AK “ALROSA”

IFRS CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (UNAUDITED)

31 MARCH 2011

CONTENTS

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

On the basis of information provided by management, we have compiled, in accordance with the International Standards on Auditing applicable to compilation engagements, the unaudited consolidated statement of financial position of AK "ALROSA" ("the Company") and its subsidiaries ("the Group") as at 31 March 2011, unaudited condensed interim consolidated statements of comprehensive income, cash flows and statement of changes in equity for the three months ended 31 March 2011 and the related notes to the unaudited condensed interim consolidated financial information. Management of the Company is responsible for this unaudited condensed interim consolidated financial information. We have neither audited nor reviewed the accompanying unaudited condensed interim consolidated financial information and, accordingly, do not imply or express an opinion or any other form of assurance on them.

OOO "Financial and Accounting Consultants"
Moscow, Russia
15 June 2011

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Financial Position (unaudited)

	Notes	31 March 2011	31 December 2010
Assets			
Non-current Assets			
Goodwill		1,439	1,439
Property, plant and equipment	6	168,921	168,020
Investments in associates	4	2,190	1,975
Available-for-sale investments	4	171	167
Long-term accounts receivable	8	1,646	1,569
Restricted cash	5	194	152
Total Non-current Assets		**174,561**	**173,322**
Current Assets			
Inventories	7	36,933	34,514
Prepaid income tax		32	340
Current accounts receivable	8	11,568	10,115
Cash and cash equivalents	5	9,019	4,136
Total Current Assets		**57,552**	**49,105**
Total Assets		**232,113**	**222,427**
Equity			
Share capital	9	12,473	12,473
Share premium		10,431	10,431
Treasury shares	9	(39)	(39)
Retained earnings and other reserves		81,453	70,026
Equity attributable to owners of AK "ALROSA"		**104,318**	**92,891**
Non-Controlling Interest in Subsidiaries	9	**(142)**	**(281)**
Total Equity		**104,176**	**92,610**
Liabilities			
Non-current Liabilities			
Long-term debt	10	83,645	89,021
Derivative financial instruments	12	2,176	2,311
Provision for pension obligations		3,838	4,344
Other provisions		471	800
Deferred tax liabilities		2,752	2,459
Total Non-current Liabilities		**92,882**	**98,935**
Current Liabilities			
Short-term loans and current portion of long-term debt	11	12,039	12,944
Derivative financial instruments	12	702	2,562
Trade and other payables	13	16,727	11,529
Income tax payable		982	574
Other taxes payable	14	4,536	3,030
Dividends payable		69	243
Total Current Liabilities		**35,055**	**30,882**
Total Liabilities		**127,937**	**129,817**
Total Equity and Liabilities		**232,113**	**222,427**

Signed on 15 June 2011 by the following members of management:

Российская Федерация * Республика Саха (Якутия), г. Мирный * Акционерная компания «АЛРОСА» (открытое акционерное общество) *

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	
	Notes	**31 March 2011**	**31 March 2010**
Sales	15	29,600	31,082
Cost of sales	16	(12,697)	(20,705)
Royalty	14	(877)	(877)
Gross profit		**16,026**	**9,500**
General and administrative expenses	17	(1,459)	(1,115)
Selling and marketing expenses	18	(162)	(290)
Net gain from derivative financial instruments	12	1,487	2,958
Other operating income	19	74	1,567
Other operating expenses	20	(3,828)	(2,395)
Operating profit		**12,138**	**10,225**
Finance income	21	4,091	2,329
Finance costs	22	(1,912)	(3,012)
Share of net profit of associates	4	330	360
Profit before income tax		**14,647**	**9,902**
Income tax	14	(2,937)	(1,437)
Profit for the period		**11,710**	**8,465**
Other comprehensive income			
Currency translation differences		(144)	20
Other comprehensive income for the period		**(144)**	**20**
Total comprehensive income for the period		**11,566**	**8,485**
Profit attributable to:			
Owners of AK "ALROSA"		11,571	8,391
Non-controlling interest		139	74
Profit for the period		**11,710**	**8,465**
Total comprehensive income attributable to:			
Owners of AK "ALROSA"		11,427	8,411
Non-controlling interest		139	74
Total comprehensive income for the period		**11,566**	**8,485**

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

	Notes	Three months ended 31 March 2011	Three months ended 31 March 2010
Net Cash Inflow from Operating Activities	23	**13,165**	**14,971**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(5,506)	(2,500)
Proceeds from sales of fixed assets		90	207
Acquisition of available-for-sale investments		(4)	-
Interest received		38	45
Dividends received from associates		-	383
Net Cash Outflow from Investing Activities		**(5,382)**	**(1,865)**
Cash Flows from Financing Activities			
Repayments of loans		(3,214)	(65,203)
Loans received		1,673	61,981
Interest paid		(1,047)	(2,405)
Dividends paid		(175)	(87)
Net Cash Outflow from Financing Activities		**(2,763)**	**(5,714)**
Net Increase in Cash and Cash Equivalents		**5,020**	**7,392**
Cash and cash equivalents at the beginning of the period		4,136	5,094
Exchange losses (gains) on cash and cash equivalents		(137)	9
Cash and Cash Equivalents at the End of The Period		**9,019**	**12,495**

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

	Attributable to owners of AK "ALROSA"							Non-controlling interest	Total equity
	Number of shares outstanding	**Share capital**	**Share premium**	**Treasury shares**	**Other reserves**	**Retained earnings**	**Total**		
Balance at 31 December 2009	**272,193**	**12,473**	**10,431**	**(26)**	**54**	**58,966**	**81,898**	**(1,177)**	**80,721**
Comprehensive income									
Profit for the period		-	-	-	-	8,391	8,391	74	8,465
Other comprehensive income									
Currency translation differences		-	-	-	20	-	20	-	20
Total other comprehensive income		-	-	-	20	-	20	-	20
Total comprehensive income for the period		**-**	**-**	**-**	**20**	**8,391**	**8,411**	**74**	**8,485**
Transactions with owners									
Non-controlling interest in disposed subsidiaries		-	-	-	-	-	-	1,082	1,082
Total transactions with owners								1,082	1,082
Balance at 31 March 2010	**272,193**	**12,473**	**10,431**	**(26)**	**74**	**67,357**	**90,309**	**(21)**	**90,288**
Balance at 31 December 2010	**271,806**	**12,473**	**10,431**	**(39)**	**(192)**	**70,218**	**92,891**	**(281)**	**92,610**
Comprehensive income									
Profit for the period		-	-	-	-	11,571	11,571	139	11,710
Other comprehensive income									
Currency translation differences		-	-	-	(144)	-	(144)	-	(144)
Total other comprehensive income		-	-	-	(144)	-	(144)	-	(144)
Total comprehensive income for the period		**-**	**-**	**-**	**(144)**	**11,571**	**11,427**	**139**	**11,566**
Balance at 31 March 2011	**271,806**	**12,473**	**10,431**	**(39)**	**(336)**	**81,789**	**104,318**	**(142)**	**104,176**

1. ACTIVITIES

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

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

As at 31 March 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.

2. BASIS OF PRESENTATION

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 28.43 and 30.48 as at 31 March 2011 and 31 December 2010, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 40.02 and 40.33 as at 31 March 2011 and 31 December 2010, respectively.

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

Reclassification of comparative information in the statement of comprehensive income

Net income from foreign exchange forward contracts totalling RR'mln 2,506, cross currency interest rate swap contracts totalling RR'mln 39 and put options granted by the Group to the buyers of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company" totalling RR'mln 413 was reclassified from other operating income for the three months ended 31 March 2010 to net gain from derivative financial instruments. This change was made in order to present the information about the Group's activity in a format considered to be more useful to the users of the consolidated financial statements.

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. The related parties disclosure (see note 25) in these consolidated financial statements was prepared in accordance with the requirements of the revised standard.

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

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

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

- IFRS 10 "Consolidated financial statements" replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation − special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.
- IFRS 11 "Joint arrangements" replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.
- IFRS 12 "Disclosure of interest in other entities" applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet this objective, there is a new requirement to disclosure significant judgments and assumptions in determining whether an entity controls, jointly controls or significantly influences its interests in other entities.

(in millions of Russian roubles, unless otherwise stated)

- As a consequence of above changes IAS 27 is renamed "Separate financial statements". It continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged.
- IFRS 13 "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

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

4. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

Name	Principal activity	Country of Incorporation	Percentage of ownership interest held	
			31 March 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	95
OOO "MAK Bank"	Banking activity	Russia	85	85
OAO "ALROSA-Nyurba"	Diamonds production	Russia	88	88

As at 31 March 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		Group's share of net profit / (loss) for the six months ended	
		31 March 2011	31 December 2010	31 March 2011	31 December 2010	31 March 2011	31 March 2010
"Catoca Mining Company Ltd"	Angola	33	33	1,921	1,705	331	359
OAO "Almazny Mir"	Russia	47	47	182	179	3	2
Other	Russia	-	-	87	91	(4)	(1)
				2,190	1,975	330	360

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

"Catoca Mining Company Ltd" is a diamond-mining venture located in Angola. Currency translation loss recognised in the condensed consolidated interim statement of comprehensive income for the three months ended 31 March 2011 in respect of investment in "Catoca Mining Company Ltd" totalled RR'mln 115 (three months ended 31 March 2010: RR'mln 37).

(in millions of Russian roubles, unless otherwise stated)

Non-current available-for-sale investments

	Three months ended 31 March 2011	Three months ended 31 March 2010
Available-for-sale investments at the beginning of the period	167	420
Disposal as a result of deconsolidation of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz"	-	(195)
Additions	4	-
Available-for-sale investments at the end of the period	171	225

5. CASH AND CASH EQUIVALENTS

Restricted cash

Restricted cash included within non-current assets in the statement of financial position of RR'mln 194 and RR'mln 152 as at 31 March 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 31 March 2011 and 31 December 2010 the weighted average interest rate on the restricted cash balances is approximately nil percent.

Cash and cash equivalents

	31 March 2011	31 December 2010
Current accounts	8,817	3,912
Deposit accounts	202	224
	9,019	4,136

At 31 March 2011 the weighted average interest rate on the cash balances of the Group was 0.08 percent (31 December 2010: 0.16 percent).

(in millions of Russian roubles, unless otherwise stated)

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**
Three months ended 31 March 2010			
Net book value as at 31 December 2009	126,940	40,992	167,932
Foreign exchange differences	(144)	(8)	(152)
Additions	860	2,101	2,961
Transfers	225	(225)	-
Disposals – at cost	(650)	(1)	(651)
Disposal through disposal of OAO "NNGK "Sakhaneftegaz" and OAO "Lenaneftegaz" – at cost	(1,205)	(150)	(1,355)
Disposals – accumulated depreciation	404	-	404
Disposal through disposal of OAO "NNGK "Sakhaneftegaz" and OAO "Lenaneftegaz" – accumulated depreciation	165		165
Change in estimate of provision for land recultivation	(9)	-	(9)
Reversal of impairment of property, plant and equipment	-	111	111
Depreciation charge for the period	(2,399)	-	(2,399)
Net book value as at 31 March 2010	**124,187**	**42,820**	**167,007**
As at 31 December 2010			
Cost	214,776	44,207	258,983
Accumulated depreciation and impairment losses	(90,241)	(722)	(90,963)
Net book value as at 31 December 2010	**124,535**	**43,485**	**168,020**
Three months ended 31 March 2011			
Net book value as at 31 December 2010	124,535	43,485	168,020
Foreign exchange differences	(338)	(18)	(356)
Additions	2,811	2,545	5,356
Transfers	162	(162)	-
Other disposals – at cost	(656)	(559)	(1,215)
Other disposals – accumulated depreciation	415	-	415
Change in estimate of provision for land recultivation	(329)	-	(329)
Impairment of property, plant and equipment	-	(89)	(89)
Depreciation charge for the period	(2,881)	-	(2,881)
Net book value as at 31 March 2011	**123,719**	**45,202**	**168,921**
As at 31 March 2011			
Cost	216,426	45,924	262,350
Accumulated depreciation and impairment losses	(92,707)	(722)	(93,429)
Net book value as at 31 March 2011	**123,719**	**45,202**	**168,921**

7. INVENTORIES

	31 March 2011	31 December 2010
Diamonds	17,013	15,840
Ores and concentrates	10,030	7,498
Mining and construction materials	8,401	9,886
Consumable supplies	1,489	1,267
Diamonds for resale	-	23
	36,933	34,514

(in millions of Russian roubles, unless otherwise stated)

8. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 March 2011	31 December 2010
Loans issued	1,460	1,372
Long-term VAT recoverable	186	190
Other long-term receivables	-	7
	1,646	1,569

Current accounts receivable	31 March 2011	31 December 2010
Advances to suppliers	3,834	2,393
Loans issued	2,168	1,403
VAT recoverable	908	893
Trade receivables for supplied diamonds	877	1,325
Prepaid taxes, other than income tax	872	745
Receivables from associates (see note 25)	206	157
Notes receivable	15	15
Other trade receivables	2,688	3,184
	11,568	10,115

Trade and other receivables are presented net of impairment provision of RR'mln 4,561 and RR'mln 4,481 as at 31 March 2011 and 31 December 2010, respectively.

9. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 31 March 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 31 March 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.

Distributable profits

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the three months ended 31 March 2011 the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 6,080 (for the three months ended 31 March 2010 – RR'mln 5,022). 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 31 March 2011 and 31 December 2010 subsidiaries of the Group held 920 ordinary shares of the Company. The Group management controls the voting rights of these shares.

Dividends

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

Non-controlling interest in subsidiaries

	Three months ended 31 March 2011	Three months ended 31 March 2010
Non-controlling interest at the beginning of the period	(281)	(1,177)
Non-controlling interest share of net profit of subsidiaries	139	74
Disposal of non-controlling interest as a result of deconsolidation of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz"	-	1,082
Non-controlling interest at the end of the period	(142)	(21)

(in millions of Russian roubles, unless otherwise stated)

10. LONG-TERM DEBT

	31 March 2011	31 December 2010
Banks:		
US$ denominated floating rate	1,597	2,206
US$ denominated fixed rate	20,448	22,310
RR denominated floating rate	500	1,556
	22,545	**26,072**
Eurobonds	42,625	45,696
RR denominated non-convertible bonds	26,000	26,000
Finance lease obligation	470	511
Commercial paper	386	464
Other RR denominated fixed rate loans	1,280	1,349
	93,306	**100,092**
Less: current portion of long-term debt (see note 11)	(9,661)	(11,071)
	83,645	**89,021**

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

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

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

As at 31 March 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:

	31 March 2011	31 December 2010
Banks:		
US$ denominated floating rate	5.5%	5.5%
US$ denominated fixed rate	6.6%	6.4%
RR denominated floating rate	10.8%	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	7.6%	10.9%

Eurobonds

	Three months ended 31 March 2011	Three months ended 31 March 2010
Balance at the beginning of the period	45,696	15,099
Amortisation of discount	10	14
Exchange gains	(3,081)	(454)
Balance at the end of the period	42,625	14,659

(in millions of Russian roubles, unless otherwise stated)

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

	31 March 2011	31 December 2010
Banks:		
US$ denominated fixed rate	39	37
RR denominated fixed rate	59	57
	98	**94**
Other US$ denominated fixed rate loans	8	9
Other RR denominated fixed rate loans	2,272	1,770
	2,378	**1,873**
Add: current portion of long-term debt (see note 10)	9,661	11,071
	12,039	**12,944**

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

	31 March 2011	31 December 2010
Banks:		
US$ denominated fixed rate	12.0%	12.0%
RR denominated fixed rate	11.2%	11.1%
Other US$ denominated fixed rate loans	3.5%	3.7%
Other RR denominated fixed rate loans	3.8%	5.7%

As at 31 March 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)

	31 March 2011	31 December 2010
Fair value of put options granted by the Group to the buyers of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company"	2,176	2,311
	2,176	2,311

Short-term derivative financial instruments (liabilities)

	31 March 2011	31 December 2010
Fair value of foreign exchange forward contracts	647	2,328
Fair value of cross currency interest rate swaps contracts	55	234
	702	2,562

Net gain from derivative financial instruments

	Three months ended	
	31 March 2011	31 March 2010
Net gain from change of fair value of put options granted by the Group to the buyers of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company"	135	413
Net gain from foreign exchange forward contracts	1,267	2,506
Net gain from cross currency interest rate swap contracts	85	39
	1,487	2,958

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$'mln 620). Simultaneously the Group entered into put option agreements with the buyers and the bank pursuant to which the Group may be required to repurchase 90 percent interest in OOO "Urengoyskaya Gazovaya Company" and a 90 percent interest in ZAO "Geotransgaz" back during 30 days following 1 October 2012 at a strike price of US$'mln 870.

The Group determined the fair value of put options as at 31 March 2011 in the amount of RR'mln 1,619 (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 31 March 2011as RR'mln 29,945 (31 December 2010 - RR'mln 36,735) and its expected volatility, which was estimated by the Group at the level of 44 percent using historical data for comparable companies for the last 3 years.

(in millions of Russian roubles, unless otherwise stated)

	Three months ended 31 March	
	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	135	413
Fair value of the put options at the end of the reporting period	(2 176)	(3,245)

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 31 March 2011 the fair value of the forward foreign exchange contracts totalled RR'mln 647 (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.

	Three months ended 31 March 2011	**Three months ended 31 March 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	414	616
Net gain from change of fair value of foreign exchange forward contracts	1,267	2,506
Fair value of foreign exchange forward contracts at the end of the period	(647)	(3,178)

Cross currency interest rate swap contracts

To reduce the Group's interest rate risk exposure associated with the RR denominated floating rate loans from "Bank VTB", in 2008 the Group entered into US$ / RR cross currency interest rate swap transactions with "VTB Bank Europe Plc". Under the swap transactions the Group agreed to convert into US$ the amount due to "Bank VTB" totalling RR'mln 4,518 at the exchange rate of RR 26.62 and pay fixed interest rates ranging from 9.55 to 9.88 percent in exchange of RR floating interest rates based on three months MosPrime interest rate. The transactions have varying maturities and amounts spread from October 2008 to May 2011. At 31 March 2011 the fair value of the cross currency interest rate swap transactions totalled RR'mln 55 (liability) (at 31 December 2010 - RR'mln 234 (liability)).

	Three months ended 31 March 2011	**Three months ended 31 March 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	94	(53)
Net gain from change of fair value of cross currency interest rate swap contracts	85	39
Fair value of cross currency interest rate swap contracts at the end of the period	(55)	(201)

The discount rate used to calculate the fair value of the forward foreign exchange contracts and cross currency interest rate swap transactions as at 31 March 2011 was 8 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.

(in millions of Russian roubles, unless otherwise stated)

13. TRADE AND OTHER PAYABLES

	31 March 2011	31 December 2010
Accrual for employee flights and holidays	5,348	4,482
Advances from customers	2,894	516
Trade payables	1,670	2,532
Wages and salaries	1,473	1,659
Interest payable	1,460	660
Current accounts of third parties in OOO "MAK-Bank"	1,398	1,202
Payables to associates	57	59
Other payables and accruals	2,427	419
	16,727	11,529

14. INCOME AND OTHER TAX ASSETS AND LIABILITIES

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

	31 March 2011	31 December 2010
Payments to social funds	1,635	694
Value added tax	952	625
Extraction tax	872	555
Property tax	778	749
Personal income tax (employees)	242	270
Tax penalties	25	24
Other taxes and accruals	32	113
	4,536	3,030

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

	Three months ended	
	31 March 2011	31 March 2010
Property tax	765	767
Other taxes and accruals	191	143
	956	910

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.

During 2011 the Company accrued income tax at the rate of 20 percent (year ended 31 December 2010: 20 percent). This tax rate was applied to determine the deferred tax balances as at 31 March 2011.

Income tax expense comprises the following:

	Three months ended	
	31 March 2011	31 March 2010
Current tax expense	2,642	915
Adjustments recognised in the period for current tax of prior periods	-	(91)
Deferred tax expense	295	613
	2,937	1,437

(in millions of Russian roubles, unless otherwise stated)

15. SALES

	Three months ended	
	31 March 2011	**31 March 2010**
Revenue from diamond sales:		
Export	19,714	19,340
Domestic	7,111	4,873
Revenue from diamonds for resale	323	4,482
	27,148	28,695
Other revenue:		
Social infrastructure	802	600
Transport	731	658
Trading	154	126
Construction	99	358
Other	666	645
	29,600	31,082

Export duties totalling RR'mln 1,251 for the three months ended 31 March 2011 (three months ended 31 March 2010: RR'mln 1,407) were netted against revenues from export of diamonds.

16. COST OF SALES

	Three months ended	
	31 March 2011	**31 March 2010**
Wages, salaries and other staff costs	6,785	4,729
Depreciation	2,585	2,134
Fuel and energy	2,441	2,173
Extraction tax	1,891	1,685
Materials	1,146	1,264
Services	802	879
Transport	374	387
Cost of diamonds for resale	320	4,349
Other	58	43
Movement in inventory of diamonds, ores and concentrates	(3,705)	3,062
	12,697	20,705

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 920 for three months ended 31 March 2011(for three months ended 31 March 2010 in the amount of RR'mln 867).

Depreciation totalling RR'mln 296 (three months ended 31 March 2010: RR'mln 265) and staff costs totalling RR'mln 572 (three months ended 31 March 2010: RR'mln 476) were incurred by the Group's construction divisions and were capitalised in the respective periods.

17. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended	
	31 March 2011	**31 March 2010**
Wages, salaries and other staff costs	920	474
Services and other administrative expenses	466	632
Impairment of accounts receivable	73	9
	1,459	1,115

18. SELLING AND MARKETING EXPENSES

	Three months ended	
	31 March 2011	**31 March 2010**
Services and other selling and marketing expenses	94	132
Wages, salaries and other staff costs	68	158
	162	290

(in millions of Russian roubles, unless otherwise stated)

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 14 (three months ended 31 March 2010: RR'mln 32).

19. OTHER OPERATING INCOME

	Three months ended	
	31 March 2011	**31 March 2010**
Gain on deconsolidation of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz"	-	1,427
Other	74	140
	74	1,567

20. OTHER OPERATING EXPENSES

	Three months ended	
	31 March 2011	**31 March 2010**
Exploration expenses	1,079	771
Taxes other than income tax, extraction tax and unified social tax (note 14)	956	910
Social costs	800	632
Loss on disposal of property, plant and equipment	710	40
Impairment (reversal of impairment) of property, plant and equipment	89	(111)
Other	194	153
	3,828	2,395

Social costs consist of:

	Three months ended	
	31 March 2011	**31 March 2010**
Maintenance of local infrastructure	518	379
Charity	109	9
Hospital expenses	54	80
Education	14	9
Other	105	155
	800	632

21. FINANCE INCOME

	Three months ended	
	31 March 2011	**31 March 2010**
Interest income	38	74
Exchange gains	4,053	2,255
	4,091	2,329

22. FINANCE COSTS

	Three months ended	
	31 March 2011	**31 March 2010**
Interest expense:		
Eurobonds	881	333
RR denominated non-convertible bonds	543	-
Bank loans	393	2,326
Commercial paper	27	55
European commercial paper	-	258
Other	8	31
Unwinding of discount of provision for land recultivation	60	9
	1,912	3,012

(in millions of Russian roubles, unless otherwise stated)

23. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash flows from operations:

	Three months ended 31 March 2011	**Three months ended 31 March 2010**
Profit before income tax	14,647	9,902
Adjustments for:		
Share of net profit of associates (note 4)	(330)	(360)
Interest income (note 21)	(38)	(74)
Interest expense (note 22)	1,912	3,012
Loss on disposal of property, plant and equipment (note 20)	710	40
Impairment / (reversal of impairment) of property, plant and equipment (note 20)	89	(111)
Gain on deconsolidation of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" (note 19)	-	(1,427)
Net gain from foreign exchange forward contracts (note 12)	(1,267)	(2,506)
Net gain from cross currency interest rate swap contracts (note 12)	(85)	(39)
Gain 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)	(135)	(413)
Depreciation (note 16)	2,585	2,134
Adjustment for inventory used in construction	(226)	(626)
Adjustments for non-cash financing activity (note 26)	-	(114)
Net payments from exercising of foreign exchange forward contracts (note 12)	(414)	(616)
Net (payments) / proceeds from exercising of cross currency interest rate swap contracts (note 12)	(94)	53
Payments to restricted cash account (note 5)	(42)	(27)
Unrealised foreign exchange effect on non-operating items	(4,291)	(2,659)
Net operating cash flow before changes in working capital	13,021	6,169
Net (increase) / decrease in inventories	(2,419)	9,181
Net increase in trade and other receivables, excluding dividends receivable	(1,530)	(1,846)
Net increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	4,514	1,375
Net increase in taxes payable, excluding income tax	1,814	296
Cash inflows from operating activity	**15,400**	**15,175**
Income tax paid	(2,235)	(204)
Net cash inflows from operating activities	**13,165**	**14,971**

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

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

(b) Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, in particular, concerning deduction of certain expenses for income tax purposes and certain operations of foreign subsidiaries, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

At 31 March 2011 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that the financial position cannot be sustained, an appropriate amount has been accrued for in the consolidated financial statements.

As at 31 March 2011 the Group had tax contingencies, the magnitude of which may be significant for the Group. Management of the Group believes that the exposure in respect of these tax risks is not probable, therefore as at 31 March 2011 no provision for the tax liabilities had been recorded.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 31 March 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 31 March 2011 the Group has contractual commitments for capital expenditures of approximately RR'mln 3,924 (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 471 as at 31 March 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 AK "ALROSA". As at 31 March 2011 83 percent of AK "ALROSA" issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Also as at 31 March 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 2009, the 15 seats on the Supervisory Council include 12 representatives of the Russian Federation and the Republic of Sakha (Yakutia), 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 31 March 2011 the accounts payable to the parties under Governmental control totalled RR'mln 2,149 (31 December 2010: RR'mln 679). As at 31 March 2011 the accounts receivable from the parties under Governmental control totalled RR'mln 1,205 (31 December 2010: RR'mln 2,100). As at 31 March 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 months ended 31 March 2011 and 31 March 2010 the Group had the following significant transactions with parties under Governmental control:

	Three months ended	
	31 March 2011	**31 March 2010**
Sales of diamonds	3,140	2,403
Other sales	303	368
Electricity and heating expenses	1,817	1,661
Other purchases	296	234

As at 31 March 2011 the amount of loans received by the Group from entities under Governmental control totalled RR'mln 21,207 (31 December 2010: RR'mln 23,916). During three months ended 31 March 2011 interest expense accrued in respect to the loans received by the Group from entities under Governmental control totalled RR'mln 377 (three months ended 31 March 2010: RR'mln 1,782).

As at 31 March 2011 the amount of loans issued by the Group to the entities under Governmental control totalled RR'mln 603 (31 December 2010: RR'mln 694). During three months ended 31 March 2011 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR'mln 17 (three ended 31 March 2010: RR'mln 14).

Key management compensation

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

(in millions of Russian roubles, unless otherwise stated)

The Management Committee consists of 20 members, two of whom are also members of the Supervisory Council. Management Committee members are entitled to salary, bonuses, voluntary medical insurance, 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 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 three months ended 31 March 2011 totalling RR'mln 264 (three months ended 31 March 2010: RR'mln 29).

Associates

Significant transactions with associates are summarised as follows:

Current accounts receivable	**31 March 2011**	**31 December 2010**
OOO "Sakha (Yakutskaya) transportnaya kompaniya"	91	-
"Catoca Mining Company Ltd.", dividends receivable	76	113
Other	65	70
Less: provision for bad debt	(26)	(26)
	206	157

As at 31 March 2011 and 31 December 2010 the accounts receivable from associates were non-interest bearing, had a maturity within one year and were denominated mostly in US$.

26. SIGNIFICANT NON-CASH TRANSACTIONS

	Three months ended 31 March 2011	**Three months ended 31 March 2010**
Non-cash financing activities:		
Commercial paper and loans redemption	-	(114)
	-	(114)

27. SEGMENT INFORMATION

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

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

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

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

(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 consolidated financial statement include those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

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

Three months ended 31 March 2010	**Diamonds segment**	**Transpor-tation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Sales	30,102	734	600	358	135	884	1,037	33,850
Intersegment sales	-	(76)	-	-	(9)	(750)	(238)	(1,073)
Cost of sales, incl.	15,131	912	1,505	256	73	397	1,153	19,427
Depreciation	2,036	127	156	35	1	86	56	2,497
Gross margin	**14,971**	**(178)**	**(905)**	**102**	**62**	**487**	**(116)**	**14,423**

Reconciliation of sales is presented below:

	Three months ended	
	31 March 2011	**31 March 2010**
Segment sales	**31,791**	**33,850**
Elimination of intersegment sales	(1,013)	(1,073)
Reclassification of export duties [1]	(1,251)	(1,407)
Other adjustment and reclassifications	73	(288)
Sales as per Statement of Comprehensive Income	**29,600**	**31,082**

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

Reconciliation of cost of sales including depreciation is presented below:

	Three months ended	
	31 March 2011	**31 March 2010**
Segment cost of sales	**13,686**	**19,427**
Adjustment for depreciation of property, plant and equipment	197	(363)
Elimination of intersegment purchases	(1,013)	(1,073)
Accrued provision for pension obligation [1]	(506)	(218)
Reclassification of extraction tax [2]	1,637	1,371
Adjustment for inventories [3]	(2,259)	1,862
Accrual for employee flights and holidays [4]	1,402	533
Other adjustments	(28)	(285)
Reclassification of exploration expenses [5]	(908)	(697)
Other reclassifications	489	148
Cost of sales as per Statement of Comprehensive Income	**12,697**	**20,705**

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

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

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

(in millions of Russian roubles, unless otherwise stated)

[4] Accrual for employee flights and holidays – recognition of employee flights and holidays reserve under collective labour agreement of the Company
[5] Reclassification of exploration expenses – reclassification to other operating expenses

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

	Sales		**Non-current assets**	
	Three months ended 31 March 2011	**Three months ended 31 March 2010**	**31 March 2011**	**31 December 2010**
Belgium	13,186	13,708	6	6
Russian Federation	9,529	9,293	169,814	168,357
India	2,639	3,658	-	-
Israel	2,265	2,711	113	121
United Arab Emirates	763	626	128	139
China	502	362	-	-
Belarus	208	131	-	-
Angola	176	220	2,671	2,997
Armenia	97	221	-	-
Switzerland	25	38	3	3
Other countries	210	114	1	1
Total	**29,600**	**31,082**	**172,736**	**171,624**