AK ALROSA

IFRS CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (UNAUDITED)

30 JUNE 2012

CONTENTS

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 2012, and the related condensed consolidated interim statements of comprehensive income for the three-month and six-month periods then ended and condensed consolidated interim statements of cash flows and of changes in equity for the six month 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, Russia
1 October 2012

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(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Financial Position (unaudited)

	Notes	30 June 2012	31 December 2011
Assets			
Non-current Assets			
Goodwill		1,439	1,439
Property, plant and equipment	6	212,863	169,534
Investments in associates	4	1,701	2,350
Available-for-sale investments		155	157
Long-term accounts receivable	8	2,618	1,833
Restricted cash		311	237
Total Non-current Assets		**219,087**	**175,550**
Current Assets			
Inventories	7	50,409	44,429
Prepaid income tax		53	213
Current accounts receivable	8	16,269	8,758
Cash and cash equivalents	5	13,530	12,014
Total Current Assets		**80,261**	**65,414**
Total Assets		**299,348**	**240,964**
Equity			
Share capital	9	12,473	12,473
Share premium		10,431	10,431
Treasury shares	9	(250)	(249)
Retained earnings and other reserves		99,307	91,159
Equity attributable to owners of AK ALROSA		**121,961**	**113,814**
Non-Controlling Interest in Subsidiaries		**(400)**	**(717)**
Total Equity		**121,561**	**113,097**
Liabilities			
Non-current Liabilities			
Long-term debt	10	60,718	75,529
Provision for pension obligations		4,461	5,028
Provision for land recultivation		532	522
Deferred tax liabilities		8,255	3,478
Total Non-current Liabilities		**73,966**	**84,557**
Current Liabilities			
Short-term loans and current portion of long-term debt	11	74,803	20,024
Derivative financial instruments	4	-	1,995
Trade and other payables	12	15,964	15,591
Income tax payable		1,082	1,851
Other taxes payable	13	4,417	3,364
Dividends payable		7,555	485
Total Current Liabilities		**103,821**	**43,310**
Total Liabilities		**177,787**	**127,867**
Total Equity and Liabilities		**299,348**	**240,964**

Signed on 1 October 2012 by the following members of management:

Fedor B. Andreev
President

Elena L. Timonina
Chief accountant

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

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Comprehensive Income (unaudited)

		Three months ended		Six months ended	
	Notes	**30 June 2012**	**30 June 2011**	**30 June 2012**	**30 June 2011**
Sales	14	39,329	36,547	76,529	66,147
Cost of sales	15	(15,880)	(10,422)	(33,789)	(23,119)
Royalty	13	(303)	(878)	(605)	(1,755)
Gross profit		**23,146**	**25,247**	**42,135**	**41,273**
General and administrative expenses	16	(2,560)	(1,440)	(4,162)	(2,899)
Selling and marketing expenses	17	(504)	(599)	(962)	(761)
Net gain from derivative financial instruments		-	63	-	1,551
Other operating income	18	415	271	2,515	345
Other operating expenses	19	(4,239)	(4,117)	(9,032)	(7,945)
Operating profit		**16,258**	**19,425**	**30,494**	**31,564**
Finance income	20	2,456	1,166	1,569	5,914
Finance costs	21	(14,007)	(2,221)	(10,488)	(4,790)
Share of net profit of associates	4	94	270	546	600
Profit before income tax		**4,801**	**18,640**	**22,121**	**33,288**
Income tax	13	(1,301)	(4,084)	(5,930)	(7,021)
Profit for the period		**3,500**	**14,556**	**16,191**	**26,267**
Other comprehensive income					
Currency translation differences		(253)	31	(148)	(113)
Other comprehensive (loss) / income for the period		**(253)**	**31**	**(148)**	**(113)**
Total comprehensive income for the period		**3,247**	**14,587**	**16,043**	**26,154**
Profit attributable to:					
Owners of AK ALROSA		3,296	14,525	15,743	26,097
Non-controlling interest		204	31	448	170
Profit for the period		**3,500**	**14,556**	**16,191**	**26,267**
Total comprehensive income attributable to:					
Owners of AK ALROSA		3,043	14,556	15,595	25,984
Non-controlling interest		204	31	448	170
Total comprehensive income for the period		**3,247**	**14,587**	**16,043**	**26,154**
Basic and diluted earnings per share for profit attributable to the owners of AK ALROSA (in Roubles)		0.46	2.01	2.18	3.58

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 2012	Six months ended 30 June 2011
Net Cash Inflow from Operating Activities	22	**16,419**	**22,624**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(13,915)	(8,736)
Acquisition of Gas companies less cash acquired on their acquisition	4	(32,262)	-
Proceeds from sales of fixed assets		849	392
Acquisition of available-for-sale investments		(17)	(12)
Proceeds from sale of available-for-sale investments		19	-
Interest received		142	94
Net Cash Outflow from Investing Activities		**(45,184)**	**(8,262)**
Cash Flows from Financing Activities			
Repayments of loans		(15,340)	(9,858)
Loans received		49,746	12,859
Interest paid		(3,378)	(3,603)
Purchase of treasury shares		(9)	(3,298)
Dividends paid		(500)	(194)
Net Cash Inflow / (Outflow) from Financing Activities		**30,519**	**(4,094)**
Net Increase in Cash and Cash Equivalents		**1,754**	**10,268**
Cash and cash equivalents at the beginning of the period		12,014	4,136
Exchange losses on cash and cash equivalents		(238)	(413)
Cash and Cash Equivalents at the End of the Period		**13,530**	**13,991**

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

	Attributable to owners of AK ALROSA						Non-controlling interest	Total equity
	Share capital	**Share premium**	**Treasury shares**	**Other reserves**	**Retained earnings**	**Total**		
Balance at 31 December 2010	**12,473**	**10,431**	**(39)**	**(192)**	**70,218**	**92,891**	**(281)**	**92,610**
Comprehensive income								
Profit for the period	-	-	-	-	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 own shares	-	-	(210)	-	(3,088)	(3,298)	-	(3,298)
Dividends paid by subsidiaries to the owners of non-controlling interest	-	-	-	-	-	-	(57)	(57)
Total transactions with owners	**-**	**-**	**(210)**	**-**	**(4,921)**	**(5,131)**	**(57)**	**(5,188)**
Balance at 30 June 2011	**12,473**	**10,431**	**(249)**	**(305)**	**91,394**	**113,744**	**(168)**	**113, 576**
Balance at 31 December 2011	**12,473**	**10,431**	**(249)**	**(646)**	**91,805**	**113,814**	**(717)**	**113,097**
Comprehensive income								
Profit for the period	-	-	-	-	15,743	15,743	448	16,191
Other comprehensive income								
Currency translation differences	-	-	-	(148)	-	(148)	-	(148)
Total other comprehensive income	-	-	-	(148)	-	(148)	-	(148)
Total comprehensive income for the period	**-**	**-**	**-**	**(148)**	**15,743**	**15,595**	**448**	**16,043**
Transactions with owners								
Dividends (note 9)	-	-	-	-	(7,439)	(7,439)	-	(7,439)
Purchase of own shares	-	-	(1)	-	(8)	(9)	-	(9)
Dividends paid by subsidiaries to the owners of non-controlling interest	-	-	-	-	-	-	(131)	(131)
Total transactions with owners	**-**	**-**	**(1)**	**-**	**(7,447)**	**(7,448)**	**(131)**	**(7,579)**
Balance at 30 June 2012	**12,473**	**10,431**	**(250)**	**(794)**	**100,101**	**121,961**	**(400)**	**121,561**

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 2012 and 31 December 2011 the Company's principal shareholders are the governments of the Russian Federation (50.9 percent of shares) and the Republic of Sakha (Yakutia) (32.0 percent of shares).

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

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

As at 30 June 2012 the Group's current liabilities exceeded its current assets by RR'mln 23,560 principally as a result of loans and borrowings due to be repaid during one year after the reporting period. Substantial portion of these loans was obtained in March 2012 to finance the Group's acquisition of Gas companies (see note 4). Management believes that the Group is able to generate enough profit and positive operating cash flows to repay portion of these borrowings within 12 months from the reporting date. In addition, management believes that the Group will be able to refinance another portion of this indebtedness as it has access to short-term and medium-term financing provided by the banks controlled by the Government of the Russian Federation and other debt instruments available on the Russian and international markets. Accordingly, management believes that a going concern basis for the preparation of this condensed consolidated interim financial information is appropriate.

2. BASIS OF PRESENTATION

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

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

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

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 32.82 and 32.20 as at 30 June 2012 and 31 December 2011, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 41.32 and 41.67 as at 30 June 2012 and 31 December 2011, respectively.

(in millions of Russian roubles, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

4. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

Name	Principal activity	Country of Incorporation	Percentage of ownership interest held	
			30 June 2012	31 December 2011
ALROSA Finance S.A.	Financial services	Luxembourg	100	100
Sunland Trading S.A.	Diamonds trading	Switzerland	100	100
Arcos Belgium N.V.	Diamonds trading	Belgium	100	100
ZAO Irelyakhneft	Oil production	Russia	100	100
OAO ALROSA-Gaz	Gas production	Russia	100	100
OOO ALROSA-VGS	Capital construction	Russia	100	100
OAO Almazy Anabara	Diamonds production	Russia	100	100
OAO Viluyskaya GES-3	Electricity production	Russia	100	100
OAO GMK Timir	Iron ore production	Russia	100	100
OAO Severalmaz	Diamonds production	Russia	100	100
ZAO Geotransgaz	Gas production	Russia	100	-
OOO Urengoyskaya gazovaya company	Gas production	Russia	100	-
OAO ALROSA-Nyurba	Diamonds production	Russia	88	88
OOO MAK Bank	Banking activity	Russia	88	88

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

Acquisition of ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company

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

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

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

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

(in millions of Russian roubles, unless otherwise stated)

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

Property, plant and equipment	35,887
Inventories	955
Trade and other receivables	461
Cash	791
Deferred tax liability	(4,918)
Trade and other payables	(123)
Fair value of acquired net assets	**33,053**
Cash consideration paid	**33,053**
Fair value of terminated put option	**(1,995)**
Negative goodwill on acquisition of Gas companies	**1,995**

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

Gas companies contributed revenue of RR'mln 112 and net loss of RR'mln 370 to the Group for the period from the date of acquisition to 30 June 2012. If the Group would have acquired Gas companies on 1 January 2012, the acquired entities would have contributed revenue of RR'mln 193 and net loss of RR'mln 791 to the Group for the six months ended 30 June 2012.

As at the date of acquisition the gross contractual amounts receivable in Gas companies are equal to the fair value of accounts receivable recognised in this condensed consolidated interim financial information.

The fair values of the acquired assets and liabilities were determined on a provisional basis in this condensed consolidated interim financial information as the process of determining fair values of certain assets and liabilities is not finalised yet. Management is required to finalise the accounting within 12 months of the acquisition date. Any revisions to the provisional values will be reflected retrospectively from the acquisition date.

Associates

Name	**Country of incorporation**	**Percentage of ownership interest held as at**		**Carrying value of investment as at**	
		30 June 2012	**31 December 2011**	**30 June 2012**	**31 December 2011**
Catoca Mining Company Ltd.	Angola	33	33	1,466	2,116
OAO Almazny Mir	Russia	47	47	183	182
Other	Russia	20-50	20-50	52	52
				1,701	2,350

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

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

	Three months ended		**Six months ended**	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
Catoca Mining Company Ltd.	94	272	545	603
OAO Almazny Mir	-	(2)	1	1
Other	-	-	-	(4)
	94	270	546	600

Catoca Mining Company Ltd. ("Catoca") is a diamond-mining venture located in Angola. In May 2012 Catoca declared dividends for the year ended 31 December 2011; the Group's share of these dividends amounted to RR'mln 1,244. Currency translation gain recognised in the condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2012 in respect of investment in Catoca totalled RR'mln 49. In April 2011 Catoca declared dividends for the year ended 31 December 2010; the Group's share of these dividends amounted to RR'mln 923. Currency translation gain recognised in the condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2011 in respect of investment in Catoca totalled RR'mln 134.

(in millions of Russian roubles, unless otherwise stated)

5. CASH AND CASH EQUIVALENTS

	30 June 2012	31 December 2011
Current accounts	8,060	5,221
Deposit accounts	5,470	6,793
	13,530	12,014

At 30 June 2012 the weighted average interest rate on the cash balances of the Group was 2.63 percent (31 December 2011: 3.88 percent).

6. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	TOTAL
As at 31 December 2010			
Cost	214,776	44,207	258,983
Accumulated depreciation and impairment losses	(90,241)	(722)	(90,963)
Net book value as at 31 December 2010	**124,535**	**43,485**	**168,020**
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 31 December 2011			
Cost	230,820	36,168	266,988
Accumulated depreciation and impairment losses	(96,429)	(1,025)	(97,454)
Net book value as at 31 December 2011	**134,391**	**35,143**	**169,534**
Six months ended 30 June 2012			
Net book value as at 31 December 2011	134,391	35,143	169,534
Foreign exchange differences	79	-	79
Additions	1,684	14,293	15,977
Acquisition of Gas companies (note 4)	31,222	4,665	35,887
Transfers	7,498	(7,498)	-
Disposals – at cost	(2,237)	(113)	(2,350)
Disposals – accumulated depreciation	1,282	-	1,282
Change in estimate of provision for land recultivation	(6)		(6)
Impairment of property, plant and equipment	-	(1)	(1)
Depreciation charge for the period	(7,539)	-	(7,539)
Net book value as at 30 June 2012	**166,374**	**46,489**	**212,863**
As at 30 June 2012			
Cost	269,060	47,515	316,575
Accumulated depreciation and impairment losses	(102,686)	(1,026)	(103,712)
Net book value as at 30 June 2012	**166,374**	**46,489**	**212,863**

Capitalised borrowing costs

As at 30 June 2012 borrowing costs totalling RR'mln 60 (as at 30 June 2011: RR'mln 32) were capitalised in property, plant and equipment. For the six months ended 30 June 2012 the capitalisation rate applied to qualifying assets totalling RR'mln 838 (six months ended 30 June 2011: RR'mln 2,383) was 7.68 percent (30 June 2011: 7.10 percent). In accordance with transitional rules of revised IAS 23, borrowing costs are capitalised for projects commencing after 1 January 2009.

(in millions of Russian roubles, unless otherwise stated)

7. INVENTORIES

	30 June 2012	31 December 2011
Diamonds	22,280	21,102
Ores and concentrates	12,415	9,604
Mining and construction materials	12,585	10,628
Consumable supplies	2,733	2,038
Diamonds for resale	396	1,057
	50,409	44,429

8. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	30 June 2012	31 December 2011
Loans	2,524	1,718
Long-term VAT recoverable	94	114
LT receivables from related parties	-	1
	2,618	1,833

Current accounts receivable	30 June 2012	31 December 2011
Advances to suppliers	4,990	1,406
Loans issued	2,393	2,263
Prepaid taxes, other than income tax	1,624	1,099
Receivables from associates (see note 24)	1,381	139
Trade receivables for supplied diamonds	1,306	718
VAT recoverable	987	485
Notes receivable	92	172
Other trade receivables	3,496	2,476
	16,269	8,758

Trade and other receivables are presented net of impairment provision of RR'mln 5,395 and RR'mln 5,210 as at 30 June 2012 and 31 December 2011, respectively.

9. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 30 June 2012 and 31 December 2011 and consists of 7,364,965,630 ordinary shares, including treasury shares, at RR 0.5 par value share. In addition as at 30 June 2012 and 31 December 2011 share capital includes hyperinflation adjustment totalling RR'mln 8,790, which was calculated in accordance with requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" and relates to the reporting periods prior to 1 January 2003.

Distributable profits

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the six months ended 30 June 2012 the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 15,824 (for the six months ended 30 June 2011 – RR'mln 16,396). 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 2012 subsidiaries of the Group held 149,175,030 (31 December 2011: 148,689,530) ordinary shares of the Company. The Group management controls the voting rights of these shares.

Earnings per share

Earnings per share have been calculated by dividing the profit attributable to owners of AK ALROSA by the weighted average number of shares outstanding during the year, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares. There were 7,216,116,045 and 7,216,196,073 weighted average shares outstanding for the three and six months ended 30 June 2012, respectively (for the three and six months ended 30 June 2011 – 7,241,264,628 and 7,284,151,750, respectively). There are no dilutive financial instruments outstanding.

(in millions of Russian roubles, unless otherwise stated)

Dividends

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

On 30 June 2011 the Company’s annual shareholders’ meeting approved dividends for the year ended 31 December 2010 totalling RR’mln 1,833. Dividends per share amounted to RR 0.25.

10. LONG-TERM DEBT

	30 June 2012	31 December 2011
Banks:		
US$ denominated fixed rate	158	16,446
	158	**16,446**
Eurobonds	49,209	48,278
RR denominated non-convertible bonds	26,000	26,000
Finance lease obligation	507	512
Other RR denominated fixed rate loans	1,656	1,515
	77,530	**92,751**
Less: current portion of long-term debt (see note 11)	(16,812)	(17,222)
	60,718	**75,529**

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

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

	30 June 2012	31 December 2011
US$ denominated fixed rate bank loans	7.8%	6.4%
Eurobonds	8.1%	8.1%
RR denominated non-convertible bonds	8.5%	8.5%
Finance lease obligation	7.6%	7.6%
Other RR denominated fixed rate loans	7.1%	7.0%

Eurobonds

	Six months ended 30 June 2012	Six months ended 30 June 2011
Balance at the beginning of the period	48,278	45,696
Amortisation of discount	3	2
Exchange losses / (gains)	928	(3,600)
Balance at the end of the period	49,209	42,098

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

	30 June 2012	31 December 2011
Banks:		
RR denominated fixed rate	-	30
US$ denominated fixed rate	13,127	-
	13,127	**30**
European commercial paper	41,196	-
Other US$ denominated fixed rate loans	10	10
Other RR denominated fixed rate loans	3,658	2,762
	57,991	**2,802**
Add: current portion of long-term debt (see note 10)	16,812	17,222
	74,803	**20,024**

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

(in millions of Russian roubles, unless otherwise stated)

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

	30 June 2012	**31 December 2011**
RR denominated fixed rate bank loans	-	11.7%
US$ denominated fixed rate bank loans	3.9%	-
European commercial paper	4,1%	-
Other US$ denominated fixed rate loans	3.5%	3.5%
Other RR denominated fixed rate loans	7.8%	7.9%

12. TRADE AND OTHER PAYABLES

	30 June 2012	**31 December 2011**
Accrual for employee flights and holidays	6,877	5,853
Trade payables	3,281	2,822
Wages and salaries	1,843	3,791
Interest payable	1,196	695
Advances from customers	1,170	230
Current accounts of third parties in OOO MAK Bank	598	1,242
Payables to associates	6	7
Other payables and accruals	993	951
	15,964	15,591

13. INCOME AND OTHER TAX ASSETS AND LIABILITIES

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

	30 June 2012	**31 December 2011**
Payments to social funds	1,944	888
Property tax	837	851
Value added tax	674	501
Extraction tax	654	475
Personal income tax (employees)	251	545
Tax penalties	-	32
Other taxes and accruals	57	72
	4,417	3,364

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

	Three months ended		**Six months ended**	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
Property tax	841	771	1,660	1,536
Other taxes and accruals	162	67	228	258
	1,003	838	1,888	1,794

In accordance with Resolution № 795 of the Government of the Russian Federation dated 23 December 2006, in addition to the taxes noted above, the Group is obliged to pay 6.5 percent on the value of diamonds sold for export in the form of an export duty (see note 14).

In accordance with the amendment to the license agreement registered in May 2007, OAO ALROSA-Nyurba, a subsidiary of the Group, is obliged to make annual fixed royalty payments to the Republic of Sakha (Yakutia) starting from 1 January 2007 till 31 December 2011 in the amount of RR'mln 3,509 per annum. Since 1 January 2012 OAO ALROSA-Nyurba is obliged to make annual fixed royalty payments in the amount of RR'mln 1,209 per annum.

Income tax expense comprises the following:

	Three months ended		**Six months ended**	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
Current tax expense	2,263	3,576	6,017	6,218
Adjustments recognised in the period for current tax of prior periods	506	-	53	-
Deferred tax (benefit) / expense	(1,468)	508	(140)	803
	1,301	4,084	5,930	7,021

(in millions of Russian roubles, unless otherwise stated)

14. SALES

	Three months ended		Six months ended	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Revenue from diamond sales:				
Export	25,686	24,417	52,785	44,131
Domestic	9,709	9,054	16,864	16,165
Revenue from diamonds for resale	592	-	870	323
	35,987	33,471	70,519	60,619
Other revenue:				
Transport	1,351	1,141	2,290	1,872
Social infrastructure	560	648	1,402	1,450
Trading	387	426	493	580
Construction	94	168	141	267
Other	950	693	1,684	1,359
	39,329	36,547	76,529	66,147

Export duties totalling RR'mln 1,728 and RR'mln 3,495 for the three and six months ended 30 June 2012, respectively (three and six months ended 30 June 2011: RR'mln 1,595 and RR'mln 2,846, respectively) were netted against revenues from export of diamonds.

15. COST OF SALES

	Three months ended		Six months ended	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Wages, salaries and other staff costs	6,552	4,566	14,590	11,351
Depreciation	3,043	2,269	6,806	4,854
Fuel and energy	2,493	1,851	4,964	4,292
Extraction tax	1,940	1,957	4,216	3,848
Materials	1,627	1,330	3,050	2,476
Services	1,090	193	1,971	994
Transport	456	679	929	1,053
Cost of diamonds for resale	572	-	839	311
Impairment / (reversal of impairment) of inventories	243	(63)	250	(66)
Other	62	23	163	94
Movement in inventory of diamonds, ores and concentrates	(2,198)	(2,383)	(3,989)	(6,088)
	15,880	10,422	33,789	23,119

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 1,486 and RR'mln 2,870 for the three and six months ended 30 June 2012, respectively (for the three and six months ended 30 June 2011 in the amount of RR'mln 1,253 and RR'mln 2,658, respectively).

Depreciation totalling RR'mln 733 (six months ended 30 June 2011: RR'mln 537) and staff costs totalling RR'mln 1,484 (six months ended 30 June 2011: RR'mln 1,048) were incurred by the Group's construction divisions and were capitalised in the respective periods.

16. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Wages, salaries and other staff costs	1,418	696	2,390	1,616
Services and other administrative expenses	1,103	621	1,585	1,087
Impairment of accounts receivable	39	123	187	196
	2,560	1,440	4,162	2,899

(in millions of Russian roubles, unless otherwise stated)

17. SELLING AND MARKETING EXPENSES

	Three months ended		Six months ended	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
Wages, salaries and other staff costs	352	379	665	447
Services and other selling and marketing expenses	152	220	297	314
	504	599	962	761

18. OTHER OPERATING INCOME

	Three months ended		Six months ended	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
Negative goodwill on acquisition of Gas companies (note 4)	-	-	1,995	-
Other	415	271	520	345
	415	271	2,515	345

19. OTHER OPERATING EXPENSES

	Three months ended		Six months ended	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
Exploration expenses	1,398	2,203	3,514	3,282
Social costs	1,640	820	3,030	1,620
Taxes other than income tax, extraction tax and payments to social funds (note 13)	1,003	838	1,888	1,794
Loss on disposal of property, plant and equipment	18	132	219	842
Impairment of property, plant and equipment	1	80	1	169
Other	179	44	380	238
	4,239	4,117	9,032	7,945

Social costs consist of:

	Three months ended		Six months ended	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
Maintenance of local infrastructure	640	511	1,311	1,029
Charity	848	147	1,477	256
Hospital expenses	41	39	74	93
Education	35	14	37	28
Other	76	109	131	214
	1,640	820	3,030	1,620

20. FINANCE INCOME

	Three months ended		Six months ended	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
Interest income	101	56	142	94
Exchange gains	2,355	1,110	1,427	5,820
	2,456	1,166	1,569	5,914

(in millions of Russian roubles, unless otherwise stated)

21. FINANCE COSTS

	Three months ended		Six months ended	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
Interest expense:				
Eurobonds	942	838	1,838	1,719
RR denominated non-convertible bonds	540	543	1,088	1,086
Bank loans	332	275	547	668
European commercial paper	405	107	451	107
Commercial paper	-	19	-	46
Other	8	5	45	13
Unwinding of discount of provision for land recultivation	10	4	23	64
Exchange losses	11,770	430	6,496	1,087
	14,007	2,221	10,488	4,790

22. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash flows from operations:

	Six months ended 30 June 2012	**Six months ended 30 June 2011**
Profit before income tax	22,121	33,288
Adjustments for:		
Share of net profit of associates (note 4)	(546)	(600)
Interest income (note 20)	(142)	(94)
Interest expense (note 21)	3,992	3,703
Loss on disposal of property, plant and equipment (note 19)	219	842
Impairment of property, plant and equipment (note 19)	1	169
Negative goodwill on acquisition of Gas companies (note 18)	(1,995)	-
Net (gain) from foreign exchange forward contracts	-	(1,260)
Net (gain) from cross currency interest rate swap contracts	-	(111)
Net gain from put options granted by the Group to the buyers of Gas companies	-	(180)
Depreciation (note 15)	6,806	4,854
Adjustment for inventory used in construction	(1,100)	(784)
Adjustments for non-cash financing activity	(7)	(4)
Net payments from exercising of foreign exchange forward contracts	-	(692)
Net payments from exercising of cross currency interest rate swap contracts	-	(123)
Payments to restricted cash account	(74)	(143)
Unrealised foreign exchange effect on non-operating items	5,255	(4,829)
Net operating cash flow before changes in working capital	34,530	34,036
Net increase in inventories	(5,024)	(6,472)
Net increase in trade and other receivables, excluding dividends receivable	(6,463)	(1,355)
Net (decrease) / increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(996)	1,229
Net increase in taxes payable, excluding income tax	1,213	1,107
Cash inflows from operating activity	**23,260**	**28,545**
Income tax paid	(6,841)	(5,921)
Net cash inflows from operating activities	**16,419**	**22,624**

23. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment of the Russian Federation

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

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

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

(b) Taxes

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

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

(c) Legal proceedings

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

(d) Insurance

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

(e) Capital commitments

As at 30 June 2012 the Group has contractual commitments for capital expenditures of approximately RR'mln 8,622 (31 December 2011: RR'mln 7,152).

(f) Restoration, rehabilitation and environmental costs

Under its license agreements, the Group is not responsible for any significant restoration, rehabilitation and environmental expenditures that may be incurred subsequent to the cessation of production at each mine, apart from the obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. The Company recognised a provision for these future expenses in the amount of RR'mln 532 as at 30 June 2012 (RR'mln 522 as at 31 December 2011).

24. RELATED PARTY TRANSACTIONS

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

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

(in millions of Russian roubles, unless otherwise stated)

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 2012 83 percent of the Company's issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Also as at 30 June 2012 8 percent of the Company's shares were owned by administrations or 8 districts of the Republic of Sakha (Yakutia). Following the General Meeting of Shareholders in June 2012, the 15 seats on the Supervisory Council include 12 representatives of the Russian Federation and the Republic of Sakha (Yakutia), including 4 independent directors nominated by the Government of the Russian Federation, 2 management representatives and 1 representative of districts of the Republic of Sakha (Yakutia). Governmental, federal and local economic and social policies affect the Group's financial position, results of operations and cash flows.

Tax balances are disclosed in the statement of financial position and in notes 8 and 13. Tax transactions are disclosed in the statement of comprehensive income, cash flow statement and in notes 13, 14, 15, 19 and 22.

Parties under control of the Government

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

As at 30 June 2012 the accounts payable to the parties under Governmental control totalled RR'mln 195 (31 December 2011: RR'mln 843). As at 30 June 2012 the accounts receivable from the parties under Governmental control (excluding loans issued) totalled RR'mln 1,564 (31 December 2011: RR'mln 1,454). As at 30 June 2012 and 31 December 2011 the accounts receivable from the parties under Governmental control and accounts payable to the parties under Governmental control were non-interest bearing, had a maturity within one year and were denominated in Russian Roubles.

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

	Three months ended		**Six months ended**	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
Sales of diamonds	2,946	3,284	9,258	6,424
Electricity and heating expenses	1,273	490	2,329	2,307
Other sales	745	934	1,300	1,237
Other purchases	387	301	668	597

As at 30 June 2012 and 31 December 2011 the Group had no contractual commitments to sell goods or services to the parties under control of the Government. As at 30 June 2012 the Group had contractual commitments to purchase goods and services from the parties under control of the Government in the amount of approximately RR'mln 2,099 (31 December 2011: RR'mln 4,172).

As at 30 June 2012 the amount of loans received by the Group from the entities under Governmental control totalled RR'mln 5,114 (31 December 2011: RR'mln 16,446). During the six months ended 30 June 2012 interest expense accrued in respect to the loans received by the Group from the entities under Governmental control totalled RR'mln 356 (six months ended 30 June 2011: RR'mln 659).

As at 30 June 2012 the amount of loans issued by the Group to the entities under Governmental control totalled RR'mln 1,363 (31 December 2011: RR'mln 1,310). During the three and six months ended 30 June 2012 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR'mln 29 and RR'mln 57, respectively (three and six months ended 30 June 2011: RR'mln 19 and RR'mln 36, respectively).

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

Key management compensation

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

The Management Committee consists of 18 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.

(in millions of Russian roubles, unless otherwise stated)

Management committee members received benefits for the three and six months ended 30 June 2012 totalling RR'mln 504 and RR'mln 632, respectively (three and six months ended 30 June 2011: RR'mln 105 and RR'mln 369, respectively).

Associates

Significant transactions and balances with associates are summarised as follows:

Current accounts receivable	**30 June 2012**	**31 December 2011**
Catoca Mining Company Ltd., dividends receivable	1,372	126
Other	10	14
Less: provision for bad debt	(1)	(1)
	1,381	139

In May 2012 Catoca Mining Company Ltd. ("Catoca") declared dividends for the year ended 31 December 2011; the Group's share of these dividends amounted to RR'mln 1,244. In April 2010 Catoca declared dividends for the year ended 31 December 2009; the Group's share of these dividends amounted to RR'mln 923. During the six months ended 30 June 2012 and 30 June 2011 Catoca did not pay any dividends. The Group recognised exchange gain related to dividends receivable from Catoca in the amount of RR'mln 128 for the six months ended 30 June 2012 (for the six months ended 30 June 2011 – exchange loss in the amount of RR'mln 4).

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

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

25. SEGMENT INFORMATION

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

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

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

- general and administrative expenses
- selling and marketing expenses
- finance income;
- finance cost;
- other operating income and expense;
- share of net profit of associates;
- income tax expense or benefit;
- non-cash items other than depreciation;
- total assets and liabilities;
- capital expenditure.

(in millions of Russian roubles, unless otherwise stated)

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 2012	Diamonds segment	Transportation	Social infrastructure	Construction activity	Trading	Electricity production	Other activities	Total
Sales	74,015	2,365	1,402	141	637	1,292	2,079	81,931
Intersegment sales	-	(75)	-	-	(144)	(1,069)	(592)	(1,880)
Cost of sales, incl.	20,922	2,869	3,612	115	184	940	1,664	30,306
Depreciation	4,615	248	240	48	3	254	179	5,587
Gross margin	**53,093**	**(504)**	**(2,210)**	**26**	**453**	**352**	**415**	**51,625**

Six months ended 30 June 2011	Diamonds segment	Transportation	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**

Three months ended 30 June 2012	Diamonds segment	Transportation	Social infrastructure	Construction activity	Trading	Electricity production	Other activities	Total
Sales	37,714	1,427	560	94	454	480	1,345	42,074
Intersegment sales	-	(75)	-	-	(66)	(383)	(384)	(908)
Cost of sales, incl.	10,133	1,511	2,026	61	85	423	448	14,687
Depreciation	2,344	124	121	27	1	127	108	2,852
Gross margin	**27,581**	**(84)**	**(1,466)**	**33**	**369**	**57**	**897**	**27,387**

Three months ended 30 June 2011	Diamonds segment	Transportation	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**

Reconciliation of sales is presented below:

	Three months ended		Six months ended	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
Segment sales	**42,075**	**38,822**	**81,931**	**70,613**
Elimination of intersegment sales	(908)	(719)	(1,880)	(1,732)
Reclassification of export duties [1]	(1,728)	(1,595)	(3,495)	(2,846)
Other adjustments and reclassifications	(110)	39	(27)	112
Sales as per Statement of Comprehensive Income	**39,329**	**36,547**	**76,529**	**66,147**

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

(in millions of Russian roubles, unless otherwise stated)

Reconciliation of cost of sales including depreciation is presented below:

	Three months ended		Six months ended	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
Segment cost of sales	**14,687**	**11,584**	**30,306**	**25,270**
Adjustment for depreciation of property, plant and equipment [1]	191	(179)	1,219	18
Elimination of intersegment purchases	(908)	(719)	(1,880)	(1,732)
Accrued provision for pension obligation [2]	(210)	(104)	(514)	(610)
Reclassification of extraction tax [3]	1,792	1,766	3,769	3,403
Adjustment for inventories [4]	202	(413)	599	(2,672)
Accrual for employee flights and holidays [5]	(338)	(691)	64	711
Other adjustments	17	(9)	34	(37)
Reclassification of exploration expenses [6]	(197)	(1,226)	(954)	(2,134)
Other reclassifications	644	413	1,146	902
Cost of sales as per Statement of Comprehensive Income	**15,880**	**10,422**	**33,789**	**23,119**

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

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

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

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

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

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

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

	Three months ended		Six months ended	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
Belgium	15,682	15,514	32,653	28,700
Russian Federation	13,665	12,147	23,610	21,676
India	5,380	3,941	11,085	6,580
Israel	2,581	2,364	4,973	4,629
China	668	816	1,554	1,318
United Arab Emirates	778	367	1,458	1,130
Belarus	203	351	389	559
Armenia	95	197	219	521
Angola	-	424	123	373
Other countries	277	426	465	661
Total	**39,329**	**36,547**	**76,529**	**66,147**

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

	30 June 2012	**31 December 2011**
Russian Federation	213,217	170,364
Angola	2,737	2,768
Other countries	299	305
Total	**216,253**	**173,437**