatory reserve deposits held with the Central Bank of the Russian Federation by OOO "MAK Bank", a subsidiary of the Group; these balances are not available for use in the Group's day to day operations. Payments to this restricted cash account are included in cash flows from operating activity in consolidated statement of cash flows (see note 25).

At 31 December 2010 and 31 December 2009 the weighted average interest rate on the restricted cash balances is approximately nil percent.

Cash and cash equivalents

	31 December 2010	**31 December 2009**
Cash in banks and on hand	3,912	4,567
Deposit accounts	224	527
	4,136	5,094

At 31 December 2010 the weighted average interest rate on the cash balances of the Group was 0.16 percent (31 December 2009: 0.43 percent).

As at 31 December 2010 and 31 December 2009 all balances of cash and cash equivalents of the Group are neither past due nor impaired.

The table below analyses the credit quality of banks at which the Group holds cash and cash equivalents as at 31 December 2010:

	External credit rating	**Rating agency**	**31 December 2010**	**31 December 2009**
Current accounts of OOO "MAK Bank" in the Central Bank of the Russian Federation	Not applicable	Not applicable	1,566	2,039
OAO "Bank VTB"	Baa 1	Moody's	1,069	1,360
Cash of OOO "MAK Bank" on hand and in cash machines	Not applicable	Not applicable	659	625
Julius Bayer Bank	Aa 3	Moody's	93	20
ABN AMRO Bank	Aa 3	Moody's	70	148
Lloyds TSB Bank plc	Aa 3	Moody's	61	75
OAO "Sberbank"	Baa 1	Moody's	56	174
HSBC	Aa 2	Moody's	33	121
Other banks	Aa 3–B 3	Moody's	529	532
			4,136	5,094

(in millions of Russian roubles, unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Land and Improvements	Plant and Equipment	Transport	Production Licenses	Assets under Construction	Other	TOTAL
Cost at 31 December 2008	**56,367**	**57,866**	**44,175**	**17,084**	**16,605**	**61,057**	**2,309**	**255,463**
Additions	37	1,123	1,212	450	9	12,085	478	15,394
Transfers	4,071	17,737	3,336	198	-	(25,489)	147	-
Disposals	(2,236)	(238)	(1,161)	(586)	-	(246)	(146)	(4,613)
Disposal of subsidiaries (note 13)	(28)	(1,509)	(34)	(2)	(7,322)	(5,765)	(6)	(14,666)
Foreign exchange differences	7	68	1	37	-	114	(3)	224
Change in estimate of provision for land recultivation (note 14)	-	(5)	-	-	-	-	-	(5)
Cost at 31 December 2009	**58,218**	**75,042**	**47,529**	**17,181**	**9,292**	**41,756**	**2,779**	**251,797**
Additions	504	423	1,346	934	-	10,981	308	14,496
Transfers	3,389	2,191	1,892	28	-	(7,534)	34	-
Disposals	(2,037)	(891)	(1,181)	(734)	(682)	(848)	(108)	(6,481)
Disposal of subsidiaries (note 5)	(230)	(609)	(288)	(54)	-	(150)	(24)	(1,355)
Foreign exchange differences	1	28	7	1	-	2	(61)	(22)
Change in estimate of provision for land recultivation (note 14)	-	548	-	-	-	-	-	548
Cost at 31 December 2010	**59,845**	**76,732**	**49,305**	**17,356**	**8,610**	**44,207**	**2,928**	**258,983**
Accumulated depreciation and impairment losses at 31.12.2008	**(18,740)**	**(19,593)**	**(25,697)**	**(10,947)**	**(900)**	**(613)**	**(899)**	**(77,389)**
Charge for the year ended 31 December 2009	(1,324)	(2,803)	(4,001)	(1,179)	(215)	-	(283)	(9,805)
Disposals	391	121	1,014	522	-	-	30	2,078
Disposal of subsidiaries (note 13)	10	477	19	5	890	-	1	1,402
Impairment of property, plant and equipment	-	-	-	-	-	(151)	-	(151)
Accumulated depreciation and impairment losses at 31.12.2009	**(19,663)**	**(21,798)**	**(28,665)**	**(11,599)**	**(225)**	**(764)**	**(1,151)**	**(83,865)**
Charge for the year ended 31 December 2010	(1,309)	(2,853)	(4,291)	(1,098)	(36)	-	(200)	(9,787)
Disposals	320	254	1,108	711	-	-	89	2,482
Disposal of subsidiaries (note 5)	10	31	95	22	-	-	7	165
Reversal of impairment of property, plant and equipment	-	-	-	-	-	42	-	42
Accumulated depreciation and impairment losses at 31.12.2010	**(20,642)**	**(24,366)**	**(31,753)**	**(11,964)**	**(261)**	**(722)**	**(1,255)**	**(90,963)**
Net book value at 31 December 2009	**38,555**	**53,244**	**18,864**	**5,582**	**9,067**	**40,992**	**1,628**	**167,932**
Net book value at 31 December 2010	**39,203**	**52,366**	**17,552**	**5,392**	**8,349**	**43,485**	**1,673**	**168,020**

As at 31 December 2010 borrowing costs totalling RR'mln 117 (as at 31 December 2009: RR'mln 128) were capitalised in property, plant and equipment. For the year ended 31 December 2010 the capitalisation rate applied to qualifying assets totalling RR'mln 1,372 (31 December 2009: RR'mln 1,030) was 8.53 percent (31 December 2009: 12.41 percent).

Property, plant and equipment include an aircraft which the Group received under a finance lease agreement. As at 31 December 2010 the carrying value of this aircraft is RR'mln 810 (31 December 2009: RR'mln 896). Property, plant and equipment include also the mining equipment which OAO "Almazy Anabara", a subsidiary of the Group, received under finance lease agreements. As at 31 December 2010 the carrying value of this equipment is RR'mln 216 (31 December 2009: RR'mln 279).

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. Management believes that as at 31 December 2010 and 31 December 2009 there were no such indicators, accordingly the Group did not conduct an impairment test of its property plant and equipment as at those dates.

(in millions of Russian roubles, unless otherwise stated)

The impairment loss of RR'mln 151 recognised for the year ended 31 December 2009 relates to certain frozen assets under construction and buildings, which, in accordance with recent management's plans, were not planned to be used in production activity of the Group. The reversal of impairment totalling RR'mln 42 recognised for the year ended 31 December 2010 relates to previously impaired assets under construction, which subsequently were used in production activity of the Group or sold.

8. INVENTORIES

	31 December 2010	31 December 2009
Diamonds	15,840	19,844
Ores and concentrates	7,498	6,177
Mining and construction materials	9,886	12,509
Consumable supplies	1,267	746
Diamonds for resale	23	5,597
	34,514	44,873

9. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 December 2010	31 December 2009
Loans issued	1,372	1,324
Long-term VAT recoverable	190	576
Notes receivable	-	317
Other long-term receivables	7	14
	1,569	2,231

Current accounts receivable	31 December 2010	31 December 2009
Loans issued	2,393	3,648
Prepaid taxes, other than income tax	1,403	1,349
Trade receivables for supplied diamonds	1,325	638
VAT recoverable	893	777
Advances to suppliers	745	703
Receivables from associates (see note 27)	157	478
Notes receivable	15	641
Other trade receivables	3,184	4,183
	10,115	12,417

The average effective and market interest rates for each class of long-term accounts receivable at the end of the reporting period were as follows:

	31 December 2010		31 December 2009	
	Effective interest rates	Market interest rates	Effective interest rates	Market interest rates
Loans issued	10.0%	12.0%	13.0%	16.0%
Notes receivable	-	-	10.0%	16.7%
Other long-term receivables	10.0%	14.0%	10.0%	15.0%

The fair value of long-term accounts receivable is estimated by discounting the future contractual cash inflows at the market interest rates available to the recipients of funds at the end of the reporting period. The carrying amounts and fair values of long-term accounts receivable are as follows:

	31 December 2010		31 December 2009	
	Carrying value	Fair value	Carrying value	Fair value
Loans issued	1,372	1,108	1,324	1,246
Notes receivable	-	-	317	245
Other long-term receivables	7	5	14	10

The fair value of each class of short-term trade and other accounts receivable at 31 December 2010 and 31 December 2009 approximates their carrying value.

(in millions of Russian roubles, unless otherwise stated)

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

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

Long-term accounts receivable	31 December 2009	Bad debt write-off	Bad debt expense / (reversal of bad debt expense)	31 December 2008
Loans issued	3,789	-	3,763	26
	3,789	-	3,763	26
Current accounts receivable				
Receivables from associates (see note 27)	26	(162)	-	188
Notes receivable	80	-	-	80
Loans issued	118	-	(66)	184
Other trade receivables	1,522	(31)	219	1,334
	1,746	(193)	153	1,786

The individually impaired receivables mainly relate to the customers, which are in difficult economic situations or under bankruptcy procedures. Management assesses a portion of the receivables will be recovered. The ageing analysis of these receivables is as follows:

	31 December 2010				31 December 2009			
	Up to 1 year	1 to 3 years	Over 3 years	Total	Up to 1 year	1 to 3 years	Over 3 years	Total
Long-term accounts receivable								
Loans issued	26	3,759	-	3,785	3,763	-	26	3,789
	26	3,759	-	3,785	3,763	-	26	3,789
Current accounts receivable								
Receivables from associates	-	-	26	26	-	-	26	26
Notes receivable	-	-	80	80	-	-	80	80
Loans issued	23	109	2	134	-	116	2	118
Other trade receivables	11	280	312	603	11	463	1,048	1,522
	34	389	420	843	11	579	1,156	1,746

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

31 December 2010	Large customers	Medium and small customers	Entities controlled by the Government	Individuals	Total
Long-term accounts receivable					
Loans issued	-	663	128	581	1,372
Other long-term receivables	-	7	-	-	7
	-	670	128	581	1,379
Current accounts receivable					
Loans issued	795	846	566	186	2,393
Trade receivables for supplied diamonds	1,083	242	-	-	1,325
Receivables from associates	113	44	-	-	157
Notes receivable	-	15	-	-	15
Other trade receivables	5	1,293	1,520	366	3,184
	1,996	2,447	2,086	552	7,081

(in millions of Russian roubles, unless otherwise stated)

31 December 2009	Large customers	Medium and small customers	Entities controlled by the Government	Individuals	Total
Long-term accounts receivable					
Loans issued	530	397	5	392	1,324
Notes receivable	317	-	-	-	317
Other long-term receivables	-	14	-	-	14
	847	411	5	392	1,655
Current accounts receivable					
Loans issued	1,555	1,051	721	321	3,648
Trade receivables for supplied diamonds	589	49	-	-	638
Receivables from associates	478	-	-	-	478
Notes receivable	460	181	-	-	641
Other trade receivables	402	2,906	572	304	4,184
	3,484	4,187	1,293	625	9,589

For the purposes of the above analysis customers are considered large if their total assets exceed RR’mln 5,000 and their revenue exceeds RR’mln 1,000. Management believes that balances of accounts receivable with large customers have higher credit quality than medium and small customers or individuals.

As at 31 December 2010 trade and other receivables in the amount of RR’mln 11,179 (as at 31 December 2009: RR’mln 14,319) were neither past due nor impaired and have no history of overdue payments. Most of these debtors have no individual external credit rating.

As at 31 December 2010 accounts receivable in the amount of RR’mln 505 (as at 31 December 2009: RR’mln 329) were past due but were not considered impaired. They include only other trade receivables and relate to a number of independent medium and small customers for whom there is no recent history of default. As at 31 December 2010 and 31 December 2009 none of these accounts receivable was secured by any collateral.

The ageing analysis of receivables that are past due but not impaired is as follows:

	31 December 2010	31 December 2009
Up to 3 months	78	59
3 to 6 months	179	115
6 to 12 months	86	58
More than 1 year	162	97
	505	329

As at 31 December 2010 14 individual debtors of the Group (31 December 2009: 16 individual debtors) had the outstanding balance with the Group exceeding RR’mln 100. As at 31 December 2010 total amount of such accounts receivable was RR’mln 7,631 (31 December 2009: RR’mln 8,344).

10. SHAREHOLDERS’ EQUITY

Share capital

Share capital authorised, issued and paid in totals RR’mln 12,473 as at 31 December 2010 and 31 December 2009 and consists of 272,726 ordinary shares, including treasury shares, at RR 13,502.5 par value per share. In addition as at 31 December 2010 and 31 December 2009 share capital includes hyperinflation adjustment totalling RR’mln 8,790, which was calculated in accordance with requirements of IAS 29 “Financial Reporting in Hyperinflationary Economies” and relates to the reporting periods prior to 1 January 2003.

Distributable profits

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the years ended 31 December 2010 and 31 December 2009, the statutory profit of the Company as reported in the published statutory reporting forms was RR’mln 8,777 and RR’mln 2,348 respectively. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation, and accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

Treasury shares

As at 31 December 2010 subsidiaries of the Group held 920 (31 December 2009: 533) ordinary shares of the Company. The Group management controls the voting rights of these shares.

(in millions of Russian roubles, unless otherwise stated)

Other reserves

	Currency translation	Purchase of non-controlling interest	Available-for-sale investments	Total
Balance at 31 December 2008	**247**	**(309)**	**-**	**(62)**
Currency translation differences	113	-	-	113
Purchase of non-controlling interest	-	(41)	-	(41)
Net gains arising from change of fair value of available-for-sale investments	-	-	44	44
Balance at 31 December 2009	**360**	**(350)**	**44**	**54**
Currency translation differences	(70)	-	-	(70)
Purchase of non-controlling interest	-	(192)	-	(192)
Net gains arising from change of fair value of available-for-sale investments	-	-	16	16
Balance at 31 December 2010	**290**	**(542)**	**60**	**(192)**

Dividends

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

On 20 June 2009 the Company's annual shareholders' meeting decided not to pay dividends for the year ended 31 December 2008.

Non-controlling interest in subsidiaries

	Year ended 31 December 2010	Year ended 31 December 2009
Non-controlling interest at the beginning of the reporting period	(1,177)	(431)
Non-controlling interest share of net profit of subsidiaries	98	26
Purchase of non-controlling interest (less disposal)	(38)	(53)
Translation difference	-	(4)
Disposal of non-controlling interest through disposal of subsidiaries (see notes 5 and 13)	1,082	(578)
Dividends paid by subsidiaries to minority shareholders	(246)	(137)
Non-controlling interest at the end of the reporting period	(281)	(1,177)

11. LONG-TERM DEBT

	31 December 2010	31 December 2009
Banks:		
US$ denominated floating rate	2,206	3,262
US$ denominated fixed rate	22,310	21,708
RR denominated floating rate	1,556	1,556
RR denominated fixed rate	-	44,480
	26,072	**71,006**
Eurobonds	45,696	15,099
RR denominated non-convertible bonds	26,000	-
Finance lease obligation	511	564
Commercial paper	464	359
Other US$ denominated fixed rate loans	-	123
Other RR denominated fixed rate loans	1,349	1,476
	100,092	**88,627**
Less: current portion of long-term debt (see note 12)	(11,071)	(65,046)
	89,021	**23,581**

In June 2010 the Company issued four series of RR denominated non-convertible bonds in the amount of RR'mln 26,000 with maturity 5 years and interest rates of 8.25 - 8.95 percent per annum.

(in millions of Russian roubles, unless otherwise stated)

In November 2010 "ALROSA Finance" S.A., a subsidiary of the Group, issued Eurobonds in the amount of RR'mln 30,794 (nominal value - US$'mln 1,000) due for repayment on 3 November 2020 with an interest rate of 7.75 percent per annum.

The long-term commercial paper is denominated in RR, has defined maturity dates ranging between one and two years, and is carried at amortised cost.

At 31 December 2010 long-term loans had the following maturity profile (based on the discounted contractual cash flows):

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 years and thereafter	Total
Banks:						
US$ denominated floating rate	2,206	-	-	-	-	2,206
US$ denominated fixed rate	6,678	15,632	-	-	-	22,310
RR denominated floating rate	1,556	-	-	-	-	1,556
Eurobonds	-	-	-	-	45,696	45,696
RR denominated non-convertible bonds	-	-	-	-	26,000	26,000
Finance lease obligation	27	29	23	432	-	511
Commercial paper	464	-	-	-	-	464
Other RR denominated fixed rate loans	140	1,209	-	-	-	1,349
	11,071	16,870	23	432	71,696	100,092

At 31 December 2009 long-term loans had the following maturity profile (based on the discounted contractual cash flows):

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 years and thereafter	Total
Banks:						
US$ denominated floating rate	2,826	28	408	-	-	3,262
US$ denominated fixed rate	17,667	3,605	436	-	-	21,708
RR denominated floating rate	-	1,556	-	-	-	1,556
RR denominated fixed rate	44,173	290	7	10	-	44,480
Eurobonds	-	-	-	-	15,099	15,099
Finance lease obligation	57	26	28	453	-	564
Commercial paper	-	359	-	-	-	359
Other US$ denominated fixed rate loans	123	-	-	-	-	123
Other RR denominated fixed rate loans	200	1,276	-	-	-	1,476
	65,046	7,140	879	463	15,099	88,627

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

	31 December 2010		31 December 2009	
	Effective interest rates	Market interest rates	Effective interest rates	Market interest rates
Banks				
US$ denominated floating rate	5.5%	4.8%	4.3%	5.3%
US$ denominated fixed rate	6.4%	7.4%	14.5%	8.8%
RR denominated floating rate	10.5%	9.4%	13.7%	13.8%
RR denominated fixed rate	-	-	15.3%	13.8%
Eurobonds	8.1%	6.7%	8.7%	7.8%
RR denominated non-convertible bonds	8.5%	8.3%	-	-
Finance lease obligation	7.6%	8.0%	7.6%	8.5%
Commercial paper	27.4%	7.0%	21.7%	8.9%
Other US$ denominated fixed rate loans	-	-	9.0%	8.8%
Other RR denominated fixed rate loans	10.9%	9.5%	11.9%	13.8%

(in millions of Russian roubles, unless otherwise stated)

The fair value of long-term debt is estimated by discounting the future contractual cash outflows at the market interest rate available to the Group at the end of the reporting period. The carrying amounts and fair values of long-term debt are as follows:

	31 December 2010		31 December 2009	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Banks				
US$ denominated floating rate	2,206	2,215	3,262	1,374
US$ denominated fixed rate	22,310	22,198	21,708	22,551
RR denominated floating rate	1,556	1,558	1,556	1,558
RR denominated fixed rate	-	-	44,480	45,033
Eurobonds	45,696	49,010	15,099	15,742
RR denominated non-convertible bonds	26,000	26,412	-	-
Finance lease obligation	511	470	564	551
Commercial paper	464	490	359	460
Other US$ denominated fixed rate loans	-	-	123	120
Other RR denominated fixed rate loans	1,349	1,367	1,476	1,448

As at 31 December 2010 and 31 December 2009 there were no long-term loans secured with the assets of the Group.

Eurobonds

	Year ended 31 December 2010	**Year ended 31 December 2009**
Balance at the beginning of the reporting period	15,099	14,681
Amortisation of discount	20	25
Issued	30,794	-
Exchange (gains)/losses	(217)	393
Balance at the end of the reporting period	45,696	15,099

Finance lease obligation

	Minimum lease payments 31 December 2010	**Discounted value of minimum lease payments 31 December 2010**	**Minimum lease payments 31 December 2009**	**Discounted value of minimum lease payments 31 December 2009**
Within 1 year	65	27	96	57
Between 2 and 4 years	547	484	607	507
	612	511	703	564

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

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

	31 December 2010	**31 December 2009**
Banks:		
US$ denominated fixed rate	37	15,939
RR denominated fixed rate	57	5
	94	**15,944**
European commercial paper	-	11,237
Commercial paper	-	616
Other US$ denominated fixed rate loans	9	9
Other RR denominated fixed rate loans	1,770	1,519
	1,873	**29,325**
Add: current portion of long-term debt (see note 11)	11,071	65,046
	12,944	**94,371**

As at 31 December 2010 and 31 December 2009 there were no short-term loans secured with the assets of the Group.

(in millions of Russian roubles, unless otherwise stated)

European commercial paper

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

	Year ended 31 December 2010	Year ended 31 December 2009
Balance at the beginning of the reporting period	11,237	1,366
Issued	9,239	22,782
Repayment	(20,906)	(12,254)
Exchange losses / (gains)	430	(657)
Balance at the end of the reporting period	-	11,237

Commercial paper

Commercial paper comprises unsecured notes, denominated in RR, issued by the Group to provide short-term working capital facilities. The short-term commercial paper is typically a non-interest bearing instrument issued at a discount, with defined maturity dates ranging from 1 month to 1 year and is carried at amortised cost.

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

	31 December 2010		31 December 2009	
	Effective interest rates	Market interest rates	Effective interest rates	Market interest rates
Banks:				
US$ denominated fixed rate	12.0%	8.2%	10.4%	9.9%
RR denominated fixed rate	11.1%	10.0%	14.4%	14.7%
European commercial paper	-	-	9.8%	9.1%
Commercial paper	-	-	7.8%	9.4%
Other US$ denominated fixed rate loans	3.7%	3.9%	-	4.7%
Other RR denominated fixed rate loans	5.7%	6.1%	4.4%	6.3%

The fair value of short-term debt is estimated by discounting the future contractual cash outflows at the market interest rate available to the Group at the end of year. The carrying amounts and fair values of short-term debt are as follows:

	31 December 2010		31 December 2009	
	Carrying value	Fair value	Carrying value	Fair value
Banks:				
US$ denominated fixed rate	37	37	15,939	15,906
RR denominated fixed rate	57	57	5	4
European commercial paper	-	-	11,237	11,229
Commercial paper	-	-	616	691
Other US$ denominated fixed rate loans	9	9	9	9
Other RR denominated fixed rate loans	1,770	1,775	1,519	2,058

13. DERIVATIVE FINANCIAL INSTRUMENTS

Long-term derivative financial instruments (liabilities)

	31 December 2010	31 December 2009
Fair value of put options granted by the Group to the buyers of ZAO “Geotransgaz” and OOO “Urengoyskaya Gazovaya Company”	2,311	3,658
Fair value of foreign exchange forward contracts	-	2,657
Fair value of cross currency interest rate swaps	-	187
	2,311	6,502

(in millions of Russian roubles, unless otherwise stated)

Short-term derivative financial instruments (liabilities)

	31 December 2010	31 December 2009
Fair value of foreign exchange forward contracts	2,328	3,643
Fair value of cross currency interest rate swaps	234	-
	2,562	3,643

Net gain from derivative financial instruments

	Year ended 31 December	
	2010	2009
Net gain from change of fair value of put options granted by the Group to the buyers of ZAO “Geotransgaz” and OOO “Urengoyskaya Gazovaya Company”	1,347	-
Net gain from foreign exchange forward contracts	771	10,686
Net (loss) / gain from cross currency interest rate swap contracts	(37)	789
	2,081	11,475

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

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

The Group determined the fair value of put options as at the date of the transaction in the amount of RR’mln 3,658 using the option pricing model (Level 3 in accordance the valuation hierarchy) and recognised the corresponding non-current liability in the statement of financial position. There were no changes in the fair value of the put options as at 31 December 2009 as compared with the date of transaction. The fair value of the put options as at 31 December 2010 amounted to RR’mln 2,311. The main inputs to the option pricing model are the fair value of the sold companies, which was assessed by the Group at 31 December 2010 as RR’mln 36,735 or US$’mln 1,205 (date of transaction and 31 December 2009: RR’mln 31,091 or US$’mln 1,061) and its expected volatility, which was estimated by the Group at the level of 44 percent as at 31 December 2010, 31 December 2009 and the date of transaction using historical data for comparable companies for the last 3 years.

	Year ended 31 December	
	2010	2009
Fair value of the put options at the beginning of the reporting period	(3,658)	-
Recognition of the put options at the date of transaction within non-current liabilities	-	(3,658)
Change in fair value during the reporting period	1,347	-
Fair value of the put options at the end of the reporting period	(2,311)	(3,658)

At 31 December 2010, if the fair value of sold companies had decreased / increased by 10 percent with all other variables held constant, post-tax profit and equity for the year would have been RR’mln 491 (31 December 2009 – RR’mln 674) lower / higher as a result of losses / gains from revaluation of the put options.

Net assets of ZAO “Geotransgaz” and OOO “Urengoyskaya Gazovaya Company” at the date of disposal are as follows:

Property, plant and equipment	13,264
Inventories	98
Trade and other receivables and other assets	159
Deferred tax liability	(157)
Trade and other payables and other liabilities	(267)
Non-controlling interest in the subsidiaries	(578)
Net assets	**12,519**
Fair value of put options granted to the buyers	3,658
Gain on disposal of subsidiaries	2,438
Total consideration	**18,615**

(in millions of Russian roubles, unless otherwise stated)

Foreign exchange forward contracts

To reduce the Group's US$ / RR foreign exchange risk exposure, in 2006 the Group entered into US$ / RR forward sale transactions with five foreign banks having an investment grade rating within the range Aa2-Aa3 as assessed by Moody's rating agency as at 31 December 2010 under which it agreed to sell US$ for RR during a five-year period starting in September 2006 and ending in September 2011, at a strike price fixed at the exchange rates ranging from RR 26.56 to RR 26.84 per US$ 1, averaged on a quarterly basis. The transactions have varying maturities and amounts spread evenly over the five-year period in the aggregate amount of US$'mln 215 per quarter (US$'mln 4,300 in total over the five-year period). At 31 December 2010 the fair value of the forward foreign exchange contracts totalled RR'mln 2,328 (liability), (as at 31 December 2009 - RR'mln 6,300 (liability), including current portion in the amount of RR'mln 3,643). It represents the net present value of the differences between the cash flows related to these contracts calculated at forward exchange rates expected by the five banks participating in these transactions as at the end of the reporting periods and forward exchange rates fixed by the forward sales contracts concluded by the Company over the five-year period.

	Year ended 31 December	
	2010	**2009**
Fair value of foreign exchange forward contracts at the beginning of the reporting period	(6,300)	(21,348)
Payment from exercising of foreign exchange forward contracts	3,201	4,362
Net gain from change of fair value of foreign exchange forward contracts	771	10,686
Fair value of foreign exchange forward contracts at the end of the reporting period	(2,328)	(6,300)

In the year ended 31 December 2010 the net gain from change of fair value of foreign exchange forward contracts recognised in the Group's profit or loss includes gain in the amount of RR'mln 328 (in the year ended 31 December 2009: gain in the amount of RR'mln 9,344) related to revaluation of closing balance of foreign exchange forward contracts.

At 31 December 2010, if the Russian Rouble had weakened / strengthened by 10 percent against the US dollar with all other variables held constant, post-tax profit and equity for the year would have been RR'mln 1,399 (at 31 December 2009 – RR'mln 3,354) lower / higher as a result of losses / gains from revaluation of foreign exchange forward contracts.

Cross currency interest rate swap contracts

To reduce the Group's interest rate risk exposure associated with the RR denominated floating rate loans from "Bank VTB", in 2008 the Group entered into US$ / RR cross currency interest rate swap transactions with "VTB Bank Europe Plc" having an investment grade rating Baa1 as assessed by Moody's rating agency as at 31 December 2010. Under the swap transactions the Group agreed to convert into US$ the amount due to "Bank VTB" totalling RR'mln 4,518 at the exchange rate of RR 26.62 and pay fixed interest rates ranging from 9.55 to 9.88 percent in exchange of RR floating interest rates based on three months MosPrime interest rate. The transactions have varying maturities and amounts spread from October 2008 to May 2011. At 31 December 2010 the fair value of the cross currency interest rate swap transactions totalled RR'mln 234 (liability), at 31 December 2009 - RR'mln 187 (liability).

	Year ended 31 December	
	2010	**2009**
Fair value of cross currency interest rate swap contracts at the beginning of the reporting period	(187)	(1,096)
Proceeds from exercising of swap contracts	(181)	(3,761)
Payment from exercising of swap contracts	171	3,881
Net (loss) / gain from change of fair value of cross currency interest rate swap contracts	(37)	789
Fair value of cross currency interest rate swap contracts at the end of the reporting period	(234)	(187)

In the year ended 31 December 2010 net (loss) / gain from change of fair value of cross currency interest rate swap contracts recognised in the Group's profit or loss includes loss in the amount of RR'mln 47 (year ended 31 December 2009: loss in the amount of RR'mln 341) related to revaluation of closing balance of cross currency interest rate swap contracts.

At 31 December 2010, if the Russian Rouble had weakened / strengthened by 10 percent against the US dollar with all other variables held constant, post-tax profit and equity for the year would have been RR'mln 144 (at 31 December 2009 – RR'mln 104) higher / lower as a result of gains / losses from revaluation of swap contracts.

The discount rate used to calculate the fair value of the forward foreign exchange contracts and cross currency interest rate swap transactions as at 31 December 2010 was 8.1 percent (as at 31 December 2009 – 9 percent), which represents the incremental interest rate on RR denominated borrowings applicable to the Group as at the end of the respective reporting period.

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

(in millions of Russian roubles, unless otherwise stated)

14. PROVISION FOR LAND RECULTIVATION

	Year ended 31 December 2010	Year ended 31 December 2009
At the beginning of the reporting period	326	369
Change in estimate of provision for land recultivation	548	(5)
Unwinding of discount	39	57
Utilised	(113)	(95)
At the end of the reporting period	800	326

The Company fulfils the "Program for improvement of environmental situation in the area of operating activity of the Company" which was approved by the Management Committee of the Company. In accordance with this Program the Company assumed an obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity during the period till 2018. The Company recognised a provision for these future expenses in its consolidated financial statements for the years ended 31 December 2010 and 31 December 2009 with a corresponding asset recognised within property, plant and equipment (see note 7). The discount rate used to calculate the net present value of the future cash outflows relating to land recultivation at 31 December 2010 was 15.12 percent (31 December 2009: 19.5 percent), which represents the weighted average cost of capital for the Group and is considered appropriate to the Group in the economic environment in the Russian Federation at the end of year.

15. PROVISION FOR PENSION OBLIGATIONS

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

	31 December 2010	31 December 2009
Present value of obligations	14,119	11,147
Fair value of plan assets	(4,528)	(5,112)
Unsecured pension obligations	9,591	6,035
Present value of unfunded obligation	592	503
Unrecognised actuarial losses	(5,693)	(3,252)
Unrecognised past service cost	(146)	(190)
Net liability	4,344	3,096

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

	Year ended 31 December 2010	Year ended 31 December 2009
Current service cost	258	310
Interest cost	995	824
Expected return on plan assets	(442)	(273)
Net actuarial losses	281	233
Recognised past service cost	15	26
Immediate recognition of vested prior service cost	766	27
Curtailment	(70)	-
Net expense recognised in the statement of comprehensive income	1,803	1,147

Net expense recognised in the statement of comprehensive income is included in cost of sales, general and administrative expenses, selling and marketing expenses in the amount of RR'mln 1,575 (year ended 31 December 2009: RR'mln 988), RR'mln 171 (year ended 31 December 2009: RR'mln 121) and RR'mln 57 (year ended 31 December 2009: RR'mln 38) respectively.

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

	31 December 2010	31 December 2009
Benefit obligation at the beginning of the reporting period	11,650	9,581
Current service cost	258	310
Interest cost	995	824
Actuarial loss	1,850	1,327
Benefits paid	(687)	(551)
Past service cost	738	159
Curtailment	(93)	-
Benefit obligation at the end of the reporting period	14,711	11,650

(in millions of Russian roubles, unless otherwise stated)

	31 December 2010	31 December 2009
Fair value of plan assets at the beginning of the year	5,112	3,819
Expected return on plan assets	442	273
Contributions made	555	954
Benefits paid	(687)	(551)
Actuarial (loss) / gain	(894)	617
Fair value of plan asset at the end of the reporting period	4,528	5,112

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

In the year ended 31 December 2010 the actual loss on plan assets was RR'mln 452 (year ended 31 December 2009: actual return was RR'mln 890).

The Group expects to contribute RR'mln 1,027 to the defined benefit plans during the year beginning 1 January 2011.

Principal actuarial assumptions used:

	31 December 2010	31 December 2009
Discount rate (nominal)	8.0%	8.7%
Expected return on plan assets	7.0%	8.6%
Future salary increases (nominal)	5.5%	6.2%
Future pension increases (nominal)	5.5%	5.5%
Mortality table	Russia 1998	Russia 2002
Expected retirement age – male	57	57
Expected retirement age – female	55	55

As the significant portion of the Group's plan assets is presented by short-term bank deposits which interest rates are lower than those on long-term governmental securities used to determine the discount rate, the expected return on plan assets is lower than the discount rate.

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

At 31 December 2010 sensitivity of provision for pension obligations to principal actuarial assumptions is as follows:

	Change in assumption	Impact on provision for pension obligations
Discount rate	Increase / decrease by 0.5%	Decrease / increase by 5.8%
Expected return on plan assets	Increase / decrease by 0.5%	Decrease / increase by 7.1%
Future salary increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 2.7%
Future pension increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 5.0%
Employee turnover	Increase / decrease by 10%	Decrease / increase by 1.1%
Mortality level	Increase / decrease by 10%	Decrease / increase by 4.6%

Five-year defined benefit plan disclosure:

	Year ended 31 December				
	2010	2009	2008	2007	2006
Present value of obligations	14,711	11,650	9,581	11,375	11,388
Fair value of plan assets	(4,528)	(5,112)	(3,819)	(3,555)	(3,120)
Deficit in plan	10,183	6,538	5,762	7,820	8,268

	Year ended 31 December				
	2010	2009	2008	2007	2006
Experience adjustments on plan liabilities	404	133	(278)	(653)	587
Experience adjustments on plan assets	(894)	617	(250)	(52)	(67)

(in millions of Russian roubles, unless otherwise stated)

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

	31 December 2010, %	31 December 2009, %
Russian corporate bonds	22.3	37.2
Bank deposits	42.0	36.3
Russian Government and municipal bonds	13.4	11.7
Equity securities of Russian issuers	20.0	8.2
Promissory notes of Russian issuers	-	4.9
Debt securities of Russian issuers	2.3	1.7
	100.0	100.0

16. TRADE AND OTHER PAYABLES

	31 December 2010	31 December 2009
Accrual for employee flights and holidays	4,482	4,367
Trade payables	2,532	4,477
Wages and salaries	1,659	1,594
Current accounts of third parties in OOO “MAK Bank”	1,202	882
Interest payable	660	622
Advances from customers	516	1,055
Payables to associates	59	48
Accounts payable of OAO “NNGK Sakhaneftegaz” to the companies of former “YUKOS” Group (see note 5)	-	3,719
Other payables and accruals	419	474
	11,529	17,238

In accordance with Russian legislation, the Group entities are required to pay for the holiday entitlement and the cost of travel for employees and their family members to an agreed-upon destination and back, or a pre-determined allowance.

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2010 and 31 December 2009 approximates their carrying value.

17. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

	31 December 2010	31 December 2009
Property tax	749	811
Payments to social funds	694	-
Value added tax	625	617
Extraction tax	555	754
Personal income tax (employees)	270	324
Tax penalties	24	26
Unified social tax	-	750
Other taxes and accruals	113	229
	3,030	3,511

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

	Year ended 31 December 2010	Year ended 31 December 2009
Property tax	3,046	2,938
Other taxes and accruals	407	726
	3,453	3,664

In accordance with Resolution № 795 of the Government of the Russian Federation dated 23 December 2006, in addition to the taxes noted above, the Group is obliged to pay 6.5 percent on the value of diamonds sold for export in the form of an export duty (see note 18).

In accordance with the amendment to the license agreement registered in May 2007, OAO “ALROSA-Nyurba”, a subsidiary of the Group, is obliged to make annual fixed royalty payments to the Republic of Sakha (Yakutia) starting from 1 January 2007 in the amount of RR’mln 3,509 per annum.

(in millions of Russian roubles, unless otherwise stated)

Income tax comprise the following:

	Year ended 31 December 2010	Year ended 31 December 2009
Current tax expense	4,651	353
Deferred tax (benefit) / expense	(315)	3,021
Adjustments recognised in the period for current tax of prior periods	(148)	(176)
	4,188	3,198

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

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income tax	15,976	6,661
Theoretical tax charge at statutory rate of 20 percent thereon	3,195	1,332
Tax effect of income not assessable for income tax purposes	(285)	(1,219)
Prior periods adjustments recognised in the current period	(148)	(175)
Tax effect of expenses and losses not deductible for income tax purposes	1,426	3,260
	4,188	3,198

Income not assessable for income tax purposes totalling RR'mln 6,096 for the year ended 31 December 2009 is presented by the difference between the amount of cash proceeds from disposal of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company" and the amount of net assets of the disposed entities at the date of transaction (see note 13). This transaction was performed by the Group's subsidiary registered at British Virgin Islands, where the profit tax rate is zero percent.

Differences between IFRS and Russian statutory tax accounting give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement in these temporary differences is recorded at the rate of 20 percent.

	31 December 2010	Tax effect of movement in temporary differences recorded in profit or loss	31 December 2009	Tax effect of movement in temporary differences recorded in profit or loss		31 December 2008
		At 20 percent		Disposal of subsidiaries	At 20 percent	
Deferred tax liabilities						
Property, plant and equipment	4,742	(1,594)	6,336	(207)	535	6,008
Inventories	3,828	(287)	4,115	-	1,877	2,238
Long-term investments	272	34	238	-	(39)	277
Deferred tax assets						
Derivative financial instruments	(977)	1,058	(2,035)	-	2,455	(4,490)
Accrual for employee benefits	(986)	(25)	(961)	-	71	(1,032)
Exploration costs written off	(439)	(69)	(370)	-	(17)	(353)
Provision for pension obligations	(869)	(250)	(619)	-	(39)	(580)
Write-down of inventories	(1,355)	(298)	(1,057)	50	(102)	(1,005)
Impairment of accounts receivable	(862)	(134)	(728)	-	(433)	(295)
Asset for tax losses carry-forwards	(878)	1,231	(2,109)	-	(1,318)	(791)
Other deductible temporary differences	(17)	19	(36)	-	31	(67)
Net deferred tax liability	**2,459**	**(315)**	**2,774**	**(157)**	**3,021**	**(90)**

As at 31 December 2010 and 31 December 2009 the Group recognised deferred tax assets for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. These tax losses carry-forwards expire in 2017.

At 31 December 2010 and 2009, the Group had not recorded a deferred tax liability in respect to taxable temporary differences of RR'mln 4,459 and RR'mln 2,565, respectively, associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

(in millions of Russian roubles, unless otherwise stated)

18. SALES

	Year ended 31 December 2010	Year ended 31 December 2009
Revenue from diamond sales:		
Export	72,808	33,425
Domestic	22,548	26,432
Revenue from diamonds for resale	5,915	6,483
	101,271	66,340
Other revenue:		
Transport	4,100	4,142
Social infrastructure	2,347	2,043
Construction	1,755	1,620
Trading	935	710
Gas and gas condensate	-	85
Other	2,986	3,009
	113,394	77,949

Export duties totalling RR'mln 4,920 for the year ended 31 December 2010 (year ended 31 December 2009: RR'mln 2,184) were netted against revenues from export of diamonds.

In the year ended 31 December 2010 the Group had no customer accounted for more than 10 percent of the Group`s revenue. In the year ended 31 December 2009 sales of diamonds to the parties under control of the Government accounted for 38 percent of the Group's revenue (see note 27).

19. COST OF SALES

	Year ended 31 December 2010	Year ended 31 December 2009
Wages, salaries and other staff costs	19,387	16,061
Depreciation	8,793	8,535
Fuel and energy	8,331	7,149
Extraction tax	6,896	6,618
Materials	5,860	3,870
Cost of diamonds for resale	5,750	6,658
Services	3,942	2,743
Transport	1,837	1,416
Other	190	282
Movement in inventory of diamonds, ores and concentrates	2,683	(9,643)
	63,669	43,689

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 2,910 (year ended 31 December 2009: RR'mln 2,244). These payments include mandatory contributions to State pension plan in the amount of RR'mln 2,240 (year ended 31 December 2009: RR'mln 1,720).

Depreciation totalling RR'mln 994 (year ended 31 December 2009: RR'mln 1,271) and staff costs totalling RR'mln 1,290 (year ended 31 December 2009: RR'mln 2,832) were incurred by the Group's construction divisions and were capitalised into property, plant and equipment in the year.

20. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009
Services and other administrative expenses	2,893	2,435
Wages, salaries and other staff costs	2,100	1,965
Impairment of accounts receivable (see note 9)	2,293	3,916
	7,286	8,316

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 25 (year ended 31 December 2009: RR'mln 112). These payments include mandatory contributions to State pension plan in the amount of RR'mln 19 (year ended 31 December 2009: RR'mln 86).

(in millions of Russian roubles, unless otherwise stated)

21. SELLING AND MARKETING EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009
Wages, salaries and other staff costs	705	624
Services and other selling and marketing expenses	661	549
	1,366	1,173

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 100 (year ended 31 December 2009: RR'mln 95). These payments include mandatory contributions to State pension plan in the amount of RR'mln 75 (year ended 31 December 2009: RR'mln 72).

22. OTHER OPERATING EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009
Exploration expenses	4,249	2,844
Taxes other than income tax, extraction tax and payments to social funds (note 17)	3,453	3,664
Social costs	2,881	2,075
Loss on disposal of property, plant and equipment	2,433	1,026
(Reversal of impairment) /impairment of property, plant and equipment	(42)	151
Other	1,302	2,375
	14,276	12,135

In the years ended 31 December 2010 and 31 December 2009 the amounts of operating cash outflows associated with exploration expenses were equal to the respective amounts recognised within other operating expenses.

Social costs consist of:

	Year ended 31 December 2010	Year ended 31 December 2009
Maintenance of local infrastructure	1,252	1,095
Hospital expenses	667	351
Charity	537	227
Education	41	93
Other	384	309
	2,881	2,075

23. FINANCE INCOME

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	322	1,053
Exchange gains	1,086	5,085
	1,408	6,138

24. FINANCE COSTS

	Year ended 31 December 2010	Year ended 31 December 2009
Interest expense:		
Bank loans	5,663	16,577
Eurobonds	1,738	1,425
RR denominated non-convertible bonds	1,117	-
Commercial paper	202	847
European commercial paper	929	1,052
Other	246	122
Unwinding of discount of provision for land recultivation (note 14)	39	57
Exchange loss	3,670	3,337
	13,604	23,417

(in millions of Russian roubles, unless otherwise stated)

25. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income tax	15,976	6,661
Adjustments for:		
Share of net profit of associates (note 5)	(1,034)	(559)
Interest income (note 23)	(322)	(1,053)
Interest expense (note 24)	9,934	20,080
Loss on disposal of property, plant and equipment (note 22)	2,433	1,026
(Reversal of impairment) / impairment of property, plant and equipment (note 22)	(42)	151
Gain on disposal of subsidiaries (notes 5 and 13)	(1,427)	(2,438)
Net gain from derivative financial instruments (note 13)	(2,081)	(11,475)
Depreciation (note 19)	8,793	8,535
Adjustment for inventory used in construction	(1,096)	(1,744)
Adjustments for non-cash financing activity (note 28)	(339)	(16)
Net payments from exercising of foreign exchange forward contracts (note 13)	(3,201)	(4,362)
Net proceeds / (payments) from exercising of cross currency interest rate swap contracts (note 13)	10	(120)
Payments to restricted cash account (note 6)	(45)	(76)
Unrealised foreign exchange effect on non-operating items	2,423	(2,652)
Net operating cash flow before changes in working capital	29,982	11,958
Net decrease / (increase) in inventories	9,616	(12,663)
Net decrease in trade and other receivables, excluding dividends receivable	2,220	17,696
Net increase / (decrease) in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	855	(1,909)
Net decrease in taxes payable other than income tax	(624)	(790)
Cash generated from operations	**42,049**	**14,292**
Income tax paid	(4,249)	(306)
Net cash inflows from operating activities	**37,800**	**13,986**

26. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment of the Russian Federation

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market, including relatively high inflation and high interest rates. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

The consequences of the recent global financial and economic 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, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, in particular, concerning deduction of certain expenses for income tax purposes and certain operations of foreign subsidiaries, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. 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.

At 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group’s tax, currency and customs positions will be sustained. Where management believes it is probable that the financial position cannot be sustained, an appropriate amount has been accrued for in the consolidated financial statements.

As at 31 December 2010 the Group had tax contingencies. Management is not able to reliably estimate the range of possible outcomes, but believes that under certain circumstances the magnitude of these tax contingencies may be significant for the Group. Management of the Group believes that the exposure in respect of these tax risks is not probable, therefore as at 31 December 2010 no provision for tax liabilities had been recorded.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 31 December 2010.

(d) Insurance

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

(e) Capital commitments

Ehe Group has contractual commitments for capital expenditures of approximately RR’mln 5,156 (31 December 2009: RR’mln 3,496).

(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 800 as at 31 December 2010 (RR’mln 326 as at 31 December 2009).

27. RELATED PARTY TRANSACTIONS

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

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

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

Governments of the Russian Federation and the Republic of Sakha (Yakutia) are the ultimate controlling parties of the Company. As at 31 December 2010, 83 percent of the Company issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Also as at 31 December 2010 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 2010, 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 9 and 17. Tax transactions are disclosed in the statement of comprehensive income, cash flow statement and in notes 17, 18, 19, 22 and 25.

Parties under control of the Government

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

(in millions of Russian roubles, unless otherwise stated)

As at 31 December 2010 the accounts payable to the parties under Governmental control totalled RR’mln 679 (31 December 2009: RR’mln 3,091). As at 31 December 2010 the accounts receivable from the parties under Governmental control (excluding loans issued to these parties) totalled RR’mln 2,100 (31 December 2009: RR’mln 572). As at 31 December 2010 and 31 December 2009 the accounts receivable from the parties under Governmental control and accounts payable to the parties under Governmental control were non-interest bearing, had a maturity within one year and were denominated in Russian Roubles.

During the years ended 31 December 2010 and 31 December 2009 the Group had the following significant transactions with parties under Governmental control:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Sales of diamonds	8,719	29,674
Other sales	2,515	1,769
Electricity and heating purchases	4,841	4,135
Other purchases	1,358	990

In the year ended 31 December 2010 sales of diamonds to the parties under control of the Government included sales to the State Depository for Precious Metals and Stones of the Russian Federation in the amount of RR’mln 25 (year ended 31 December 2009: RR’mln 27,060).

As at 31 December 2010 and 31 December 2009 the amount of loans received by the Group from the banks under Governmental control was as follows:

	31 December 2010	**31 December 2009**
Long-term bank loans		
US$ denominated fixed rate	22,311	21,708
RR denominated floating rate	1,556	1,556
RR denominated fixed rate	-	44,190
	23,867	67,454
Short-term bank loans		
US$ denominated fixed rate	-	13,459
RR denominated fixed rate	49	-
	49	13,459
	23,916	**80,913**

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

	31 December 2010	**31 December 2009**
Long-term bank loans		
US$ denominated fixed rate	6.4%	14.5%
RR denominated floating rate	10.5%	13.8%
RR denominated fixed rate	-	15.3%
Short-term bank loans		
US$ denominated fixed rate	-	9.9%
RR denominated fixed rate	11.0%	-

In the year ended 31 December 2010 interest expense accrued in respect of the loans received by the Group from the entities under Governmental control totalled RR’mln 5,380 (year ended 31 December 2009: RR’mln 10,473).

As at 31 December 2010 the amount of loans issued by the Group to the entities under Governmental control totalled RR’mln 694 (31 December 2009: RR’mln 726). These loans are short-term, denominated in Russian Roubles, the average effective interest rate on these loans is 13.6 percent (31 December 2009: 7.8 percent). In the year ended 31 December 2010 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR’mln 66 (year ended 31 December 2009: RR’mln 51).

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.

(in millions of Russian roubles, unless otherwise stated)

The Management Committee consists of 20 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.

Management committee members received benefits for the year ended 31 December 2010 totalling RR'mln 309 (year ended 31 December 2009: RR'mln 202).

Associates

Significant balances and transactions with associates are summarised as follows:

Current accounts receivable	31 December 2010	31 December 2009
"Catoca Mining Company Ltd.", dividends receivable	113	478
Other	70	26
Less: provision for bad debt	(26)	(26)
	157	478

In April 2010 "Catoca Mining Company Ltd" declared dividends for the year ended 31 December 2009; the Group's share of these dividends amounted to RR'mln 607. In June 2009 "Catoca Mining Company Ltd" declared dividends for the year ended 31 December 2008; the Group's share of these dividends amounted to RR'mln 887. During the year ended 31 December 2010 "Catoca Mining Company Ltd" paid dividends for the Group in cash in the amount of RR'mln 1,038 (during the year ended 31 December 2009 – in the amount of RR'mln 615). In the year ended 31 December 2010 the Group recognised exchange gain related to dividends receivable from "Catoca Mining Company Ltd" in the amount of RR'mln 66 (in the year ended 31 December 2009 – exchange loss in the amount of RR'mln 196).

As at 31 December 2010 and 31 December 2009 the accounts receivable from associates were non-interest bearing, had a maturity within one year and were denominated mostly in US$.

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

28. SIGNIFICANT NON-CASH TRANSACTIONS

	Year ended 31 December 2010	Year ended 31 December 2009
Non-cash financing activities:		
Commercial paper issuance	-	343
Commercial paper and loans redemption	(339)	(359)
	(339)	(16)

29. SEGMENT INFORMATION

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

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

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

- finance income;
- finance cost;

(in millions of Russian roubles, unless otherwise stated)

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

The following reportable segments were identified:

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

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

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

Year ended 31 December 2009	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Sales	68,524	4,189	2,293	1,841	1,398	2,060	4,361	84,666
Intersegment sales	-	(105)	-	-	(419)	(1,546)	(399)	(2,469)
Cost of sales, incl.	29,987	4,387	5,471	1,597	573	1,006	5,040	48,061
Depreciation	7,087	528	591	63	2	312	225	8,808
Gross margin	**38,537**	**(198)**	**(3,178)**	**244**	**825**	**1,054**	**(679)**	**36,605**

Reconciliation of sales is presented below:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Segment sales	**123,534**	**84,666**
Elimination of intersegment sales	(3,467)	(2,469)
Reclassification of custom duties [1]	(4,920)	(2,184)
Reclassification of sales [2]	(1,431)	(1,567)
Other adjustments and reclassifications	(322)	(497)
Sales as per Statement of Comprehensive Income	**113,394**	**77,949**

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

[2] Reclassification of sales – reclassification of certain subsidiaries' sales/cost of sales to other income and expenses

(in millions of Russian roubles, unless otherwise stated)

Reconciliation of cost of sales including depreciation is presented below:

	Year ended 31 December 2010	Year ended 31 December 2009
Segment cost of sales	**61,935**	**48,061**
Adjustment for depreciation of property, plant and equipment	(947)	(273)
Elimination of intersegment purchases	(3,467)	(2,469)
Accrued provision for pension obligation [1]	1,248	193
Reclassification of extraction tax [2]	6,067	5,947
Adjustment for inventories [3]	2,839	(3,629)
Accrual for employee flights and holidays [4]	127	(356)
Other adjustments	(466)	(1,064)
Reclassification of exploration expenses [5]	(3,027)	(2,381)
Reclassification of cost of sales [6]	(1,394)	(1,482)
Other reclassifications	754	1,142
Cost of sales as per Statement of Comprehensive Income	**63,669**	**43,689**

[1] Accrued provision for pension obligation – recognition of pension obligation in accordance with IAS 19
[2] Reclassification of extraction tax – reclassification from general and administrative expenses
[3] Adjustment for inventories – treatment of extraction tax as direct expenses for financial statements prepared under IFRS, with a corresponding entry in inventory figure and other adjustments
[4] Accrual for employee flights and holidays – recognition of employee flights and holidays reserve
[5] Reclassification of exploration expenses – reclassification to other operating expenses
[6] Reclassification of cost of sales – reclassification of certain subsidiaries' sales/cost of sales to other income and expenses

Revenue from sales by geographical location of the customer and non-current assets (other than financial instruments and deferred tax assets), including investments in associates, by their geographical location are as follows:

	Sales		Non-current assets	
	Year ended 31 December 2010	Year ended 31 December 2009	31 December 2010	31 December 2009
Russian Federation	36,334	42,667	168,357	168,077
Belgium	48,582	25,630	6	-
India	11,286	4,066	-	-
Israel	9,397	3,476	121	126
China	2,501	468	-	-
United Arab Emirates	2,032	305	139	142
Angola	885	148	2,997	3,127
Belarus	763	142	-	-
Armenia	696	22	-	-
Switzerland	182	807	3	4
Other countries	736	218	1	1
Total	**113,394**	**77,949**	**171,624**	**171,477**

30. EVENTS AFTER THE REPORTING PERIOD

In April 2011 the Company's Supervisory Council decided to recommend the annual shareholders' meeting which is scheduled for 30 June 2011 to approve dividends for the year ended 31 December 2010 in the amount of RR'mln 1,833 (RR 6,721.63 per share).

Also the Company's Supervisory Council decided to recommend the annual shareholders' meeting to approve the split of outstanding registered ordinary shares of the Company so that one registered ordinary share with the par value of RR 13,502.5 each should be converted into 27,005 registered ordinary shares with the par value of RR 0.5 each.