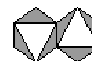
AK ALROSA

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012



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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Open Joint Stock Company AK ALROSA and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

25 April 2013

Moscow, Russian Federation

A.L. Uzornikova, Director (licence no. 01-000140),
ZAO PricewaterhouseCoopers Audit

Audited entity: AK ALROSA (OAO)

State registration certificate series 14 № 000724010, issued by Administration of Mirninsky district (ulus) of the Republic of Sakha (Yakutia) on 13 August 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 17 July 2002 under registration № 1021400967092

6, Lenin Street, Mirny, 678170, Republic of Sakha (Yakutia), Russia

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

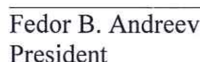
Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

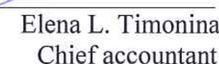
Consolidated Statement of Financial Position

	Notes	31 December 2012	31 December 2011
ASSETS			
Non-current Assets			
Goodwill	5	1,439	1,439
Property, plant and equipment	7	224,746	169,534
Investments in associates	5	2,115	2,350
Available-for-sale investments		104	157
Long-term accounts receivable	9	2,328	1,833
Restricted cash	6	286	237
Total Non-current Assets		**231,018**	**175,550**
Current Assets			
Inventories	8	54,670	44,429
Prepaid income tax		55	213
Trade and other receivables	9	12,724	8,758
Cash and cash equivalents	6	6,242	12,014
Total Current Assets		**73,691**	**65,414**
Total Assets		**304,709**	**240,964**
EQUITY			
Share capital	10	12,473	12,473
Share premium		10,431	10,431
Treasury shares	10	(254)	(249)
Retained earnings and other reserves		115,647	91,159
Equity attributable to shareholders of AK ALROSA		**138,297**	**113,814**
Non-Controlling Interest in Subsidiaries	10	**(448)**	**(717)**
Total Equity		**137,849**	**113,097**
LIABILITIES			
Non-current Liabilities			
Long-term debt	11	90,357	75,529
Provision for pension obligations	15	5,108	5,028
Other provisions	14	5,232	522
Deferred tax liabilities	17	8,933	3,478
Total Non-current Liabilities		**109,630**	**84,557**
Current Liabilities			
Short-term loans and current portion of long-term debt	12	32,344	20,024
Derivative financial instruments	13	-	1,995
Trade and other payables	16	19,130	15,591
Income tax payable		1,331	1,851
Other taxes payable	17	3,883	3,364
Dividends payable		542	485
Total Current Liabilities		**57,230**	**43,310**
Total Liabilities		**166,860**	**127,867**
Total Equity and Liabilities		**304,709**	**240,964**

Approved for issue and signed on 25 April 2013 by the following members of management:

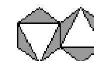


Fedor B. Andreev
President



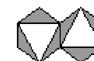
Elena L. Timonina
Chief accountant

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



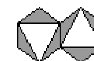
Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Sales	18	150,880	137,732
Cost of sales	19	(68,467)	(56,005)
Royalty	17	(1,209)	(3,509)
Gross profit		**81,204**	**78,218**
General and administrative expenses	20	(8,509)	(6,188)
Selling and marketing expenses	21	(2,018)	(1,639)
Net gain from derivative financial instruments	13	-	1,646
Loss on disposal of social infrastructure assets	7	-	(6,531)
Other operating income	22	3,087	962
Other operating expenses	23	(24,725)	(19,205)
Operating profit		**49,039**	**47,263**
Finance income	24	3,017	1,492
Finance costs	25	(9,054)	(11,682)
Share of net profit of associates	5	1,149	1,240
Profit before income tax		**44,151**	**38,313**
Income tax	17	(10,517)	(11,655)
Profit for the year		**33,634**	**26,658**
Other comprehensive income / (loss)			
Net gains / (losses) arising from change in fair value of available-for-sale investments		1	(19)
Currency translation differences		(784)	(435)
Other comprehensive loss for the year		**(783)**	**(454)**
Total comprehensive income for the year		**32,851**	**26,204**
Profit attributable to:			
Owners of AK ALROSA		32,634	26,480
Non-controlling interest		1,000	178
Profit for the year		**33,634**	**26,658**
Total comprehensive income attributable to:			
Owners of AK ALROSA		31,851	26,026
Non-controlling interest		1,000	178
Total comprehensive income for the year		**32,851**	**26,204**
Basic and diluted earnings per share for profit attributable to the owners of AK ALROSA (in Roubles)	10	4.52	3.69



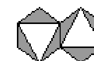
Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Net Cash Inflow from Operating Activities	26	**42,007**	**49,182**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(30,050)	(21,420)
Acquisition of Gas companies less cash acquired on their acquisition	5	(32,756)	-
Proceeds from sales of property, plant and equipment		423	2,085
Acquisition of available-for-sale investments		(22)	(19)
Proceeds from sale of available-for-sale investments		12	47
Interest received		292	332
Dividends received from associates		979	1,081
Net Cash Outflow from Investing Activities		**(61,122)**	**(17,894)**
Cash Flows from Financing Activities			
Repayments of loans		(69,676)	(24,896)
Loans received		99,025	14,720
Interest paid		(7,742)	(7,351)
Purchase of treasury shares		(64)	(3,298)
Acquisition of non-controlling interest in subsidiaries		-	(43)
Dividends paid		(7,979)	(2,134)
Net Cash Inflow / (Outflow) from Financing Activities		**13,564**	**(23,002)**
Net (Decrease) / Increase in Cash and Cash Equivalents		**(5,551)**	**8,286**
Cash and cash equivalents at the beginning of the year		12,014	4,136
Exchange loss on cash and cash equivalents		(221)	(408)
Cash and Cash Equivalents at the End of the Year		**6,242**	**12,014**



Consolidated Statement of Changes in Equity

	Number of shares outstanding	Attributable to owners of AK ALROSA: Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 31 December 2010	**7,340,121,030**	**12,473**	**10,431**	**(39)**	**(192)**	**70,218**	**92,891**	**(281)**	**92,610**
Comprehensive income									
Profit for the year		-	-	-	-	26,480	26,480	178	26,658
Other comprehensive income									
Net loss arising from change in fair value of available-for-sale investments		-	-	-	(19)	-	(19)	-	(19)
Currency translation differences		-	-	-	(435)	-	(435)	-	(435)
Total other comprehensive income		-	-	-	(454)	-	(454)	-	(454)
Total comprehensive income for the year		**-**	**-**	**-**	**(454)**	**26,480**	**26,026**	**178**	**26,204**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(1,805)	(1,805)	-	(1,805)
Purchase of treasury shares	(123,844,930)	-	-	(210)	-	(3,088)	(3,298)	-	(3,298)
Purchase of non-controlling interest		-	-	-	-	-	-	(43)	(43)
Dividends paid by subsidiaries to minority shareholders		-	-	-	-	-	-	(571)	(571)
Total transactions with owners		**-**	**-**	**(210)**	**-**	**(4,893)**	**(5,103)**	**(614)**	**(5,717)**
Balance at 31 December 2011	**7,216,276,100**	**12,473**	**10,431**	**(249)**	**(646)**	**91,805**	**113,814**	**(717)**	**113,097**
Comprehensive income									
Profit for the year		-	-	-	-	32,634	32,634	1,000	33,634
Other comprehensive income									
Net gain arising from change in fair value of available-for-sale investments		-	-	-	1	-	1	-	1
Currency translation differences		-	-	-	(784)	-	(784)	-	(784)
Total other comprehensive income		-	-	-	(783)	-	(783)	-	(783)
Total comprehensive income for the year		**-**	**-**	**-**	**(783)**	**32,634**	**31,851**	**1,000**	**32,851**
Transactions with owners									
Dividends (note 10)		-	-	-	-	(7,304)	(7,304)	-	(7,304)
Purchase of treasury shares	(2,831,500)	-	-	(5)	-	(59)	(64)	-	(64)
Purchase of non-controlling interest		-	-	-	-	-	-	-	-
Dividends paid by subsidiaries to minority shareholders		-	-	-	-	-	-	(731)	(731)
Total transactions with owners		**-**	**-**	**(5)**	**-**	**(7,363)**	**(7,368)**	**(731)**	**(8,099)**
Balance at 31 December 2012	**7,213,444,600**	**12,473**	**10,431**	**(254)**	**(1,429)**	**117,076**	**138,297**	**(448)**	**137,849**



1. ACTIVITIES

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

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

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

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

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

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

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 30.37 and 32.20 as at 31 December 2012 and 31 December 2011, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 40.23 and 41.67 as at 31 December 2012 and 31 December 2011, 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 consolidated financial statements.

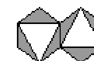
(b) Recent accounting pronouncements

In 2011 the Group early adopted *IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"* which is effective for annual periods beginning on or after 1 January 2013 and considers when and how to account for the benefits arising from the stripping costs incurred in surface mining activity during the production phase of an open pit. The early adoption of IFRIC 20 did not materially affect the Group's consolidated financial statements.

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

Standards, Amendments or Interpretations effective in 2012:

Amendment to IFRS 7 "Financial Instruments: Disclosures" which is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship



between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The application of this amendment did not materially affect the Group's consolidated financial statements.

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

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

Amendments to IAS 1 "Presentation of financial statements" (effective for annual periods beginning on or after 1 July 2012), change the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income". The Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

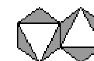
IFRS 9 "Financial Instruments: Classification and Measurement" issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard 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 payments of principal and interest only (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.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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

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



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

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

Amended IAS 27 "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013, with earlier application permitted), contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated Financial Statements". The application of this amendment is not expected to affect the Group's consolidated financial statements.

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

Amended IAS 19 "Employee benefits" (effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The adoption of amended IAS 19 will significantly increase the amount of defined benefit liabilities of the Group due to immediate recognition of actuarial gains and losses in other comprehensive income. As a result, there will be increase in volatility of balance sheet obligations and other comprehensive income of the Group. Actuarial gains and losses recognised as part of other comprehensive income cannot be recognised as profit and loss in subsequent periods. Accumulated actuarial losses as at 31 December 2012 in the amount of RR'mln 7,857 will be recognised as part of other comprehensive income. Also, the adoption of amended IAS 19 will lead to immediate recognition of all unrecognised past service costs as defined benefit liabilities of the Group. Other changes stipulated in amended IAS 19 will have a less significant impact on consolidated financial statements of the Group.

Amendment to IFRS 7 "Disclosures—Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The application of this amendment is not expected to affect the Group's consolidated financial statements.

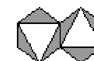
Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The application of this amendment is not expected to affect the Group's consolidated financial statements.

(c) Principles of consolidation

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

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of obtaining control. Costs directly attributable to the acquisition are recognised as expenses. The date of obtaining control is



the acquisition date. The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. The group applies acquisition method on transactions under common control.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

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

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

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

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

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

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

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

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

(d) Goodwill

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

(e) Property, plant and equipment

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

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

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

Stripping costs incurred during production phase of an open pit are capitalised as part of property, plant and equipment to the extent they provide improved access to further quantities of diamond ore that will be mined in future periods and depreciated subsequently on a units of production basis to match the economic benefits derived from them. The Group recognises a stripping activity asset if, and only if, all of the following are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the Group;
- the Group can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

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

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

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

Depreciation

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

Depreciation of buildings and land and improvements related to extraction of minerals is calculated on a units of production basis for each area of interest. For the purpose of this calculation at the end of each reporting period management uses information with respect to ore reserves in accordance with JORC code on the basis of independent resource engineer's report. In situations where it is known that future development costs will be needed to extract all resource base of the mine, they are included in depreciable amount. Depreciation of production licenses is calculated on a straight-line basis over the period they are valid. Depreciation of other assets is calculated on a straight-line basis over their estimated useful life.

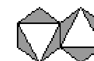
Summary of useful lives and alternative basis for depreciation:

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

The average depreciation rate for the property, plant and equipment depreciated on a units of production basis was 7.25 percent in the year ended 31 December 2012 (year ended 31 December 2011: 7.90 percent).

Local infrastructure assets

Local infrastructure assets constructed or purchased by the Group (including dwelling houses for the Group's employees located in the areas of the Group's production activity) are included in the consolidated financial statements at historical cost and depreciated during their useful lives as set out above. These assets are an integral part of the Group's production activities. In December 2011 a significant part of local infrastructure assets with net book value of RR'mln 6,531 was transferred free of charge to the local municipalities (see note 7).



Finance leases

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

(f) Provisions

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

The provision for land recultivation is determined based on the present value of estimated costs of constructive obligations required to restore mining and other operations in accordance with the terms of the license agreements in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration of affected areas. The initial provision for land recultivation together with any changes in estimation is recorded in the consolidated statement of financial position, with a corresponding amount recorded as part of property, plant and equipment in accordance with IAS 16 “Property, Plant and Equipment”.

The Group assesses the provision for land recultivation at each reporting date. Significant estimates and assumptions are made in determining the provision for land recultivation as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent and costs of land recultivation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at reporting date represents management’s best estimate of the present value of the future land recultivation costs required.

Changes in the provision for land recultivation resulting from the passage of time are reflected in the profit or loss each period under finance costs. Other changes in the provision relating to a change in the discount rate applied, in the expected pattern of settlement of the obligation or in the estimated amount of the obligation are treated as a change in accounting estimate in the period of the change. The effects of such changes are added to, or deducted from, the cost of the related asset.

(g) Inventories

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

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

(h) Non derivative financial assets

The Group classifies its financial assets in the following categories:

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

Available-for-sale financial assets

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

Purchases of available-for-sale investments on public financial markets are recognised on the settlement date, which is the date that the investment is delivered to the Group. The available-for sale investments are initially recognised at fair value

plus transaction costs. Available-for-sale investments are subsequently carried at fair value. Unrealised gains and losses arising from changes in the carrying value of these investments are included in the Group's other comprehensive income or loss in the period in which they arise. Interest income, dividend income and realised gains and losses from the disposal of available-for-sale investments or impairment losses, if any, are included in the Group's profit or loss in the period in which they arise.

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

Loans and receivables

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

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

Impairment of loans and receivables

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

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

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

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

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

(i) Derivative financial instruments

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

(j) Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the

carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

(k) Components of cash and cash equivalents

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

(l) Value added tax

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

(m) Borrowings

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

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

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

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

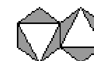
The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets),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

(n) Pension and other post-retirement benefits

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

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

Non-state pension fund Almaznaya Osen administers the Group’s defined benefit plan. The amount of pension benefit that an employee will receive on retirement is usually dependent on one or more factors such as age, years of service and



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

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

(o) Trade and other payables

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

(p) Equity

Share capital

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

Treasury shares

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

Dividends

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

(q) Revenue recognition

Revenues are recognised when goods are transferred to the customer (diamonds are always passed to all customers in the Group's premises), as this is the date on which the risks and rewards of ownership are transferred to the customer. Sales are shown net of VAT and export duties, and after eliminating sales within the Group.

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

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

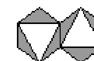
Dividend income is recognised when the shareholder's right to receive payment is established and inflow of economic benefits is probable.

(r) Income taxes

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when



initially recorded, affects neither accounting nor taxable profit or loss. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

(s) Foreign currencies

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

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

(t) Social costs

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

(u) Non-cash transactions

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

(v) Segment reporting

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

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

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

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

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

Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a

result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

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

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. Management believes that as at 31 December 2012 and 31 December 2011 there were no such indicators, accordingly the Group did not conduct an impairment test of its property plant and equipment as at those dates.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (see note 27).

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

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

In the year ended 31 December 2012, if the estimated useful lives of property, plant and equipment had been 10 percent longer / shorter with all other variables held constant, depreciation charge for the year would have been RR’mln 1,037 (year ended 31 December 2011 – RR’mln 719) lower / higher.

Classification of production licenses. Management treats cost of production licenses as an integral part of acquisition cost of tangible mining properties; accordingly, production licenses are included in property, plant and equipment in these consolidated financial statements. As at 31 December 2012 the net book value of production licenses included in property, plant and equipment is RR’mln 35,213 (as at 31 December 2011: RR’mln 10,733), see also note 7.

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

3. FINANCIAL RISK MANAGEMENT

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

Cash flow and fair value interest rate risk. The Group has no significant interest-bearing assets. The Group’s principal interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2012 and 2011, the Group’s borrowings were denominated in US dollars and Russian Roubles (see notes 11 and 12).

To mitigate this risk, the Group’s treasury function performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In cases where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favorable interest rate terms. Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or

variable rates. However, at the time of raising new debts management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable over the expected period until maturity. In order to reduce the Group's cash flow interest rate risk exposure associated with the RR denominated floating rate loans, in 2008-2011 the Group entered into US$ / RR cross currency interest rate swap transactions (see note 13). The Group did not use derivative instruments to hedge its fair value interest rate risk.

At 31 December 2012, if interest rates on US dollar-denominated borrowings had been 20 percent higher/lower with all other variables held constant, post-tax profit for the year and equity would have been RR'mln 118 (at 31 December 2011 the Group had no US dollar-denominated floating rate borrowings) lower/higher, mainly as result of higher/lower interest expense on floating rate borrowings.

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

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

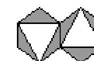
	US Dollar		**Euro**		**Other foreign currency**	
	31 December		**31 December**		**31 December**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Assets						
Cash and cash equivalents	923	985	29	53	163	160
Trade and other receivables	536	259	11	37	1	49
	1,459	**1,244**	**40**	**90**	**164**	**209**
Liabilities						
Trade and other payables	1,270	340	159	125	43	7
Borrowings	82,029	64,734	-	-	-	-
Derivative financial instruments	-	1,995	-	-	-	-
	83,299	**67,069**	**159**	**125**	**43**	**7**

At 31 December 2012, if the Russian Rouble had weakened / strengthened by 10 percent against the US dollar with all other variables held constant, post-tax profit for the year would have been RR'mln 6,547 lower / higher and equity would have been RR'mln 5,764 lower / higher, mainly as a result of foreign exchange losses / gains on translation of US dollar-denominated borrowings and accounts payable partially offset by foreign exchange gains / losses on translation of US dollar-denominated cash and cash equivalents and accounts receivable. At 31 December 2011, if the Russian Rouble had weakened / strengthened by 10 percent against the US dollar with all other variables held constant, post-tax profit for the year would have been RR'mln 5,266 lower / higher and equity would have been RR'mln 4,831 lower / higher, mainly as a result of losses / gains from revaluation of derivative financial instruments and foreign exchange losses / gains on translation of US dollar-denominated borrowings and accounts payable partially offset by foreign exchange gains / losses on translation of US dollar-denominated cash and cash equivalents and accounts receivable.

At 31 December 2012, if the Russian Rouble had weakened / strengthened by 10 percent against the Euro with all other variables held constant, post-tax profit for the year and equity would had been RR'mln 11 (at 31 December 2011 – RR'mln 3) higher / lower, mainly as a result of foreign exchange gains / losses on translation of Euro-denominated trade and other receivables and cash and cash equivalents.

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

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



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

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

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 3 years	Over 3 years
31 December 2012					
Borrowings	2,259	9,230	20,855	59,776	30,581
Trade payables	1,733	1,095	1,286	-	-
Current accounts of third parties in OOO MAK Bank	136	270	1,216	-	-
Interest payable	268	509	2,369	23,741	11,395
Payables to associates	57	-	-	-	-
Other payables and accruals	1,024	-	-	-	-
	5,477	**11,104**	**25,726**	**83,517**	**41,976**
31 December 2011					
Borrowings	2,437	1,365	22,198	30,327	71,346
Strike price of the put options granted by the Group to the buyers of ZAO Geotransgaz and OOO UGC	-	-	28,011	-	-
Trade payables	1,408	1,312	102	-	-
Current accounts of third parties in OOO MAK Bank	104	207	931	-	-
Interest payable	619	1,171	4,825	12,138	15,644
Payables to associates	7	-	-	-	-
Other payables and accruals	951	-	-	-	-
	5,526	**4,055**	**56,067**	**42,465**	**86,990**

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

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

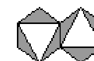
In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

As at 31 December 2012 and 31 December 2011 the Group is not subject to any externally imposed capital requirements other than the requirement stipulated by the Russian legislation that the charter capital of an open-stock company should not exceed its net assets.

The Group monitors capital mostly on the basis of the gearing ratio for the purpose of maintaining major debt parameters at the optimal level. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position, less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt. During 2012, the Group's strategy, which was unchanged from 2011, was to maintain gearing ratio under 50%.

The gearing ratios at 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012	31 December 2011
Total borrowings	122,701	95,553
Less: cash and cash equivalents	(6,242)	(12,014)
Net debt	116,459	83,539
Total equity	137,849	113,097
Total capital	254,308	196,636
Gearing ratio	46%	42%



4. FINANCIAL INSTRUMENTS BY CATEGORY

ASSETS	Loans and receivables		Available for sale		Total	
	31 December		31 December		31 December	
	2012	2011	2012	2011	2012	2011
Non-current assets						
Restricted cash	286	237	-	-	286	237
Available-for-sale investments	-	-	104	157	104	157
Loans issued	2,248	1,718		-	2,248	1,718
Other long-term receivables	1	1		-	1	1
	2,535	1,956	104	157	2,639	2,113
Current assets						
Trade receivables for supplied diamonds	812	718	-	-	812	718
Loans issued	2,662	2,263	-	-	2,662	2,263
Receivables from associates	411	139	-	-	411	139
Notes receivable	-	172	-	-	-	172
Other trade receivables	2,801	2,476	-	-	2,801	2,476
Cash and cash equivalents	6,242	12,014	-	-	6,242	12,014
	12,928	17,782	-	-	12,928	17,782
	15,463	**19,738**	**104**	**157**	**15,567**	**19,895**

LIABILITIES	Liabilities at fair value through profit or loss held for trading		Liabilities at amortised cost		Total	
	31 December		31 December		31 December	
	2012	2011	2012	2011	2012	2011
Non-current liabilities						
Long-term debt	-	-	90,357	75,529	90,357	75,529
	-	-	90,357	75,529	90,357	75,529
Current liabilities						
Short-term loans and current portion of long-term debt	-	-	32,344	20,024	32,344	20,024
Derivative financial instruments	-	1,995	-	-	-	1,995
Trade payables	-	-	4,114	2,822	4,114	2,822
Current accounts of third parties in OOO MAK Bank	-	-	1,622	1,242	1,622	1,242
Interest payable	-	-	1,313	695	1,313	695
Payables to associates	-	-	57	7	57	7
Other payables and accruals	-	-	1,024	951	1,024	951
	-	1,995	40,474	25,741	40,474	27,736
	-	**1,995**	**130,831**	**101,270**	**130,831**	**103,265**

5. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

Name	Principal activity	Country of Incorporation	Percentage of ownership interest held	
			31 December 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 31 December 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 (see details in note 13) 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 percent 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.

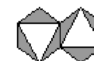
The acquisition of Gas companies from OAO Bank VTB, a state-controlled entity, falls under the category of business combinations between entities under common control. Management decided to adopt the acquisition method to account for such transactions. The fair values of the acquired assets and liabilities were determined on a provisional basis related to interim financial information. At year end, accounting for purchase price allocation was finalised. Management considers values of the acquired assets and liabilities to be determined fairly.

The fair values of assets and liabilities of Gas companies at the date of acquisition are as follows:

Property, plant and equipment	37,364
Inventories	719
Trade and other receivables	499
Cash	297
Deferred tax liability	(5,518)
Trade and other payables	(308)
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 recognized 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 22).

Gas companies contributed revenue of RR'mln 293 and net loss of RR'mln 924 to the Group for the period from the date of



acquisition to 31 December 2012. If the Group would have acquired Gas companies on 1 January 2012, the acquired entities would have contributed revenue of RR'mln 374 and net loss of RR'mln 832 to the Group for the year ended 31 December 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 these financial statements.

Goodwill

The amount of goodwill totalling RR'mln 1,439 relates to acquisition of a 49 percent minority interest in OAO Almazy Anabara in December 2007. The goodwill is attributable to the operational synergies expected to arise after this acquisition as a result of more effective integration of operational activity of this subsidiary into the Group's one. As of the date of acquisition goodwill was attributed to the diamond mining businesses of OAO Almazy Anabara. As at 31 December 2012 the recoverable amount of goodwill was determined on the basis of the recent management's forecast of future cash flows of OAO Almazy Anabara for the years 2013-2029 that reflects the expected period of production activity on the existing deposits. Management assessed the recoverable amount of the goodwill based on the value in use model. The pre-tax discount rate used in the analysis was 10.8 percent (31 December 2011: 12.1 percent), which presents the weighted average cost of capital for the Group adjusted for the effect of tax. Based on results of the analysis management concluded that there is no impairment for goodwill as at 31 December 2012 and 31 December 2011.

The impairment test involves making judgment about several key future business indicators. Key future business indicators used for goodwill impairment test are listed below:

	Year ended 31 December 2012	Year ended 31 December 2011
Pre-tax discount rate	10.8%	12.1%
Producer price index for 2013-2017	4.1% - 6.9%	4.4% - 8.2%
Producer price index for 2018-2029	3.0% - 3.8%	3.0% - 4.1%
Average diamond price, RR / carat	3,606	3,560
EBITDA margin	19% - 40%	19% - 40%

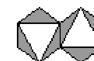
Management believes that their judgments are reasonable and supportable in the current economic environment. However, as compared to the estimates used in the impairment test, if diamond prices fall by 15 percent (31 December 2011: 14 percent) or US$ depreciates against Russian Rouble by 10 percent (31 December 2011: 15 percent) or discount rate increases to 20 percent (31 December 2010: 21 percent), there will be no excess of value in use over carrying value of assets allocated to the respective cash generating unit.

Associates

Name	Country of incorporation	Percentage of ownership interest held at 31 December		Carrying value of investment at 31 December		Group's share of net profit for the year ended 31 December	
		2012	2011	2012	2011	2012	2011
Catoca Mining Company Ltd	Angola	33	33	1,898	2,116	1,146	1,238
OAO Almazny Mir	Russia	47	47	184	182	2	1
Other	Russia	20-50	20-50	33	52	1	1
				2,115	**2,350**	**1,149**	**1,240**

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

Catoca Mining Company Ltd is a diamond-mining venture located in Angola. In April 2012 Catoca Mining Company Ltd declared dividends for the year ended 31 December 2011; the Group's share of these dividends amounted to RR'mln 1,244. Currency translation loss recognised in the consolidated other comprehensive loss for the year ended 31 December 2012 in respect of investment in Catoca Mining Company Ltd totalled RR'mln 120. In April 2011 Catoca Mining Company Ltd declared dividends for the year ended 31 December 2010; the Group's share of these dividends amounted to RR'mln 923. Currency translation income recognised in the consolidated other comprehensive income for the year ended 31 December 2011 in respect of investment in Catoca Mining Company Ltd totalled RR'mln 96.



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

	Assets as at 31 December		Liabilities as at 31 December		Revenues for the year ended 31 December		Profit for the year ended 31 December	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Catoca Mining Company Ltd	11,720	12,829	5,933	6,377	18,003	17,969	4,093	3,774
OAO Almazny Mir	424	425	34	38	159	165	5	2
Other	80	69	33	24	93	83	6	3
	12,224	**13,323**	**6,000**	**6,439**	**18,255**	**18,217**	**4,104**	**3,779**

6. CASH AND CASH EQUIVALENTS

Restricted cash

Restricted cash included within non-current assets in the consolidated statement of financial position of RR'mln 286 and RR'mln 237 as at 31 December 2012 and 31 December 2011, respectively, is represented by mandatory reserve deposits held with the Central Bank of the Russian Federation by OOO MAK Bank, a subsidiary of the Group; these balances are not available for use in the Group's day to day operations. Payments to this restricted cash account are included in cash flows from operating activity in consolidated statement of cash flows (see note 26).

At 31 December 2012 and 31 December 2011 the weighted average interest rate on the restricted cash balances is approximately nil percent.

Cash and cash equivalents

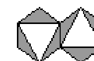
	31 December 2012	**31 December 2011**
Cash in banks and on hand	6,018	5,221
Deposit accounts	224	6,793
	6,242	**12,014**

At 31 December 2012 the weighted average interest rate on the cash and cash equivalents' balances of the Group was 0.13 percent (31 December 2011: 3.88 percent).

As at 31 December 2012 and 31 December 2011 all balances of cash and cash equivalents of the Group are neither past due nor impaired.

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

	External credit rating at 31.12.2012	**Rating agency**	**31 December 2012**	**31 December 2011**
Current accounts of OOO MAK Bank in the Central Bank of the Russian Federation	Not applicable	Not applicable	2,042	1,602
Cash of OOO MAK Bank on hand and in cash machines	Not applicable	Not applicable	1,210	1,037
OAO Bank VTB	Baa1	Moody's	1,128	7,601
OAO Sibneftebank	A	Expert RA	319	-
OAO Nomos-Bank	Ba3	Moody's	193	-
OAO Gazprombank	Baa3	Moody's	154	187
Lloyds TSB Bank plc	A2	Moody's	152	193
OAO Sberbank	Baa1	Moody's	90	62
OAO AKB Derzhava	B3	Moody's	69	76
HSBC	Aa3	Moody's	53	90
Julius Baer Bank	A1	Moody's	48	88
National Westminster Bank	A3	Moody's	47	7
ZAO UniCredit Bank	Baa2	Moody's	42	85
Other banks	Ba1 – Ba3	Moody's	695	986
			6,242	**12,014**



7. PROPERTY, PLANT AND EQUIPMENT

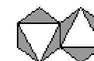
	Buildings	Land and Improvements	Plant and Equipment	Transport	Production Licenses	Assets under Construction	Other	TOTAL
Cost at 31 December 2010	**59,845**	**76,732**	**49,305**	**17,356**	**8,610**	**44,207**	**2,928**	**258,983**
Additions	617	1,918	1,928	1,068	2,418	16,100	364	24,413
Transfers	8,176	9,667	4,319	10	-	(22,247)	75	-
Disposals	(780)	(2,732)	(2,056)	(617)	-	(1,899)	(139)	(8,223)
Disposal of social infrastructure assets	(6,320)	(1,873)	-	-	-	-	-	(8,193)
Foreign exchange differences	7	342	(3)	48	-	7	(126)	275
Change in estimate of provision for land recultivation (note 14)	-	(267)	-	-	-	-	-	(267)
Cost at 31 December 2011	**61,545**	**83,787**	**53,493**	**17,865**	**11,028**	**36,168**	**3,102**	**266,988**
Additions	451	965	3,763	1,983	-	27,150	196	34,508
Acquisition of Gas companies (note 5)	103	6,019	155	24	24,766	6,290	7	37,364
Transfers	4,297	10,066	5,740	120	-	(20,315)	92	-
Disposals	(2,285)	(1,715)	(1,772)	(407)	(224)	(665)	(65)	(7,133)
Foreign exchange differences	(13)	(229)	(3)	(42)	-	3	(19)	(303)
Change in estimate of provision for land recultivation (note 14)	-	1,952	-	-	-	-	-	1,952
Cost at 31 December 2012	**64,098**	**100,845**	**61,376**	**19,543**	**35,570**	**48,631**	**3,313**	**333,376**
Accumulated depreciation and impairment losses at 31.12.2010	**(20,642)**	**(24,366)**	**(31,753)**	**(11,964)**	**(261)**	**(722)**	**(1,255)**	**(90,963)**
Charge for the year ended 31 December 2011	(1,500)	(3,638)	(4,371)	(1,364)	(34)	-	(161)	(11,068)
Disposals	140	714	1,741	552	-	-	71	3,218
Disposal of social infrastructure assets	1,175	487	-	-	-	-	-	1,662
Impairment of property, plant and equipment	-	-	-	-	-	(303)	-	(303)
Accumulated depreciation and impairment losses at 31.12.2011	**(20,827)**	**(26,803)**	**(34,383)**	**(12,776)**	**(295)**	**(1,025)**	**(1,345)**	**(97,454)**
Charge for the year ended 31 December 2012	(2,320)	(4,745)	(5,009)	(1,175)	(100)	-	(187)	(13,536)
Disposals	607	671	1,214	371	38	-	79	2,980
Impairment of property, plant and equipment	(617)	-	-	-	-	(3)	-	(620)
Accumulated depreciation and impairment losses at 31.12.2012	**(23,157)**	**(30,877)**	**(38,178)**	**(13,580)**	**(357)**	**(1,028)**	**(1,453)**	**(108,630)**
Net book value at 31.12.2011	**40,718**	**56,984**	**19,110**	**5,089**	**10,733**	**35,143**	**1,757**	**169,534**
Net book value at 31.12.2012	**40,941**	**69,968**	**23,198**	**5,963**	**35,213**	**47,603**	**1,860**	**224,746**

Capitalised borrowing costs

As at 31 December 2012 borrowing costs totalling RR'mln 276 (as at 31 December 2011: RR'mln 180) were capitalised in property, plant and equipment. For the year ended 31 December 2012 the capitalisation rate applied to qualifying assets totalling RR'mln 3,891 (31 December 2011: RR'mln 2,430) was 7.08 percent (31 December 2011: 7.39 percent). In accordance with transitional rules of revised IAS 23, borrowing costs are capitalised for projects commencing after 1 January 2009.

Finance leases

Property, plant and equipment include an aircraft which the Group received under a finance lease agreement. As at 31 December 2012 the carrying value of this aircraft is RR'mln 623 (31 December 2011: RR'mln 758). Property, plant and equipment include also the mining equipment which OAO Almazy Anabara, a subsidiary of the Group, received under finance lease agreements. As at 31 December 2012 the carrying value of this equipment is RR'mln 105 (31 December 2011: RR'mln 169).



Disposal of social infrastructure assets

In December 2011 the Company transferred free of charge to the local municipalities certain social infrastructure assets (mostly housing facilities located in the areas of the Company's production activity) with net book value of RR'mln 6,531. These assets were previously constructed or purchased by the Company and recognised in its books as property, plant and equipment. This transaction was performed in order to reduce the Company's future expenses associated with maintenance of local infrastructure assets. In accordance with the agreement with local authorities the Company will continue to be responsible for maintenance of the transferred assets through 2015.

Despite the fact that the Company's employees will continue to live in the transferred housing facilities, the Company discontinued recognition of these social infrastructure assets in its consolidated statement of financial position and recognised the respective loss associated with their disposal as the Company lost ability to physically and legally control these assets.

Impairment of property, plant and equipment

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. Management believes that as at 31 December 2012 and 31 December 2011 there were no such indicators (apart as discussed below), accordingly the Group did not conduct an impairment test of its property plant and equipment as at those dates.

The impairment totalling RR'mln 617 recognised for the year ended 31 December 2012 relates to certain assets which were sold to a third party after the reporting date at a price below their net book value. The impairment totalling RR'mln 303 recognised for the year ended 31 December 2011 relates to certain frozen assets under construction and buildings, which, in accordance with recent management's plans, were not planned to be used in production activity of the Group.

8. INVENTORIES

	31 December 2012	31 December 2011
Diamonds	27,147	21,102
Ores and concentrates	10,825	9,604
Mining and construction materials	13,842	10,628
Consumable and other supplies	2,856	2,038
Diamonds for resale	-	1,057
	54,670	**44,429**

9. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 December 2012	31 December 2011
Loans issued	2,248	1,718
Long-term VAT recoverable	79	114
Other long-term receivables	1	1
	2,328	**1,833**

Current accounts receivable	31 December 2012	31 December 2011
Loans issued	2,662	2,263
Advances to suppliers	2,406	1,406
Prepaid taxes, other than income tax	1,975	1,099
VAT recoverable	1,657	485
Trade receivables for supplied diamonds	812	718
Receivables from associates (see note 28)	411	139
Notes receivable	-	172
Other trade receivables	2,801	2,476
	12,724	**8,758**

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

	31 December 2012		31 December 2011	
	Effective interest rates	**Market interest rates**	**Effective interest rates**	**Market interest rates**
Loans issued	9.7%	15.3%	10.0%	11.0%
Other long-term receivables	10.0%	12.0%	10.0%	12.0%

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

	31 December 2012		31 December 2011	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Loans issued	2,248	1,889	1,718	1,586
Other long-term receivables	1	1	1	1

The fair value of each class of short-term trade and other accounts receivable at 31 December 2012 and 31 December 2011 approximates their carrying value.

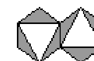
The impairment provision offset against individual receivable balances is as follows:

Long-term accounts receivable	**31 December 2012**	**Bad debt write-off**	**Bad debt expense / (reversal of bad debt expense)**	**31 December 2011**
Loans issued	3,820	-	-	3,820
	3,820	**-**	**-**	**3,820**
Current accounts receivable				
Receivables from associates (see note 28)	-	-	(1)	1
Notes receivable	-	(80)	-	80
Loans issued	365	-	203	162
Other trade receivables	740	(545)	138	1,147
	1,105	**(625)**	**340**	**1,390**

Long-term accounts receivable	**31 December 2011**	**Bad debt write-off**	**Bad debt expense / (reversal of bad debt expense)**	**31 December 2010**
Loans issued	3,820	-	35	3,785
	3,820	**-**	**35**	**3,785**
Current accounts receivable				
Receivables from associates (see note 28)	1	-	(25)	26
Notes receivable	80	-	-	80
Loans issued	162	(8)	36	134
Other trade receivables	1,147	-	544	603
	1,390	**(8)**	**555**	**843**

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

	31 December 2012				31 December 2011			
	Up to 1 year	**1 to 3 years**	**Over 3 years**	**Total**	**Up to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Long-term accounts receivable								
Loans issued	-	61	3,759	3,820	35	26	3,759	3,820
	-	**61**	**3,759**	**3,820**	**35**	**26**	**3,759**	**3,820**
Current accounts receivable								
Receivables from associates	-	-	-	-	-	-	1	1
Notes receivable	-	-	-	-	-	-	80	80
Loans issued	203	60	102	365	37	123	2	162
Other trade receivables	138	322	280	740	3	832	312	1,147
	341	**382**	**382**	**1,105**	**40**	**955**	**395**	**1,390**



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

31 December 2012	Large customers	Medium and small customers	Entities controlled by the Government	Individuals	Total
Long-term accounts receivable					
Loans issued	-	759	335	1,154	2,248
Other long-term receivables	-	1	-	-	1
	-	**760**	**335**	**1,154**	**2,249**
Current accounts receivable					
Loans issued	392	1,153	922	195	2,662
Trade receivables for supplied diamonds	120	173	519	-	812
Receivables from associates	403	8	-	-	411
Other trade receivables	44	1,570	813	374	2,801
	959	**2,904**	**2,254**	**569**	**6,686**

31 December 2011	Large customers	Medium and small customers	Entities controlled by the Government	Individuals	Total
Long-term accounts receivable					
Loans issued	-	865	51	802	1,718
Other long-term receivables	-	1	-	-	1
	-	**866**	**51**	**802**	**1,719**
Current accounts receivable					
Loans issued	209	610	1,260	184	2,263
Trade receivables for supplied diamonds	559	159	-	-	718
Receivables from associates	126	13	-	-	139
Notes receivable	-	172	-	-	172
Other trade receivables	27	1,519	532	398	2,476
	921	**2,473**	**1,792**	**582**	**5,768**

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

As at 31 December 2012 trade and other receivables in the amount of RR'mln 8,476 (as at 31 December 2011: RR'mln 6,959) were neither past due nor impaired and have no history of overdue payments. Most of these debtors have no individual external credit rating.

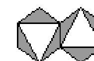
As at 31 December 2012 accounts receivable in the amount of RR'mln 459 (as at 31 December 2011: RR'mln 528) were past due but were not considered impaired. They include only other trade receivables and relate to a number of independent medium and small customers for whom there is no recent history of default. As at 31 December 2012 and 31 December 2011 none of these accounts receivable was secured by any collateral.

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

	31 December 2012	31 December 2011
Up to 3 months	190	268
3 to 6 months	75	48
6 to 12 months	-	67
More than 1 year	194	145
	459	**528**

As at 31 December 2012 15 individual debtors of the Group (31 December 2011: 3 individual debtors) had the outstanding balance with the Group exceeding RR'mln 100. As at 31 December 2012 total amount of such accounts receivable was RR'mln 4,794 (31 December 2011: RR'mln 419).

As of 31 December 2012 the amount of undrawn credit facilities provided by the Group's subsidiary OOO MAK Bank to third parties comprised RR'mln 285 (31 December 2011: RR'mln 223).



10. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 31 December 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 31 December 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 years ended 31 December 2012 and 31 December 2011, the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 39,657 and RR'mln 29,519 respectively. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation, and accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

Treasury shares

As at 31 December 2012 subsidiaries of the Group held 151,521,030 ordinary shares of the Company (31 December 2011: 148,689,530 shares). 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 7,215,583,230 and 7,230,164,365 weighted average shares outstanding for the years ended 31 December 2012 and 31 December 2011, respectively.

There are no dilutive financial instruments outstanding.

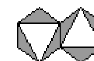
Other reserves

	Currency translation	**Purchase of non-controlling interest**	**Available-for-sale investments**	**Total**
Balance at 31 December 2010	**290**	**(542)**	**60**	**(192)**
Currency translation differences	(435)	-	-	(435)
Net loss arising from change of fair value of available-for-sale investments	-	-	(19)	(19)
Balance at 31 December 2011	**(145)**	**(542)**	**41**	**(646)**
Currency translation differences	(784)	-	-	(784)
Net gain arising from change of fair value of available-for-sale investments	-	-	1	1
Balance at 31 December 2012	**(929)**	**(542)**	**42**	**(1,429)**

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, including dividends on shares held by subsidiaries of the Group totalling RR'mln 135 (RR 1.01 per share).

On 30 June 2011 the Company's annual shareholders' meeting approved dividends for the year ended 31 December 2010 totalling RR'mln 1,833, including dividends on shares held by subsidiaries of the Group totalling RR'mln 28 (RR 0.25 per share).



11. LONG-TERM DEBT

	31 December 2012	31 December 2011
Banks:		
US$ denominated floating rate	18,224	-
US$ denominated fixed rate	6,075	16,446
RR denominated fixed rate	8	-
	24,307	**16,446**
Eurobonds	45,548	48,278
RR denominated non-convertible bonds	36,000	26,000
Finance lease obligation	454	512
Other RR denominated fixed rate loans	1,822	1,515
	108,131	**92,751**
Less: current portion of long-term debt (see note 12)	(17,774)	(17,222)
	90,357	**75,529**

At 31 December 2012 long-term loans had the following maturity profile (based on the contractual cash flows):

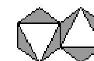
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 years and thereafter	Total
Banks:						
US$ denominated floating rate	-	-	18,224	-	-	18,224
US$ denominated fixed rate	-	-	6,075	-	-	6,075
RR denominated fixed rate	-	-	-	-	8	8
Eurobonds	-	15,175	-	-	30,373	45,548
RR denominated non-convertible bonds	16,000	-	20,000	-	-	36,000
Finance lease obligation	454	-	-	-	-	454
Other RR denominated fixed rate loans	1,320	302	-	-	200	1,822
	17,774	**15,477**	**44,299**	**-**	**30,581**	**108,131**

At 31 December 2011 long-term loans had the following maturity profile (based on the contractual cash flows):

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 years and thereafter	Total
Banks:						
US$ denominated fixed rate	16,439	7	-	-	-	16,446
Eurobonds	-	-	16,093	-	32,185	48,278
RR denominated non-convertible bonds	-	-	-	-	26,000	26,000
Finance lease obligation	30	482	-	-	-	512
Other RR denominated fixed rate loans	753	762	-	-	-	1,515
	17,222	**1,251**	**16,093**	**-**	**58,185**	**92,751**

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

	31 December 2012		31 December 2011	
	Effective interest rates	Market interest rates	Effective interest rates	Market interest rates
Banks				
US$ denominated floating rate	4.0%	7.2%	-	-
US$ denominated fixed rate	4.9%	7.2%	6.4%	7.2%
RR denominated fixed rate	14.9%	10.3%	-	-
Eurobonds	8.1%	4.4%	8.1%	7.3%
RR denominated non-convertible bonds	8.6%	6.1%	8.5%	8.6%
Finance lease obligation	7.6%	7.6%	7.6%	8.0%
Other RR denominated fixed rate loans	6.8%	10.3%	7.0%	10.1%



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

	31 December 2012		31 December 2011	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Banks				
US$ denominated floating rate	18,224	22,343	-	-
US$ denominated fixed rate	6,075	5,660	16,446	16,405
RR denominated fixed rate	8	9	-	-
Eurobonds	45,548	50,755	48,278	53,181
RR denominated non-convertible bonds	36,000	39,187	26,000	26,245
Finance lease obligation	454	456	512	496
Other RR denominated fixed rate loans	1,822	1,741	1,515	747

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

Eurobonds

	Year ended 31 December 2012	**Year ended 31 December 2011**
Balance at the beginning of the reporting period	**48,278**	**45,696**
Amortisation of discount	5	5
Exchange (gains) / losses	(2,735)	2,577
Balance at the end of the reporting period	**45,548**	**48,278**

Finance lease obligation

	Minimum lease payments 31 December 2012	**Discounted value of minimum lease payments 31 December 2012**	**Minimum lease payments 31 December 2011**	**Discounted value of minimum lease payments 31 December 2011**
Within 1 year	480	454	69	30
After 1 year	-	-	509	482
	480	**454**	**578**	**512**

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

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

	31 December 2012	**31 December 2011**
Banks:		
US$ denominated fixed rate	2,582	-
RR denominated fixed rate	-	30
	2,582	**30**
European commercial paper	9,138	-
Other US$ denominated fixed rate loans	9	10
Other RR denominated fixed rate loans	2,841	2,762
	14,570	**2,802**
Add: current portion of long-term debt (see note 11)	17,774	17,222
	32,344	**20,024**

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

European commercial paper

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

	Year ended 31 December 2012	Year ended 31 December 2011
Balance at the beginning of the reporting period	**-**	**-**
Issued	36,667	11,313
Repayment	(29,528)	(12,485)
Exchange losses	1,999	1,172
Balance at the end of the reporting period	**9,138**	**-**

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

	31 December 2012		31 December 2011	
	Effective interest rates	Market interest rates	Effective interest rates	Market interest rates
Banks:				
US$ denominated fixed rate	4.0%	6.1%	-	-
RR denominated fixed rate	-	-	11.7%	10.4%
European commercial paper	4.7%	6.1%	-	-
Other US$ denominated fixed rate loans	6.1%	6.1%	3.5%	3.8%
Other RR denominated fixed rate loans	1.1%	1.1%	7.9%	8.4%

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

	31 December 2012		31 December 2011	
	Carrying value	Fair value	Carrying value	Fair value
Banks:				
US$ denominated fixed rate	2,582	2,565	-	-
RR denominated fixed rate	-	-	30	30
European commercial paper	9,138	9,113	-	-
Other US$ denominated fixed rate loans	9	9	10	9
Other RR denominated fixed rate loans	2,841	2,927	2,762	2,942

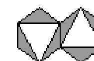
13. DERIVATIVE FINANCIAL INSTRUMENTS

Short-term derivative financial instruments (liabilities)

	31 December 2012	31 December 2011
Fair value of put options granted by the Group to the buyers of ZAO Geotransgaz and OOO Urengoyskaya Gazovaya Company	-	1,995
	-	**1,995**

Net gain from derivative financial instruments

	Year ended 31 December	
	2012	2011
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	-	316
Net gain from foreign exchange forward contracts	-	1,219
Net gain from cross currency interest rate swap contracts	-	111
	-	**1,646**



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

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

The fair value of the put options as at 31 December 2011 determined using the option pricing model (Level 3 in accordance the valuation hierarchy) amounted to RR'mln 1,995. The main inputs to the option pricing model are the fair value of the sold companies (excluding fair value of their debt), which was assessed by the Group at 31 December 2011 as RR'mln 27,403 or US$'mln 851 and its expected volatility, which was estimated by the Group at the level of 34 percent as at 31 December 2011 using historical data for comparable companies for the last 3 months.

In March 2012 put option agreements were early terminated (see note 5).

	Year ended 31 December	
	2012	**2011**
Fair value of the put options at the beginning of the year	**(1,995)**	**(2,311)**
Change in fair value during the year	-	316
Early termination of put options	1,995	
Fair value of the put options at the end of the year	**-**	**(1,995)**

At 31 December 2011, if the fair value of sold companies had decreased / increased by 10 percent with all other variables held constant, post-tax profit and equity for the year would have been RR'mln 883 lower / higher as a result of losses / gains from revaluation of the put options.

Foreign exchange forward contracts

To reduce the Group's US$ / RR foreign exchange risk exposure, in 2006 the Group entered into US$ / RR forward sale transactions with five foreign banks having an investment grade rating within the range Aa2-Aa3 as assessed by Moody's rating agency as at 31 December 2011 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 had varying maturities and amounts spread evenly over the five-year period in the aggregate amount of US$'mln 215 per quarter (US$'mln 4,300 in total over the five-year period). At 31 December 2012 and 31 December 2011 the Group has no obligations under foreign exchange forward contracts.

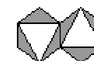
	Year ended 31 December	
	2012	**2011**
Fair value of foreign exchange forward contracts at the beginning of the year	**-**	**(2,328)**
Payment from exercising of foreign exchange forward contracts	-	1,109
Net gain from change of fair value of foreign exchange forward contracts	-	1,219
Fair value of foreign exchange forward contracts at the end of the year	**-**	**-**

Cross currency interest rate swap contracts

To reduce the Group's interest rate risk exposure associated with the RR denominated floating rate loans from Bank VTB, in 2008 the Group entered into US$ / RR cross currency interest rate swap transactions with VTB Bank Europe Plc having an investment grade rating Baa1 as assessed by Moody's rating agency as at 31 December 2011. 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. As at 31 December 2012 and 31 December 2011 the Group has no obligations under cross currency interest rate swap contracts.

	Year ended 31 December	
	2012	**2011**
Fair value of cross currency interest rate swap contracts at the beginning of the year	**-**	**(234)**
Proceeds from exercising of swap contracts	-	(1,597)
Payment from exercising of swap contracts	-	1,720
Net gain from change of fair value of cross currency interest rate swap contracts	-	111
Fair value of cross currency interest rate swap contracts at the end of the year	**-**	**-**

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



14. OTHER PROVISIONS

	Year ended 31 December 2012	Year ended 31 December 2011
Provision for social obligations	2,816	-
Provision for land recultivation	2,416	522
	5,232	**522**

Provision for social obligations

In 2012 the Group entered into a number of agreements with the Republic of Sakha (Yakutia) to support its social and economic development. In accordance with the agreements the Group has assumed certain obligations which include repair works related to certain infrastructure assets which belong to local municipalities, dismantling of certain worn out assets and other. The Group will fulfill these obligations during 2013-2015.

Provision for land recultivation

	Year ended 31 December 2012	Year ended 31 December 2011
At the beginning of the year	**522**	**800**
Unwinding of discount	44	71
Utilised	(102)	(82)
Change in estimate of provision	1,952	(267)
At the end of the year	**2,416**	**522**

The Group assumed an obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity. The Group recognised a provision for these future expenses in its consolidated financial statements with a corresponding asset recognised within property, plant and equipment (see note 7). During 2012 the Group assumed additional obligations which resulted in the respective increase of the provision.

The discount rate used to calculate the net present value of future cash outflows relating to assumed social and land recultivation obligations at 31 December 2012 was 8.6 percent (31 December 2011: 8.96 percent), which represents adjusted risk free rate for the Group and is considered appropriate to the Group in the economic environment in the Russian Federation at the end of year.

15. PROVISION FOR PENSION OBLIGATIONS

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

	31 December 2012	31 December 2011
Present value of obligations	19,175	14,449
Fair value of plan assets	(7,188)	(5,987)
Unsecured pension obligations	11,987	8,462
Present value of unfunded obligation	1,056	792
Unrecognised past service cost	(78)	(113)
Unrecognised actuarial losses	(7,857)	(4,113)
Net liability	**5,108**	**5,028**

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

	Year ended 31 December 2012	Year ended 31 December 2011
Interest cost	1,241	1,160
Net actuarial losses	328	630
Immediate recognition of vested prior service cost	-	395
Current service cost	252	372
Recognised past service cost	35	33
Expected return on plan assets	(497)	(317)
Net expense recognised in the statement of comprehensive income	**1,359**	**2,273**

Net expense recognised in the statement of comprehensive income is included in cost of sales, general and administrative expenses, selling and marketing expenses in the amount of RR'mln 1,121 (year ended 31 December 2011: RR'mln 2,063), RR'mln 165 (year ended 31 December 2011: RR'mln 131) and RR'mln 73 (year ended 31 December 2011: RR'mln 79), respectively.

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

	31 December 2012	31 December 2011
Benefit obligation at the beginning of the year	**15,241**	**14,711**
Actuarial loss / (gain)	4,332	(592)
Interest cost	1,241	1,160
Past service cost	-	395
Current service cost	252	372
Benefits paid	(835)	(805)
Benefit obligation at the end of the year	**20,231**	**15,241**

	31 December 2012	31 December 2011
Fair value of plan assets at the beginning of the year	**5,987**	**4,528**
Contributions made	1,279	1,589
Expected return on plan assets	497	317
Actuarial gain	260	358
Benefits paid	(835)	(805)
Fair value of plan asset at the end of the year	**7,188**	**5,987**

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

In the year ended 31 December 2012 the actual income on plan assets was RR'mln 757 (year ended 31 December 2011: RR'mln 675).

The Group expects to contribute RR'mln 1,282 to the defined benefit plans during the year beginning 1 January 2013.

Principal actuarial assumptions used:

	31 December 2012	31 December 2011
Discount rate (nominal)	7.1%	8.3%
Expected return on plan assets	7.1%	8.3%
Future salary increases (nominal)	7.0%	5.5%
Future pension increases (nominal)	5.5%	5.5%
Mortality table	Russia 1998	Russia 1998
Expected retirement age – male	57	57
Expected retirement age – female	55	55

Expected staff turnover rates depend on past service - around 17 percent for employees with 2 years of service going down to 4 percent for employees with 10 or more years of service.

At 31 December 2012 sensitivity of provision for pension obligations to principal actuarial assumptions is as follows:

	Change in assumption	Impact on provision for pension obligations
Discount rate	Increase / decrease by 0.5%	Decrease / increase by 6.16%
Expected return on plan assets	Increase / decrease by 0.5%	Decrease / increase by 7.04%
Future salary increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 0.05%
Future pension increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 6.21%
Employee turnover	Increase / decrease by 10%	Decrease / increase by 0.15%
Mortality level	Increase / decrease by 10%	Decrease / increase by 4.25%

Five-year defined benefit plan disclosure:

	Year ended 31 December				
	2012	**2011**	**2010**	**2009**	**2008**
Present value of obligations	20,231	15,241	14,711	11,650	9,581
Fair value of plan assets	(7,188)	(5,987)	(4,528)	(5,112)	(3,819)
Deficit in plan	13,043	9,254	10,183	6,538	5,762
Experience adjustments on plan liabilities	(1,635)	(367)	404	133	(278)
Experience adjustments on plan assets	260	358	(894)	617	(250)

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

	31 December 2012, %	**31 December 2011, %**
Bank deposits	52.4	36.7
Russian Government and municipal bonds	15.8	24.2
Russian corporate bonds	10.5	24.1
Equity securities of Russian issuers	20.7	14.3
Debt securities of Russian issuers	0.6	0.7
	100.0	**100.0**

16. TRADE AND OTHER PAYABLES

	31 December 2012	**31 December 2011**
Accrual for employee flights and holidays	6,494	5,853
Wages and salaries	4,142	3,791
Trade payables	4,114	2,822
Current accounts of third parties in OOO MAK Bank	1,622	1,242
Interest payable	1,313	695
Advances from customers	364	230
Payables to associates	57	7
Other payables and accruals	1,024	951
	19,130	**15,591**

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

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2012 and 31 December 2011 approximates their carrying value.

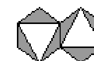
17. INCOME TAX AND OTHER TAX ASSETS AND LIABILITIES

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

	31 December 2012	**31 December 2011**
Payments to social funds	1,338	888
Property tax	878	851
Extraction tax	753	475
Value added tax	355	501
Personal income tax (employees)	499	545
Tax penalties	1	32
Other taxes and accruals	59	72
	3,883	**3,364**

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

	Year ended 31 December 2012	**Year ended 31 December 2011**
Property tax	3,390	3,207
Other taxes and accruals	468	413
	3,858	**3,620**



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

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

Income tax comprise the following:

	Year ended 31 December 2012	Year ended 31 December 2011
Current tax expense	11,223	11,859
Deferred tax (benefit) / expense	(63)	1,019
Adjustments recognised in the period for current tax of prior periods	(643)	(1,223)
	10,517	**11,655**

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

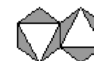
	Year ended 31 December 2012	Year ended 31 December 2011
Profit before income tax	44,151	38,313
Theoretical tax charge at statutory rate of 20 percent thereon	8,830	7,663
Prior periods adjustments recognised in the current period	(643)	(1,223)
Tax effect of expenses and losses not deductible for income tax purposes	2,330	5,215
	10,517	**11,655**

Expenses and losses not deductible for income tax purposes include mostly loss on disposal of property, plant and equipment (including loss on disposal of social infrastructure assets), social expenses and non-deductible wages, salaries and other staff costs.

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

	31 December 2012	Tax effect of movement in temporary differences recorded in profit or loss	Tax effect of acquisition of gas companies	31 December 2011	Tax effect of movement in temporary differences recorded in profit or loss	31 December 2010
Deferred tax liabilities						
Property, plant and equipment	8,283	(2,184)	5,478	4,989	247	4,742
Inventories	4,317	1,056	40	3,221	(607)	3,828
Long term investments	266	(70)	-	336	64	272
Deferred tax assets						
Derivative financial instruments	-	401	-	(401)	576	(977)
Accrual for employee benefits	(534)	6	-	(540)	446	(986)
Exploration costs written off	(546)	1	-	(547)	(108)	(439)
Provision for pension obligations	(1,022)	(16)	-	(1,006)	(137)	(869)
Write down of inventories	(852)	(4)	-	(848)	507	(1,355)
Impairment of receivables	(851)	(80)	-	(771)	91	(862)
Tax losses carried forward	-	878	-	(878)	-	(878)
Other deductible temporary differences	(128)	(51)	-	(77)	(60)	(17)
Net deferred tax liability	**8,933**	**(63)**	**5,518**	**3,478**	**1,019**	**2,459**

As at 31 December 2012 and 31 December 2011 the Group had not recorded a deferred tax liability in respect to taxable temporary differences of RR'mln 9,341 and RR'mln 7,600, respectively, associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.



18. SALES

	Year ended 31 December 2012	Year ended 31 December 2011
Revenue from diamond sales:		
Export	103,012	93,959
Domestic	32,020	30,986
Revenue from diamonds for resale	1,385	395
	136,417	125,340
Other revenue:		
Transport	5,394	4,617
Social infrastructure	2,989	2,809
Trading	1,394	904
Construction	449	460
Other	4,237	3,602
	150,880	**137,732**

Export duties totalling RR’mln 6,851 for the year ended 31 December 2012 (year ended 31 December 2011: RR’mln 6,158) were netted against revenues from export of diamonds.

In the years ended 31 December 2012 and 31 December 2011 the Group had no customers accounting for more than 10 percent of the Group’s revenue.

19. COST OF SALES

	Year ended 31 December 2012	Year ended 31 December 2011
Wages, salaries and other staff costs	28,451	25,616
Depreciation	11,943	9,846
Fuel and energy	10,474	8,516
Extraction tax	8,621	7,805
Materials	8,428	6,188
Services	3,668	3,030
Transport	2,557	1,968
Cost of diamonds for resale	1,262	351
Other	329	53
Movement in inventory of diamonds, ores and concentrates	(7,266)	(7,368)
	68,467	**56,005**

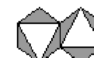
Wages, salaries and other staff costs include payments to social funds in the amount of RR’mln 5,377 (year ended 31 December 2011: RR’mln 4,093). These payments include mandatory contributions to State pension plan in the amount of RR’mln 4,470 (year ended 31 December 2011: RR’mln 3,394).

Depreciation totalling RR’mln 1,593 (year ended 31 December 2011: RR’mln 1,222) and staff costs totalling RR’mln 2,978 (year ended 31 December 2011: RR’mln 2,554) were incurred by the Group’s construction divisions and were capitalised into property, plant and equipment in the year.

20. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Wages, salaries and other staff costs	5,732	3,343
Services and other administrative expenses	2,437	2,255
Impairment of accounts receivable (see note 9)	340	590
	8,509	**6,188**

Wages, salaries and other staff costs include payments to social funds in the amount of RR’mln 484 (year ended 31 December 2011: RR’mln 133). These payments include mandatory contributions to State pension plan in the amount of RR’mln 402 (year ended 31 December 2011: RR’mln 110).



21. SELLING AND MARKETING EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Wages, salaries and other staff costs	1,242	1,011
Services and other selling and marketing expenses	776	628
	2,018	**1,639**

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 188 (year ended 31 December 2011: RR'mln 158). These payments include mandatory contributions to State pension plan in the amount of RR'mln 156 (year ended 31 December 2011: RR'mln 131).

22. OTHER OPERATING INCOME

	Year ended 31 December 2012	Year ended 31 December 2011
Negative goodwill on acquisition of Gas companies (note 5)	1,995	-
Other	1,092	962
	3,087	**962**

23. OTHER OPERATING EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Social costs	9,249	4,382
Exploration expenses	7,727	7,071
Taxes other than income tax, extraction tax and payments to social funds (note 17)	3,858	3,620
Loss on disposal of property, plant and equipment	2,221	2,920
Other	1,670	1,212
	24,725	**19,205**

In the years ended 31 December 2012 and 31 December 2011 the amounts of operating cash outflows associated with exploration expenses were equal to the respective amounts recognised within other operating expenses.

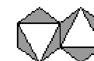
Social costs consist of:

	Year ended 31 December 2012	Year ended 31 December 2011
Maintenance of local infrastructure	5,306	2,096
Charity	3,211	1,485
Hospital expenses	316	214
Education	87	59
Other	329	528
	9,249	**4,382**

In 2012 the Group entered into an agreement with the Republic of Sakha (Yakutia) to support its social and economic development and recognised a provision in the amount of RR'mln 2,816 in respect of future expenses associated with these obligations (see note 14). The corresponding expense is included in maintenance of social infrastructure expenses within social costs.

24. FINANCE INCOME

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income	292	332
Exchange gains	2,725	1,160
	3,017	**1,492**



25. FINANCE COSTS

	Year ended 31 December 2012	Year ended 31 December 2011
Interest expense:		
Eurobonds	3,663	3,510
RR denominated non-convertible bonds	2,288	2,167
European commercial paper	1,273	348
Bank loans	945	1,104
Other	43	70
Unwinding of discount of provision for land recultivation (note 14)	44	71
Exchange loss	798	4,412
	9,054	**11,682**

26. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before income tax	44,151	38,313
Adjustments for:		
Share of net profit of associates (note 5)	(1,149)	(1,240)
Interest income (note 24)	(292)	(332)
Interest expense (note 25)	8,256	7,270
Loss on disposal of property, plant and equipment (note 23)	2,221	2,920
Impairment of property, plant and equipment (note 7)	620	303
Negative goodwill on acquisition of Gas companies (note 22)	(1,995)	-
Loss on disposal of social infrastructure assets (note 7)	-	6,531
Net gain from derivative financial instruments (note 13)	-	(1,646)
Provision for social obligation (note 14)	2,816	-
Depreciation (note 19)	11,943	9,846
Adjustment for inventory used in construction	(2,007)	(1,673)
Adjustments for non-cash financing activity	(361)	(183)
Net payments from exercising of foreign exchange forward contracts (note 13)	-	(1,109)
Net payments from exercising of cross currency interest rate swap contracts (note 13)	-	(123)
Payments to restricted cash account (note 6)	(49)	(85)
Unrealised foreign exchange effect on non-operating items	(2,324)	3,397
Net operating cash flow before changes in working capital	61,830	62,189
Net increase in inventories	(8,013)	(9,915)
Net (increase) / decrease in trade and other receivables, excluding dividends receivable	(3,645)	1,095
Net increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	2,266	4,711
Net increase in taxes payable other than income tax	520	334
Cash generated from operations	**52,958**	**58,414**
Income tax paid	(10,951)	(9,232)
Net cash inflows from operating activities	**42,007**	**49,182**

27. 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 international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the ability of the Group to obtain new financing and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

(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 yars 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.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group.

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

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 31 December 2012.

(d) Insurance

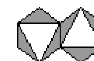
The Group is assessing its policies for insuring assets and operations. At present, apart from the full insurance of movements of diamond inventory from the production location to the customers, very few assets and operations of the Group are insured and, in the instances where assets are insured, the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

(e) Capital commitments

The Group has contractual commitments for capital expenditures of approximately RR'mln 7,602 (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 2,416 as at 31 December 2012 (RR'mln 522 as at 31 December 2011).



28. RELATED PARTY TRANSACTIONS

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

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

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

Governments of the Russian Federation and the Republic of Sakha (Yakutia) are the ultimate controlling parties of the Company. As at 31 December 2012 83 percent of the Company issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Also as at 31 December 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 consolidated statement of financial position and in notes 9 and 17. Tax transactions are disclosed in the consolidated statement of comprehensive income, consolidated statement of cash flows and in notes 17, 18, 19 and 26.

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 December 2012 the accounts payable to the parties under Governmental control totalled RR'mln 1,239 (31 December 2011: RR'mln 843). As at 31 December 2012 the accounts receivable from the parties under Governmental control (excluding loans issued to these parties) totalled RR'mln 1,832 (31 December 2011: RR'mln 1,454). As at 31 December 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.

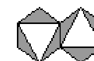
During the years ended 31 December 2012 and 31 December 2011 the Group had the following significant transactions with parties under Governmental control:

	Year ended 31 December 2012	Year ended 31 December 2011
Sales of diamonds	19,704	13,053
Other sales	2,576	2,409
Electricity and heating purchases	4,812	4,499
Other purchases	1,607	1,379

As at 31 December 2012 and 31 December 2011 the Group has no contractual commitments to sell goods or services to the parties under control of the Government. As at 31 December 2012 the Group has contractual commitments to purchase goods and services from the parties under control of the Government in the amount of approximately RR'mln 4,290 (31 December 2011: RR'mln 4,172).

As at 31 December 2012 and 31 December 2011 the amount of loans received by the Group from the banks under Governmental control was as follows:

	31 December 2012	31 December 2011
Long-term bank loans		
US$ denominated fixed rate	-	7
US$ denominated floating rate	18,224	-
	18,224	7
Short-term bank loans		
US$ denominated fixed rate	2,582	16,439
	2,582	16,439
	20,806	**16,446**



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

	31 December 2012	31 December 2011
Long-term bank loans		
US$ denominated fixed rate	-	7.8%
US$ denominated floating rate	4.0%	-
Short-term bank loans		
US$ denominated fixed rate	4.0%	6.4%

In the year ended 31 December 2012 interest expense accrued in respect of the loans received by the Group from the entities under Governmental control totalled RR'mln 596 (year ended 31 December 2011: RR'mln 1,167).

As at 31 December 2012 the amount of loans issued by the Group to the entities under Governmental control totalled RR'mln 1,256 (31 December 2011: RR'mln 1,310). The loans are denominated in Russian Roubles. The long-term part of these loans totalled RR'mln 276, the average effective interest rate on these loans is 9.3 percent (As at 31 December 2011 there were no long-term loans issued by the Group to the entities under Governmental control). The short-term part of the loans totalled RR'mln 980, the average effective interest rate on these loans is 9.7 percent (31 December 2011: 13.9 percent). In the year ended 31 December 2012 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR'mln 116 (year ended 31 December 2011: RR'mln 88).

In 2011 the Company transferred free of charge to the local municipalities certain social infrastructure assets with net book value of RR'mln 6,531 (see note 7).

Acquisition of Gas companies from the entities affiliated with OAO Bank VTB is disclosed in note 5.

Key management compensation

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

The Management Committee consists of 20 members, two of whom are also members of the Supervisory Council. Management Committee members are entitled to salary, bonuses, voluntary medical insurance and other short term employee benefits. Salary and bonus compensation paid to members of the Management Committee is determined by the terms of "Remuneration Policy for the members of the Management Committee" approved by the Company's Supervisory Council on 18 March 2012.

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the Non-state pension fund Almaznaya Osen and a one-time payment from the Group at their retirement date.

Key management received short-term benefits for the year ended 31 December 2012 totalling RR'mln 919 (year ended 31 December 2011: RR'mln 622). The portion of provision for pension obligations attributable to key management as at 31 December 2012 equals to RR'mln 58 (31 December 2011: RR'mln 52). The amount of expenses recognised in the consolidated statement of comprehensive income in respect of the operation of the defined benefit plan for key management in the year ended 31 December 2012 equals to RR'mln 6 (year ended 31 December 2011: RR'mln 11).

Associates

Significant balances and transactions with associates are summarised as follows:

Current accounts receivable	**31 December 2012**	**31 December 2011**
Catoca Mining Company Ltd, dividends receivable	403	126
Other	8	14
Less: provision for bad debt	-	(1)
	411	**139**

In April 2012 Catoca Mining Company Ltd declared dividends for the year ended 31 December 2011; the Group's share of these dividends amounted to RR'mln 1,244. In April 2011 Catoca Mining Company Ltd declared dividends for the year ended 31 December 2010; the Group's share of these dividends amounted to RR'mln 923. During the year ended 31 December 2012 Catoca Mining Company Ltd paid dividends for the Group in cash in the amount of RR'mln 979 (during

the year ended 31 December 2011 – in the amount of RR'mln 1,081). In the year ended 31 December 2012 the Group recognised exchange gain related to dividends receivable from Catoca Mining Company Ltd in the amount of RR'mln 26 (in the year ended 31 December 2011 –RR'mln 171).

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

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

29. SEGMENT INFORMATION

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

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

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

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

The following reportable segments were identified:

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

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

Year ended 31 December 2012	Diamonds segment	Transpor-tation	Social infrastructure	Construction activity	Trading	Electricity production	Other activities	Total
Sales	143,268	5,797	3,407	418	1,636	2,790	5,693	163,009
Intersegment sales	-	(113)	(372)	(26)	(246)	(2,122)	(2,423)	(5,302)
Cost of sales, incl.	42,683	6,032	8,944	571	1,199	2,098	4,367	65,894
Depreciation	8,382	695	97	79	61	510	793	10,617
Gross margin	**100,585**	**(235)**	**(5,537)**	**(153)**	**437**	**692**	**1,326**	**97,115**

Year ended 31 December 2011	Diamonds segment	Transpor-tation	Social infrastructure	Construction activity	Trading	Electricity production	Other activities	Total
Sales	131,499	4,755	2,809	460	1,143	2,377	3,787	146,830
Intersegment sales	-	(137)	-	-	(239)	(1,918)	(978)	(3,272)
Cost of sales, incl.	36,335	5,379	6,642	450	471	1,742	3,031	54,050
Depreciation	8,048	490	462	122	9	434	283	9,848
Gross margin	**95,164**	**(624)**	**(3,833)**	**10**	**672**	**635**	**756**	**92,780**

Reconciliation of sales is presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Segment sales	**163,009**	**146,830**
Elimination of intersegment sales	(5,302)	(3,272)
Reclassification of custom duties [1]	(6,851)	(6,158)
Other adjustments and reclassifications	24	332
Sales as per Statement of Comprehensive Income	**150,880**	**137,732**

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

Reconciliation of cost of sales including depreciation is presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Segment cost of sales	**65,894**	**54,050**
Adjustment for depreciation of property, plant and equipment	1,326	(2)
Elimination of intersegment purchases	(5,302)	(3,272)
Accrued provision for pension obligation [1]	73	621
Reclassification of extraction tax [2]	7,603	6,735
Adjustment for inventories [3]	1,065	(209)
Accrual for employee flights and holidays [4]	(300)	749
Other adjustments	92	(43)
Reclassification of exploration expenses [5]	(2,389)	(1,632)
Reclassification of cost of sales [6]	-	-
Other reclassifications	405	(992)
Cost of sales as per Statement of Comprehensive Income	**68,467**	**56,005**

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

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

	Year ended 31 December 2012	Year ended 31 December 2011
Russian Federation	47,383	43,079
Belgium	63,328	59,527
India	20,578	16,863
Israel	10,909	9,501
China	3,486	2,799
United Arab Emirates	2,566	2,082
USA	1,078	737
Belarus	454	848
Angola	420	619
Armenia	285	1,163
Other countries	393	514
Total	**150,880**	**137,732**

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

	31 December 2012	31 December 2011
Russian Federation	225,755	170,364
Angola	2,351	2,768
Other countries	273	305
	228,379	**173,437**

30. EVENTS AFTER THE REPORTING PERIOD

Acquisition of OAO Nizhne-Lenskoe

On 22 January 2013 the Group acquired a 51 percent interest in OAO Nizhne-Lenskoe for a total cash consideration of RR'mln 3,670. As a result of this transaction the Group acquired control over OAO Nizhne-Lenskoe. The core activity of OAO Nizhne-Lenskoe is exploration and extraction of alluvial diamond reserves and distribution of raw diamonds. Management of the Group is in the process of allocation of the purchase price between identifiable assets, liabilities and contingent liabilities of the business acquired. At this stage no information regarding the results of this procedure could be practically disclosed in these consolidated financial statements.

Disposal of controlling interest in OAO GMK Timir

On 2 April 2013 the Group and Evraz plc signed an agreement to sell a controlling 51 percent interest in OAO GMK Timir to Evraz plc for a total cash consideration of RR'mln 4,950 to be paid in several installments within 16 months after the transaction. As a result of the transaction, Evraz plc holds 51 percent interest in OAO GMK Timir, the Group holds 49 percent interest minus one share and Vnesheconombank (VEB) holds one share.

Dividends

On 25 April 2013 the Company's Supervisory Council recommended the annual shareholders' meeting which is scheduled for 29 June 2013 to approve dividends for the year ended 31 December 2012 in the amount of RR'mln 8,175 (RR 1.11 per share).