AK ALROSA

IFRS CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (UNAUDITED)

30 JUNE 2011

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Report on Review of Condensed Consolidated Interim Financial Information

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Open Joint Stock Company AK ALROSA and its subsidiaries (the "Group") as of 30 June 2011, and the related condensed consolidated interim statements of comprehensive income for the three and six months periods then ended and condensed consolidated interim statements of cash flows and of changes in equity for the six months period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material aspects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
12 October 2011

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(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Financial Position (unaudited)

	Notes	30 June 2011	31 December 2010
Assets			
Non-current Assets			
Goodwill		1,439	1,439
Property, plant and equipment	6	170,018	168,020
Investments in associates	4	1,517	1,975
Available-for-sale investments		179	167
Long-term accounts receivable	8	1,776	1,569
Restricted cash	5	295	152
Total Non-current Assets		**175,224**	**173,322**
Current Assets			
Inventories	7	40,986	34,514
Prepaid income tax		24	340
Current accounts receivable	8	12,186	10,115
Cash and cash equivalents	5	13,991	4,136
Total Current Assets		**67,187**	**49,105**
Total Assets		**242,411**	**222,427**
Equity			
Share capital	9	12,473	12,473
Share premium		10,431	10,431
Treasury shares	9	(101)	(39)
Retained earnings and other reserves		90,941	70,026
Equity attributable to owners of AK "ALROSA"		**113,744**	**92,891**
Non-Controlling Interest in Subsidiaries	9	**(168)**	**(281)**
Total Equity		**113,576**	**92,610**
Liabilities			
Non-current Liabilities			
Long-term debt	10	68,759	89,021
Derivative financial instruments	12	2,131	2,311
Provision for pension obligations		3,734	4,344
Provision for land recultivation		477	800
Deferred tax liabilities		3,260	2,459
Total Non-current Liabilities		**78,361**	**98,935**
Current Liabilities			
Short-term loans and current portion of long-term debt	11	30,543	12,944
Derivative financial instruments	12	376	2,562
Trade and other payables	13	12,923	11,529
Income tax payable		871	574
Other taxes payable	14	3,822	3,030
Dividends payable		1,939	243
Total Current Liabilities		**50,474**	**30,882**
Total Liabilities		**128,835**	**129,817**
Total Equity and Liabilities		**242,411**	**222,427**

Signed on 12 October 2011 by the following members of management:

Fedor B. Andreev
President

Elena L. Timonina
Chief accountant

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

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Comprehensive Income (unaudited)

		Three months ended		Six months ended	
	Notes	**30 June 2011**	**30 June 2010**	**30 June 2011**	**30 June 2010**
Sales	15	36,547	33,310	66,147	64,392
Cost of sales	16	(10,422)	(16,830)	(23,119)	(38,012)
Royalty	14	(878)	(878)	(1,755)	(1,755)
Gross profit		**25,247**	**15,602**	**41,273**	**24,625**
General and administrative expenses	17	(1,440)	(991)	(2,899)	(2,106)
Selling and marketing expenses	18	(599)	(351)	(761)	(641)
Net gain / (loss) from derivative financial instruments	12	63	(3,462)	1,551	(505)
Other operating income	19	271	80	345	1,649
Other operating expenses	20	(4,117)	(4,750)	(7,945)	(7,146)
Operating profit		**19,425**	**6,128**	**31,564**	**15,876**
Finance income	21	1,166	743	5,914	608
Finance costs	22	(2,221)	(9,685)	(4,790)	(10,233)
Share of net profit of associates	4	270	166	600	526
Profit / (loss) before income tax		**18,640**	**(2,648)**	**33,288**	**6,777**
Income tax	14	(4,084)	(325)	(7,021)	(1,762)
Profit / (loss) for the period		**14,556**	**(2,973)**	**26,267**	**5,015**
Other comprehensive income					
Currency translation differences		31	31	(113)	51
Other comprehensive income / (loss) for the period		**31**	**31**	**(113)**	**51**
Total comprehensive income / (loss) for the period		**14,587**	**(2,942)**	**26,154**	**5,066**
Profit / (loss) attributable to:					
Owners of AK “ALROSA”		14,525	(3,015)	26,097	4,898
Non-controlling interest		31	42	170	117
Profit / (loss) for the period		**14,556**	**(2,973)**	**26,267**	**5,015**
Total comprehensive income / (loss) attributable to:					
Owners of AK “ALROSA”		14,556	(2,985)	25,984	4,949
Non-controlling interest		31	43	170	117
Total comprehensive income / (loss) for the period		**14,587**	**(2,942)**	**26,154**	**5,066**

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

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

	Notes	Six months ended 30 June 2011	Six months ended 30 June 2010
Net Cash Inflow from Operating Activities	23	**22,624**	**26,010**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(8,736)	(4,903)
Proceeds from sales of fixed assets		392	416
Acquisition of available-for-sale investments		(12)	-
Proceeds from sale of available-for-sale investments		-	20
Interest received		94	198
Dividends received from associates		-	383
Net Cash Outflow from Investing Activities		**(8,262)**	**(3,886)**
Cash Flows from Financing Activities			
Repayments of loans		(9,858)	(113,064)
Loans received		12,859	103,662
Interest paid		(3,603)	(4,977)
Purchase of treasury shares		(3,298)	-
Dividends paid		(194)	(84)
Net Cash Outflow from Financing Activities		**(4,094)**	**(14,463)**
Net Increase in Cash and Cash Equivalents		**10,268**	**7,661**
Cash and cash equivalents at the beginning of the period		4,136	5,094
Exchange (losses) / gains on cash and cash equivalents		(413)	193
Cash and Cash Equivalents at the End of the Period		**13,991**	**12,948**

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

	Attributable to owners of AK "ALROSA"						Non-controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total		
Balance at 31 December 2009	**12,473**	**10,431**	**(26)**	**54**	**58,966**	**81,898**	**(1,177)**	**80,721**
Comprehensive income								
Profit for the period	-	-	-	-	4,898	4,898	117	5,015
Other comprehensive income								
Currency translation differences	-	-	-	51	-	51	-	51
Total other comprehensive income	-	-	-	51	-	51	-	51
Total comprehensive income for the period	**-**	**-**	**-**	**105**	**4,898**	**4,949**	**117**	**5,066**
Transactions with owners								
Dividends (note 9)	-	-	-	-	(250)	(250)	-	(250)
Non-controlling interest in disposed subsidiaries	-	-	-	-	-	-	1,082	1,082
Dividends paid by subsidiaries to the owners of non-controlling interest	-	-	-	-	-	-	(38)	(38)
Total transactions with owners	**-**	**-**	**-**	**-**	**(250)**	**(250)**	**1,044**	**794**
Balance at 30 June 2010	**12,473**	**10,431**	**(26)**	**105**	**63,614**	**86,597**	**(16)**	**86,581**
Balance at 31 December 2010	**12,473**	**10,431**	**(39)**	**(192)**	**70,218**	**92,891**	**(281)**	**92,610**
Comprehensive income								
Profit for the period	-	-	-	-	26,097	26,097	170	26,267
Other comprehensive income								
Currency translation differences	-	-	-	(113)	-	(113)	-	(113)
Total other comprehensive income	-	-	-	(113)	-	(113)	-	(113)
Total comprehensive income for the period	**-**	**-**	**-**	**(113)**	**26,097**	**25,984**	**170**	**26,154**
Transactions with owners								
Dividends (note 9)	-	-	-	-	(1,833)	(1,833)	-	(1,833)
Purchase of treasury shares	-	-	(62)	-	(3,236)	(3,298)	-	(3,298)
Dividends paid by subsidiaries to the owners of non-controlling interest	-	-	-	-	-	-	(57)	(57)
Total transactions with owners	**-**	**-**	**-**	**-**	**(5,069)**	**(5,131)**	**(57)**	**(5,188)**
Balance at 30 June 2011	**12,473**	**10,431**	**(101)**	**(305)**	**91,246**	**113,744**	**(168)**	**113,576**

1. ACTIVITIES

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

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

As at 30 June 2011 and 31 December 2010 the Company's principal shareholders are the governments of the Russian Federation (50.9 percent of shares) and the Republic of Sakha (Yakutia) (32.0 percent of shares).

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

The Group has seasonal working capital requirements as most of a year's supplies must be purchased in the second and third quarters and transported to their destination prior to the end of September as a result of the remote location of, and extreme climatic conditions at, the Group's mining operations in the Republic of Sakha (Yakutia). The Group's major areas of operations can be reached by water only during a relatively short navigation period (May to September). During that time the Group accumulates stocks of consumables and production materials for production needs to last until the next navigation period. This seasonality of purchases causes significant increase of advances given to suppliers and short-term borrowings in mid-year as compared with year-end.

2. BASIS OF PRESENTATION

The condensed consolidated interim financial information is prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). This condensed consolidated interim financial information should be read together with the consolidated financial statements for the year ended 31 December 2010 prepared in accordance with International Financial Reporting Standards ("IFRS").

Group companies incorporated in Russia maintain their statutory accounting records and prepare statutory financial reports in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR") and their functional currency is the Russian Rouble ("RR"). Group companies incorporated in other countries maintain their statutory accounting records in accordance with relevant legislation and in the appropriate functional currency. The Group's condensed consolidated interim financial information is based on the statutory accounting records, with adjustments and reclassifications for the purpose of fair presentation in accordance with IAS 34.

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

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 28.08 and 30.48 as at 30 June 2011 and 31 December 2010, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 40.39 and 40.33 as at 30 June 2011 and 31 December 2010, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies and methods of computation followed by the Group and the critical accounting judgments in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2010. The only exception is income tax expense which is recognised in this condensed consolidated interim financial information based on management's best estimate of the weighted average annual effective income tax rate expected for the full financial year.

Recent accounting pronouncements

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

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

Standards, Amendments or Interpretations effective in 2011:

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

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

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

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

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

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

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

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

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

The Group is currently assessing the impact of the standard on the consolidated financial statements.

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

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

IFRS 10 "Consolidated financial statements" (effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC 12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 11 "Joint arrangements" (effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 12 "Disclosure of interest in other entities" (effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 27 "Consolidated and Separate Financial Statements" and IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on the consolidated financial statements.

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

(in millions of Russian roubles, unless otherwise stated)

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

Amended IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), prescribes the accounting for investments in associates and contains the requirements for the application of the equity method to investments in associates and joint ventures. The Group is currently assessing the impact of the standard on the consolidated financial statements.

Amendments to IAS 1 "Presentation of financial statements" (effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income". The Group is currently assessing the impact of the standard on the consolidated financial statements.

Amended IAS 19 "Employee benefits" (effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The Group is currently assessing the impact of the standard on the consolidated financial statements.

4. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

Name	Principal activity	Country of Incorporation	Percentage of ownership interest held	
			30 June 2011	31 December 2010
ALROSA Finance S.A.	Financial services	Luxembourg	100	100
Sunland Trading S.A.	Diamonds trading	Switzerland	100	100
Arcos Belgium N.V.	Diamonds trading	Belgium	100	100
ZAO Irelyakhneft	Oil production	Russia	100	100
OAO ALROSA-Gaz	Gas production	Russia	100	100
OOO ALROSA-VGS	Capital construction	Russia	100	100
OAO Almazy Anabara	Diamonds production	Russia	100	100
OAO Viluyskaya GES-3	Electricity production	Russia	100	100
OAO GMK Timir	Iron ore production	Russia	100	100
OAO Severalmaz	Diamonds production	Russia	95	90
OAO ALROSA-Nyurba	Diamonds production	Russia	88	88
OOO MAK Bank	Banking activity	Russia	88	88

As at 30 June 2011 and 31 December 2010 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

Associates

Name	Country of incorporation	Percentage of ownership interest held as at		Carrying value of investment as at	
		30 June 2011	31 December 2010	30 June 2011	31 December 2010
Catoca Mining Company Ltd	Angola	33	33	1,251	1,705
OAO Almazny Mir	Russia	47	47	180	179
Other	Russia	-	-	86	91
				1,517	1,975

As at 30 June 2011 and 31 December 2010 the percentage ownership interest of the Group in its associates is equal to the percentage of voting interest.

(in millions of Russian roubles, unless otherwise stated)

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

	Three months ended		**Six months ended**	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Catoca Mining Company Ltd	272	158	603	517
OAO Almazny Mir	(2)	1	1	3
Other	-	7	(4)	6
	270	166	600	526

Catoca Mining Company Ltd is a diamond-mining venture located in Angola. In April 2011 Catoca Mining Company Ltd declared dividends for the year ended 31 December 2010; the Group's share of these dividends amounted to RR'mln 923. Currency translation loss recognised in the condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2011 in respect of investment in Catoca Mining Company Ltd totalled RR'mln 134. 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 condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2010 in respect of investment in Catoca Mining Company Ltd totalled RR'mln 40.

5. CASH AND CASH EQUIVALENTS

Restricted cash

Restricted cash included within non-current assets in the condensed consolidated interim statement of financial position of RR'mln 295 and RR'mln 152 as at 30 June 2011 and 31 December 2010, respectively, is represented by mandatory reserve deposits held with the Central Bank of the Russian Federation by OOO MAK Bank, a subsidiary of the Group; these balances are not available for use in the Group's day to day operations. Payments to this restricted cash account are included in cash flows from operating activity in consolidated statement of cash flows (see note 23). At 30 June 2011 and 31 December 2010 the weighted average interest rate on the restricted cash balances is approximately nil percent.

Cash and cash equivalents

	30 June 2011	**31 December 2010**
Current accounts	8,172	3,912
Deposit accounts	5,819	224
	13,991	4,136

At 30 June 2011 the weighted average interest rate on the cash balances of the Group was 1.35 percent (31 December 2010: 0.16 percent).

6. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	**Assets under construction**	**TOTAL**
As at 31 December 2009			
Cost	210,041	41,756	251,797
Accumulated depreciation and impairment losses	(83,101)	(764)	(83,865)
Net book value as at 31 December 2009	**126,940**	**40,992**	**167,932**
Six months ended 30 June 2010			
Net book value as at 31 December 2009	126,940	40,992	167,932
Foreign exchange differences	167	8	175
Additions	1,008	4,440	5,448
Transfers	2,536	(2,536)	-
Disposals – at cost	(1,205)	(150)	(1,355)
Disposal through disposal of OAO NNGK Sakhaneftegaz and OAO Lenaneftegaz – at cost	(2,923)	(1)	(2,924)
Disposals – accumulated depreciation	165	-	165
Disposal through disposal of OAO NNGK Sakhaneftegaz and OAO Lenaneftegaz – accumulated depreciation	1,212	-	1,212
Change in estimate of provision for land recultivation	(4)	-	(4)
Reversal of impairment of property, plant and equipment	-	42	42
Depreciation charge for the period	(4,917)	-	(4,917)
Net book value as at 30 June 2010	**122,979**	**42,795**	**165,774**

(in millions of Russian roubles, unless otherwise stated)

As at 31 December 2010			
Cost	214,776	44,207	258,983
Accumulated depreciation and impairment losses	(90,241)	(722)	(90,963)
Net book value as at 31 December 2010	**124,535**	**43,485**	**168,020**
Six months ended 30 June 2011			
Net book value as at 31 December 2010	124,535	43,485	168,020
Foreign exchange differences	(385)	(21)	(406)
Additions	4,293	5,292	9,585
Transfers	8,757	(8,757)	-
Disposals – at cost	(1,977)	(389)	(2,366)
Disposals – accumulated depreciation	1,132	-	1,132
Change in estimate of provision for land recultivation	(387)	-	(387)
Impairment of property, plant and equipment	-	(169)	(169)
Depreciation charge for the period	(5,391)	-	(5,391)
Net book value as at 30 June 2011	**130,577**	**39,441**	**170,018**
As at 30 June 2011			
Cost	225,077	40,163	265,240
Accumulated depreciation and impairment losses	(94,500)	(722)	(95,222)
Net book value as at 30 June 2011	**130,577**	**39,441**	**170,018**

Change in estimate of provision for land recultivation recognised for the six months ended 30 June 2011 is explained by decrease of the principal amount of liability due to amendments introduced by the Company's management to the "Program for improvement of environmental situation in the area of operating activity of the Company" in 2011.

7. INVENTORIES

	30 June 2011	**31 December 2010**
Diamonds	16,967	15,840
Ores and concentrates	12,459	7,498
Mining and construction materials	10,131	9,886
Consumable supplies	1,429	1,267
Diamonds for resale	-	23
	40,986	34,514

8. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	**30 June 2011**	**31 December 2010**
Loans issued	1,444	1,372
Long-term VAT recoverable	203	190
Receivables from associates	99	-
Other long-term receivables	30	7
	1,776	1,569

Current accounts receivable	**30 June 2011**	**31 December 2010**
Advances to suppliers	3,707	745
Loans issued	2,341	2,393
Receivables from associates (see note 25)	1,055	157
Prepaid taxes, other than income tax	932	1,403
VAT recoverable	783	893
Notes receivable	104	15
Trade receivables for supplied diamonds	31	1,325
Other trade receivables	3,233	3,184
	12,186	10,115

Trade and other receivables are presented net of impairment provision of RR'mln 4,833 and RR'mln 4,628 as at 30 June 2011 and 31 December 2010, respectively.

(in millions of Russian roubles, unless otherwise stated)

9. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 30 June 2011 and 31 December 2010 and consists of 272,726 ordinary shares, including treasury shares, at RR 13,502.5 par value per share. In addition as at 30 June 2011 and 31 December 2010 share capital includes hyperinflation adjustment totalling RR'mln 8,790, which was calculated in accordance with requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" and relates to the reporting periods prior to 1 January 2003.

On 30 June 2011, the annual shareholders' meeting decided to split outstanding registered ordinary shares of the Company so that one registered ordinary share with the par value of RR 13,502.5 each should be converted into 27,005 registered ordinary shares with the par value of RR 0.5 each. The Company expects to obtain all required approvals from the Federal Financial Markets Service and complete the conversion by October 2011.

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 six months ended 30 June 2011 the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 16,396 (for the six months ended 30 June 2010 – RR'mln 2,959). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation, and accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in this condensed consolidated interim financial information.

Treasury shares

At 30 June 2011 subsidiaries of the Group held 5,506 (31 December 2010: 920) ordinary shares of the Company. The Group management controls the voting rights of these shares.

Dividends

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

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.

Non-controlling interest in subsidiaries

	Six months ended 30 June 2011	**Six months ended 30 June 2010**
Non-controlling interest at the beginning of the period	(281)	(1,177)
Non-controlling interest share of net profit of subsidiaries	170	117
Disposal of non-controlling interest through disposal of subsidiaries	-	1,082
Dividends paid by subsidiaries to the owners of non-controlling interest	(57)	(38)
Non-controlling interest at the end of the period	(168)	(16)

10. LONG-TERM DEBT

	30 June 2011	**31 December 2010**
Banks:		
US$ denominated floating rate	630	2,206
US$ denominated fixed rate	14,650	22,310
RR denominated floating rate	-	1,556
	15,280	**26,072**
Eurobonds	42,098	45,696
RR denominated non-convertible bonds	26,000	26,000
Finance lease obligation	458	511
Commercial paper	349	464
Other RR denominated fixed rate loans	1,357	1,349
	85,542	**100,092**
Less: current portion of long-term debt (see note 11)	(16,783)	(11,071)
	68,759	**89,021**

(in millions of Russian roubles, unless otherwise stated)

As at 30 June 2011 and at 31 December 2010 there were no long-term loans secured with the assets of the Group.

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

	30 June 2011	**31 December 2010**
Banks:		
US$ denominated floating rate	5.4%	5.5%
US$ denominated fixed rate	6.4%	6.4%
RR denominated floating rate	-	10.5%
Eurobonds	8.1%	8.1%
RR denominated non-convertible bonds	8.5%	8.5%
Finance lease obligation	7.6%	7.6%
Commercial paper	21.2%	27.4%
Other RR denominated fixed rate loans	7.2%	10.9%

Eurobonds

	Six months ended 30 June 2011	**Six months ended 30 June 2010**
Balance at the beginning of the period	45,696	15,099
Amortisation of discount	2	14
Exchange (gains) / losses	(3,600)	463
Balance at the end of the period	42,098	15,576

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

	30 June 2011	**31 December 2010**
Banks:		
US$ denominated fixed rate	38	37
RR denominated fixed rate	17	57
	55	**94**
European commercial paper	11,230	-
Other US$ denominated fixed rate loans	8	9
Other RR denominated fixed rate loans	2,467	1,770
	13,760	**1,873**
Add: current portion of long-term debt (see note 10)	16,783	11,071
	30,543	**12,944**

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

	30 June 2011	**31 December 2010**
Banks:		
US$ denominated fixed rate	12.0%	12.0%
RR denominated fixed rate	12.8%	11.1%
European commercial paper	4.8%	-
Other US$ denominated fixed rate loans	3.5%	3.7%
Other RR denominated fixed rate loans	5.1%	5.7%

As at 30 June 2011 and 31 December 2010 there were no short-term loans secured with the assets of the Group.

12. DERIVATIVE FINANCIAL INSTRUMENTS

Long-term derivative financial instruments (liabilities)

	30 June 2011	**31 December 2010**
Fair value of put options granted by the Group to the buyers of ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company	2,131	2,311
	2,131	2,311

(in millions of Russian roubles, unless otherwise stated)

Short-term derivative financial instruments (liabilities)

	30 June 2011	31 December 2010
Fair value of foreign exchange forward contracts	376	2,328
Fair value of cross currency interest rate swaps contracts	-	234
	376	2,562

Net gain from derivative financial instruments

	Three months ended		Six months ended	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Net gain / (loss) from change of fair value of put options granted by the Group to the buyers of ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company	45	(564)	180	(152)
Net gain / (loss) from foreign exchange forward contracts	(8)	(2,761)	1,260	(255)
Net gain / (loss) from cross currency interest rate swap contracts	26	(137)	111	(98)
	63	(3,462)	1,551	(505)

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

The Group determined the fair value of put options as at 30 June 2011 in the amount of RR'mln 2,131 (as at 31 December 2010 – RR'mln 2,311) using the option pricing model. The main inputs to this model are the fair value of the sold companies, which was assessed by the Group as at 30 June 2011 as RR'mln 25,521 (31 December 2010 - RR'mln 36,735) and its expected volatility, which was estimated by the Group at the level of 31 percent at 30 June 2011 and 44 percent at 31 December 2010 using historical data for comparable companies for the last 2 and 3 years respectively.

	Six months ended 30 June	
	2011	2010
Fair value of the put options at the beginning of the reporting period	(2,311)	(3,658)
Change in fair value during the reporting period	180	(152)
Fair value of the put options at the end of the reporting period	(2,131)	(3,810)

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 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 30 June 2011 the fair value of the forward foreign exchange contracts totalled RR'mln 376 (liability), as at 31 December 2010 - RR'mln 2,328 (liability). It represents the net present value of the differences between the cash flows related to these contracts calculated at forward exchange rates prevailing at the market 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-years period.

	Six months ended 30 June	
	2011	2010
Fair value of foreign exchange forward contracts at the beginning of the period	(2,328)	(6,300)
Net payment from exercising of foreign exchange forward contracts	692	1,460
Net gain / (loss) from change of fair value of foreign exchange forward contracts	1,260	(255)
Fair value of foreign exchange forward contracts at the end of the period	(376)	(5,095)

Cross currency interest rate swap contracts

To reduce the Group's interest rate risk exposure associated with the RR denominated floating rate loans from OAO Bank VTB, in 2008 the Group entered into US$ / RR cross currency interest rate swap transactions with VTB Bank Europe Plc. Under the swap transactions the Group agreed to convert into US$ the amount due to OAO 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.

(in millions of Russian roubles, unless otherwise stated)

	Six months ended 30 June	
	2011	**2010**
Fair value of cross currency interest rate swap contracts at the beginning of the period	(234)	(187)
Net payments / (proceeds) from exercising of swap contracts	123	(15)
Net gain / (loss) from change of fair value of cross currency interest rate swap contracts	111	(98)
Fair value of cross currency interest rate swap contracts at the end of the period	-	(300)

The discount rate used to calculate the fair value of the forward foreign exchange contracts and cross currency interest rate swap contracts as at 30 June 2011 was 8.0 percent (as at 31 December 2010: 8.1 percent), which represents the incremental interest rate on RR denominated borrowings applicable to the Group as at the end of the respective reporting period.

13. TRADE AND OTHER PAYABLES

	30 June 2011	**31 December 2010**
Accrual for employee flights and holidays	4,800	4,482
Trade payables	2,096	2,532
Advances from customers	1,839	516
Current accounts of third parties in OOO MAK Bank	1,298	1,202
Wages and salaries	1,118	1,659
Interest payable	722	660
Payables to associates	47	59
Other payables and accruals	1,003	419
	12,923	11,529

14. INCOME AND OTHER TAX ASSETS AND LIABILITIES

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

	30 June 2011	**31 December 2010**
Payments to social funds	1,358	694
Value added tax	837	625
Property tax	759	749
Extraction tax	606	555
Personal income tax (employees)	199	270
Other taxes and accruals	63	137
	3,822	3,030

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

	Three months ended		Six months ended	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Property tax	771	765	1,536	1,532
Other taxes and accruals	67	128	258	271
	838	893	1,794	1,803

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 15).

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

(in millions of Russian roubles, unless otherwise stated)

Income tax expense comprises the following:

	Three months ended		Six months ended	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Current tax expense	3,576	1,297	6,218	2,212
Adjustments recognised in the period for current tax of prior periods	-	(11)	-	(102)
Deferred tax expense / (income)	508	(961)	803	(348)
	4,084	325	7,021	1,762

15. SALES

	Three months ended		Six months ended	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Revenue from diamond sales:				
Export	24,417	21,831	44,131	41,171
Domestic	9,054	7,301	16,165	12,174
Revenue from diamonds for resale	-	1,235	323	5,717
	33,471	30,367	60,619	59,062
Other revenue:				
Transport	1,141	1,034	1,872	1,692
Social infrastructure	648	484	1,450	1,084
Trading	426	267	580	393
Construction	168	427	267	785
Other	693	731	1,359	1,376
	36,547	33,310	66,147	64,392

Export duties totalling RR'mln 1,595 and RR'mln 2,846 for the three and six months ended 30 June 2011 (three and six months ended 30 June 2010: RR'mln 1,475 and RR'mln 2,882, respectively) were netted against revenues from export of diamonds.

16. COST OF SALES

	Three months ended		Six months ended	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Wages, salaries and other staff costs	4,566	4,900	11,351	10,105
Depreciation	2,269	2,259	4,854	4,393
Fuel and energy	1,851	1,915	4,292	4,089
Extraction tax	1,957	1,792	3,848	3,477
Materials	1,330	1,348	2,476	2,612
Transport	679	527	1,053	914
Services	130	1,000	928	1,879
Cost of diamonds for resale	-	1,213	311	5,562
Other	23	34	94	77
Movement in inventory of diamonds, ores and concentrates	(2,383)	1,842	(6,088)	4,904
	10,422	16,830	23,119	38,012

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 1,253 and RR'mln 2,658 for the three and six months ended 30 June 2011, respectively (for the three and six months ended 30 June 2010 in the amount of RR'mln 900 and RR'mln 1,767, respectively).

Depreciation totalling RR'mln 537 (six months ended 30 June 2010: RR'mln 524) and staff costs totalling RR'mln 1,048 (six months ended 30 June 2010: RR'mln 959) were incurred by the Group's construction divisions and were capitalised in the respective periods.

(in millions of Russian roubles, unless otherwise stated)

17. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Wages, salaries and other staff costs	696	413	1,616	887
Services and other administrative expenses	621	584	1,087	1,216
Impairment / (reversal of impairment) of accounts receivable	123	(6)	196	3
	1,440	991	2,899	2,106

18. SELLING AND MARKETING EXPENSES

	Three months ended		Six months ended	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Wages, salaries and other staff costs	379	183	447	341
Services and other selling and marketing expenses	220	168	314	300
	599	351	761	641

19. OTHER OPERATING INCOME

	Three months ended		Six months ended	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Gain on deconsolidation of OAO NNGK Sakhaneftegaz and OAO Lenaneftegaz	-	-	-	1,427
Other	271	80	345	222
	271	80	345	1,649

20. OTHER OPERATING EXPENSES

	Three months ended		Six months ended	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Exploration expenses	2,203	1,608	3,282	2,379
Taxes other than income tax, extraction tax and payments to social funds (note 14)	838	893	1,794	1,803
Social costs	820	686	1,620	1,318
Loss on disposal of property, plant and equipment	132	1,256	842	1,296
Impairment / (reversal of impairment) of property, plant and equipment	80	69	169	(42)
Other	44	238	238	392
	4,117	4,750	7,945	7,146

Social costs consist of:

	Three months ended		Six months ended	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Maintenance of local infrastructure	511	129	1,029	508
Charity	147	287	256	296
Hospital expenses	39	234	93	314
Education	14	15	28	24
Other	109	21	214	176
	820	686	1,620	1,318

21. FINANCE INCOME

	Three months ended		Six months ended	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Interest income	56	111	94	185
Exchange gains	1,110	632	5,820	423
	1,166	743	5,914	608

(in millions of Russian roubles, unless otherwise stated)

22. FINANCE COSTS

	Three months ended		Six months ended	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Interest expense:				
Eurobonds	838	361	1,719	694
RR denominated non-convertible bonds	543	-	1,086	-
Bank loans	275	1,765	668	4,091
European commercial paper	107	254	107	512
Commercial paper	19	64	46	119
Other	5	407	13	438
Unwinding of discount of provision for land recultivation	4	10	64	19
Exchange losses	430	6,824	1,087	4,360
	2,221	9,685	4,790	10,233

23. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash flows from operations:

	Six months ended 30 June 2011	**Six months ended 30 June 2010**
Profit before income tax	33,288	6,777
Adjustments for:		
Share of net profit of associates (note 4)	(600)	(526)
Interest income (note 21)	(94)	(185)
Interest expense (note 22)	3,703	5,873
Loss on disposal of property, plant and equipment (note 20)	842	1,296
Impairment / (reversal of impairment) of property, plant and equipment (note 20)	169	(42)
Gain on deconsolidation of OAO NNGK Sakhaneftegaz and OAO Lenaneftegaz (note 19)	-	(1,427)
Net (gain) / loss from foreign exchange forward contracts (note 12)	(1,260)	255
Net (gain) / loss from cross currency interest rate swap contracts (note 12)	(111)	98
(Gain) / loss from change of fair value of put options granted by the Group to the buyers of ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company (note 12)	(180)	152
Depreciation (note 16)	4,854	4,393
Adjustment for inventory used in construction	(784)	(488)
Adjustments for non-cash financing activity	(4)	(339)
Net payments from exercising of foreign exchange forward contracts (note 12)	(692)	(1,460)
Net (payments) / proceeds from exercising of cross currency interest rate swap contracts (note 12)	(123)	15
Payments to restricted cash account (note 5)	(143)	(52)
Unrealised foreign exchange effect on non-operating items	(4,829)	3,383
Net operating cash flow before changes in working capital	34,036	17,723
Net (increase) / decrease in inventories	(6,472)	11,061
Net increase in trade and other receivables, excluding dividends receivable	(1,355)	(2,619)
Net increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	1,229	2,247
Net increase / (decrease) in taxes payable, excluding income tax	1,107	(213)
Cash inflows from operating activity	**28,545**	**28,199**
Income tax paid	(5,921)	(2,189)
Net cash inflows from operating activities	**22,624**	**26,010**

24. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment of the Russian Federation

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

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

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

(b) Taxes

Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As at 30 June 2011 and 31 December 2010 the Group had tax contingencies. These contingencies are estimates that result from uncertainties in interpretation of applicable legislation concerning deduction of certain expenses for income tax purposes and reimbursement of the related input VAT. Management is not able to reliably estimate the range of possible outcomes, but believes that under certain circumstances the magnitude of these tax contingencies may be significant for the Group. Management of the Group believes that the exposure in respect of these tax risks is not probable, therefore as at 30 June 2011 and 31 December 2010 no provision for tax liabilities had been recorded.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 30 June 2011.

(d) Insurance

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

(e) Capital commitments

As at 30 June 2011 the Group has contractual commitments for capital expenditures of approximately RR'mln 8,038 (31 December 2010: RR'mln 5,156).

(f) Restoration, rehabilitation and environmental costs

Under its license agreements, the Group is not responsible for any significant restoration, rehabilitation and environmental expenditures that may be incurred subsequent to the cessation of production at each mine, apart from the obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. The Company recognised a provision for these future expenses in the amount of RR'mln 477 as at 30 June 2011 (RR'mln 800 as at 31 December 2010).

(in millions of Russian roubles, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS

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

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

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

Governments of the Russian Federation and the Republic of Sakha (Yakutia) are the ultimate controlling parties of the Company. As at 30 June 2011 83 percent of the Company's issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Also as at 30 June 2011 8 percent of the Company's shares were owned by administrations or 8 districts of the Republic of Sakha (Yakutia). Following the General Meeting of Shareholders in June 2011, the 15 seats on the Supervisory Council include 12 representatives of the Russian Federation and the Republic of Sakha (Yakutia), including 4 independent directors nominated by the Government of the Russian Federation, 2 management representatives and 1 representative of districts of the Republic of Sakha (Yakutia). Governmental, federal and local economic and social policies affect the Group's financial position, results of operations and cash flows.

Tax balances are disclosed in the statement of financial position and in notes 8 and 14. Tax transactions are disclosed in the statement of comprehensive income, cash flow statement and in notes 14, 15, 16, 18, 20 and 23.

Parties under control of the Government

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

As at 30 June 2011 the accounts payable to the parties under Governmental control totalled RR'mln 421 (31 December 2010: RR'mln 679). As at 30 June 2011 the accounts receivable from the parties under Governmental control (excluding loans issued) totalled RR'mln 898 (31 December 2010: RR'mln 2,100). As at 30 June 2011 and 31 December 2010 the accounts receivable from the parties under Governmental control and accounts payable to the parties under Governmental control were non-interest bearing, had a maturity within one year and were denominated in Russian Roubles.

During the three and six months ended 30 June 2011 and 30 June 2010 the Group had the following significant transactions with the parties under Governmental control:

	Three months ended		**Six months ended**	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Sales of diamonds	3,284	2,293	6,424	4,817
Other sales	934	405	1,237	773
Electricity and heating expenses	490	866	2,307	2,527
Other purchases	301	285	597	519

As at 30 June 2011 and 31 December 2010 the Group has no any contractual commitments to sell goods or services to the parties under control of the Government. As at 30 June 2011 the Group has contractual commitments to purchase goods and services from the parties under control of the Government in the amount of approximately RR'mln 1,881 (31 December 2010: RR'mln 2,314).

As at 30 June 2011 the amount of loans received by the Group from the entities under Governmental control totalled RR'mln 14,666 (31 December 2010: RR'mln 23,916). During the three and six months ended 30 June 2011 interest expense accrued in respect to the loans received by the Group from the entities under Governmental control totalled RR'mln 282 and RR'mln 659, respectively (three and six months ended 30 June 2010: RR'mln 1,873 and RR'mln 3,947, respectively).

As at 30 June 2011 the amount of loans issued by the Group to the entities under Governmental control totalled RR'mln 903 (31 December 2010: RR'mln 694). During the three and six months ended 30 June 2011 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR'mln 19 and RR'mln 36, respectively (three and six months ended 30 June 2010: RR'mln 19 and RR'mln 33, respectively).

(in millions of Russian roubles, unless otherwise stated)

Key management compensation

The Supervisory Council of the Company consists of 15 members, including state and management representatives. Representatives of Governments of the Russian Federation and the Republic of Sakha (Yakutia) in the Supervisory Council of the Company are not entitled to compensation for serving as members of the Supervisory Council. Representatives of management in the Supervisory Council of the Company are entitled to compensation for serving as members of the Management Committee of the Company.

The Management Committee consists of 20 members, two of whom are also members of the Supervisory Council. Management Committee members are entitled to salary, bonuses, voluntary medical insurance, compensation for serving as members of the Board of directors for certain Group companies and other short term employee benefits. Salary and bonus compensation paid to members of the Management Committee is determined by the terms of employment contracts. According to the Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund Almaznaya Osen, and a one-time payment from the Group at their retirement date.

Management committee members received benefits for the three and six months ended 30 June 2011 totalling RR'mln 105 and RR'mln 369, respectively (three and six months ended 30 June 2010: RR'mln 65 and RR'mln 94, respectively).

Associates

Significant transactions and balances with associates are summarised as follows:

Current accounts receivable	**30 June 2011**	**31 December 2010**
Catoca Mining Company Ltd., dividends receivable	1,040	113
Other	41	70
Less: provision for bad debt	(26)	(26)
	1,055	157

In April 2011 Catoca Mining Company Ltd. declared dividends for the year ended 31 December 2010; the Group's share of these dividends amounted to RR'mln 923. In April 2010 Catoca Mining Company Ltd. declared dividends for the year ended 31 December 2009; the Group's share of these dividends amounted to RR'mln 607. During the six months ended 30 June 2011 Catoca Mining Company Ltd. did not pay any dividends. During the six months ended 30 June 2010 Catoca Mining Company Ltd. paid dividends for the Group in cash in the amount of RR'mln 383. The Group recognised exchange gain related to dividends receivable from Catoca Mining Company Ltd. in the amount of RR'mln 4 for the six months ended 30 June 2011 (for the six months ended 30 June 2010 – exchange loss in the amount of RR'mln 8).

As at 30 June 2011 and 31 December 2010 the accounts receivable from associates were non-interest bearing and were denominated mostly in US$.

As at 30 June 2011 and 31 December 2010 the Group has no any contractual commitments to sell or purchase goods and services to / from its associates.

26. SEGMENT INFORMATION

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

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

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

- finance income;
- finance cost;
- other operating income and expense;

(in millions of Russian roubles, unless otherwise stated)

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

The following reportable segments were identified:

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

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

Six months ended 30 June 2011	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Sales	63,466	1,872	1,450	267	705	1,290	1,563	70,613
Intersegment sales	-	-	-	-	(125)	(1,045)	(562)	(1,732)
Cost of sales, incl.	18,006	2,264	3,029	245	264	827	635	25,270
Depreciation	3,960	240	236	67	5	183	145	4,836
Gross margin	**45,460**	**(392)**	**(1,579)**	**22**	**441**	**463**	**928**	**45,343**

Six months ended 30 June 2010	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Sales	61,943	1,744	1,084	785	706	1,349	1,866	69,477
Intersegment sales	-	(95)	-	-	(313)	(1,105)	(312)	(1,825)
Cost of sales, incl.	26,916	2,044	2,705	592	462	698	1,925	35,342
Depreciation	4,087	247	304	70	3	168	121	5,000
Gross margin	**35,027**	**(300)**	**(1,621)**	**193**	**244**	**651**	**(59)**	**34,135**

Three months ended 30 June 2011	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Sales	35,067	1,141	648	168	551	511	736	38,822
Intersegment sales	-	-	-	-	(125)	(390)	(204)	(719)
Cost of sales, incl.	7,970	1,245	1,331	125	158	366	389	11,584
Depreciation	2,005	116	118	35	3	98	73	2,448
Gross margin	**27,097**	**(104)**	**(683)**	**43**	**393**	**145**	**347**	**27,238**

Three months ended 30 June 2010	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Sales	31,841	1,010	484	427	571	465	829	35,627
Intersegment sales	-	(19)	-	-	(304)	(355)	(74)	(752)
Cost of sales, incl.	11,785	1,133	1,201	337	389	301	770	15,916
Depreciation	2,051	120	148	35	2	82	65	2,503
Gross margin	**20,056**	**(123)**	**(717)**	**90**	**182**	**164**	**59**	**19,711**

(in millions of Russian roubles, unless otherwise stated)

Reconciliation of sales is presented below:

	Three months ended		Six months ended	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Segment sales	**38,822**	**35,627**	**70,613**	**69,477**
Elimination of intersegment sales	(719)	(752)	(1,732)	(1,825)
Reclassification of export duties [1]	(1,595)	(1,475)	(2,846)	(2,882)
Other adjustments and reclassifications	39	(90)	112	(378)
Sales as per Statement of Comprehensive Income	**36,547**	**33,310**	**66,147**	**64,392**

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

Reconciliation of cost of sales including depreciation is presented below:

	Three months ended		Six months ended	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Segment cost of sales	**11,584**	**15,916**	**25,270**	**35,342**
Adjustment for depreciation of property, plant and equipment [1]	(179)	(243)	18	(606)
Elimination of intersegment purchases	(719)	(752)	(1,732)	(1,825)
Accrued provision for pension obligation [2]	(104)	740	(610)	1,000
Reclassification of extraction tax [3]	1,766	1,670	3,403	3,041
Adjustment for inventories [4]	(413)	515	(2,672)	2,377
Accrual for employee flights and holidays [5]	(691)	(282)	711	251
Other adjustments	(9)	(226)	(37)	(511)
Reclassification of exploration expenses [6]	(1,226)	(692)	(2,134)	(1,389)
Other reclassifications	413	184	902	332
Cost of sales as per Statement of Comprehensive Income	**10,422**	**16,830**	**23,119**	**38,012**

[1] Adjustment for depreciation - adjustment of depreciation figure recognised in statutory financial statements which is different from that in IFRS financial statements due to the differences in book values of property, plant and equipment and methods of depreciation calculation
[2] Accrued provision for pension obligation – recognition of pension obligation in accordance with IAS 19
[3] Reclassification of extraction tax – reclassification from general and administrative expenses
[4] Adjustment for inventories – treatment of extraction tax as direct expenses for financial statements prepared under IFRS, with a corresponding record in inventory figure and other adjustments
[5] Accrual for employee flights and holidays – recognition of employee flights and holidays reserve under collective labour agreement of the Company
[6] Reclassification of exploration expenses – reclassification to other operating expenses

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

	Three months ended		Six months ended	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Belgium	15,514	14,653	28,700	28,361
Russian Federation	12,147	10,084	21,676	19,377
India	3,941	2,919	6,580	6,577
Israel	2,364	3,129	4,629	5,840
China	816	1,203	1,318	1,565
United Arab Emirates	367	375	1,130	1,001
Belarus	351	218	559	349
Armenia	424	338	521	559
Angola	197	175	373	395
Other countries	426	216	661	368
Total	**36,547**	**33,310**	**66,147**	**64,392**

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

	30 June 2011	**31 December 2010**
Russian Federation	170,306	168,357
Angola	2,600	2,997
Other countries	271	270
Total	**173,177**	**171,624**