

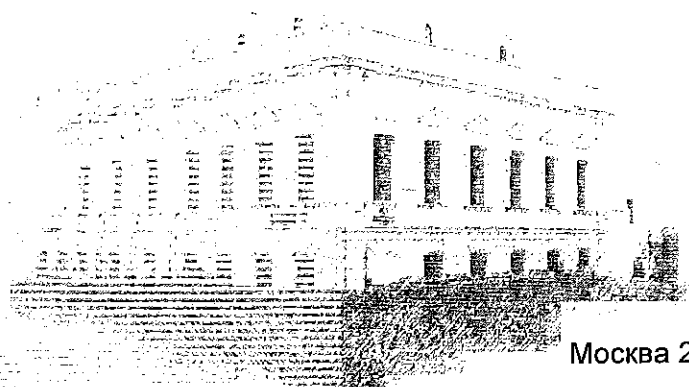
# ФБК

■ АУДИТ ■ КОНСАЛТИНГ ■ ПРАВО ■

**AK "ALROSA"**

**IFRS CONDENSED CONSOLIDATED INTERIM  
FINANCIAL INFORMATION  
(UNAUDITED)**

**31 MARCH 2010**



Москва 2010

# PKF

Accountants &  
business advisers

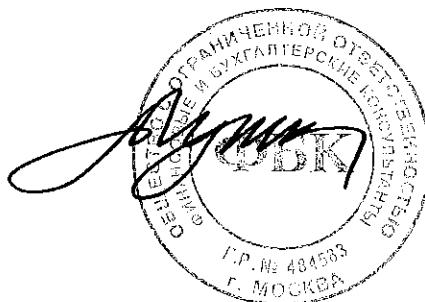
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**INDEPENDENT ACCOUNTANTS' REPORT  
to the Shareholders and Board of Directors of AK "ALROSA"**

On the basis of information provided by management, we have compiled, in accordance with the International Standards on Auditing applicable to compilation engagements, the unaudited consolidated statement of financial position of AK "ALROSA" ("the Company") and its subsidiaries ("the Group") as at 31 March 2010, unaudited condensed interim consolidated statements of comprehensive income, cash flows and statement of changes in equity for the three months ended 31 March 2010 and the related notes to the unaudited condensed interim consolidated financial information. Management of the Company is responsible for this unaudited condensed interim consolidated financial information. We have neither audited nor reviewed the accompanying unaudited condensed interim consolidated financial information and, accordingly, do not imply or express an opinion or any other form of assurance on them.

ООО "Financial and Accounting Consultants"  
Moscow, Russia  
22 July 2010





AK "ALROSA"

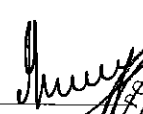
IFRS condensed consolidated interim financial information (unaudited) – 31 March 2010

(in millions of Russian roubles, unless otherwise stated)

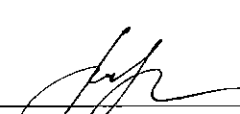
## Condensed Consolidated Interim Statement of Financial Position (unaudited)

	Notes	31 March 2010	31 December 2009
<b>Assets</b>			
<b>Non-current Assets</b>			
Goodwill		1,439	1,439
Property, plant and equipment	7	167,007	167,932
Investments in associates	4	1,860	1,530
Available-for-sale investments	4	225	420
Long-term accounts receivable	9	2,553	2,231
Restricted cash	6	134	107
<b>Total Non-current Assets</b>		<b>173,218</b>	<b>173,659</b>
<b>Current Assets</b>			
Inventories	8	34,949	44,873
Prepaid income tax		27	196
Current accounts receivable	9	13,219	12,417
Cash and cash equivalents	6	12,495	5,094
<b>Total Current Assets</b>		<b>60,690</b>	<b>62,580</b>
<b>Total Assets</b>		<b>233,908</b>	<b>236,239</b>
<b>Equity</b>			
Share capital	10	12,473	12,473
Share premium		10,431	10,431
Treasury shares	10	(26)	(26)
Retained earnings and other reserves		67,431	59,020
<b>Equity attributable to shareholders of AK "ALROSA"</b>		<b>90,309</b>	<b>81,898</b>
<b>Non-Controlling Interest in Subsidiaries</b>	10	<b>(21)</b>	<b>(1,177)</b>
<b>Total Equity</b>		<b>90,288</b>	<b>80,721</b>
<b>Liabilities</b>			
<b>Non-current Liabilities</b>			
Long-term debt	11	25,855	23,581
Derivative financial instruments	5	4,434	6,502
Provision for pension obligations		2,878	3,096
Other provisions		377	326
Deferred tax liabilities		3,387	2,774
<b>Total Non-current Liabilities</b>		<b>36,931</b>	<b>36,279</b>
<b>Current Liabilities</b>			
Short-term loans and current portion of long-term debt	12	86,060	94,371
Derivative financial instruments	5	2,190	3,643
Trade and other payables	13	13,792	17,238
Income tax payable		939	318
Other taxes payable	14	3,637	3,511
Dividends payable		71	158
<b>Total Current Liabilities</b>		<b>106,689</b>	<b>119,239</b>
<b>Total Liabilities</b>		<b>143,620</b>	<b>155,518</b>
<b>Total Equity and Liabilities</b>		<b>233,908</b>	<b>236,239</b>

Signed on 22 July 2010 by the following members of management:

  
Fedor B. Andreev  
President



  
Olga A. Lyashenko  
Chief accountant

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

**AK "ALROSA"**

IFRS consolidated interim condensed financial information (unaudited) – 31 March 2010

*(in millions of Russian roubles, unless otherwise stated)***Condensed Consolidated Interim Statement of Comprehensive Income (unaudited)**

	Notes	Three months ended 31 March 2010	Three months ended 31 March 2009
Sales	15	31,082	6,927
Cost of sales	16	(20,705)	(5,069)
Royalty	14	(877)	(877)
<b>Gross profit</b>		<b>9,500</b>	<b>981</b>
General and administrative expenses	17	(1,115)	(1,051)
Selling and marketing expenses		(290)	(301)
Other operating income	18	4,525	218
Other operating expenses	19	(2,395)	(4,269)
<b>Operating profit / (loss)</b>		<b>10,225</b>	<b>(4,422)</b>
Finance income	20	2,329	649
Finance costs	21	(3,012)	(12,561)
Share of net profit of associates	4	360	316
<b>Profit / (loss) before income tax</b>		<b>9,902</b>	<b>(16,018)</b>
Income tax	14	(1,437)	1,741
<b>Profit / (loss) for the period</b>		<b>8,465</b>	<b>(14,277)</b>
<b>Other comprehensive income</b>			
Currency translation differences		20	311
<b>Other comprehensive income for the period</b>		<b>20</b>	<b>311</b>
<b>Total comprehensive income / (loss) for the period</b>		<b>8,485</b>	<b>(13,966)</b>
<b>Profit / (loss) attributable to:</b>			
Owners of AK "ALROSA"		8,391	(14,229)
Non-controlling interest		74	(48)
<b>Profit / (loss) for the period</b>		<b>8,465</b>	<b>(14,277)</b>
<b>Total comprehensive income / (loss) attributable to:</b>			
Owners of AK "ALROSA"		8,411	(13,890)
Non-controlling interest		74	(76)
<b>Total comprehensive income / (loss) for the period</b>		<b>8,485</b>	<b>(13,966)</b>

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



AK "ALROSA"

IFRS consolidated interim condensed financial information (unaudited) – 31 March 2010

(in millions of Russian roubles, unless otherwise stated)

### Condensed Consolidated Interim Statement of Cash Flows (unaudited)

	Notes	Three months ended 31 March 2010	Three months ended 31 March 2009
<b>Net Cash Inflow / (Outflow) from Operating Activities</b>	22	14,971	(6,058)
<b>Cash Flows from Investing Activities</b>			
Purchase of property, plant and equipment		(2,500)	(2,052)
Proceeds from sales of fixed assets		207	173
Acquisition of non-controlling interest in subsidiaries		-	(9)
Interest received		45	513
Dividends received from associates		383	-
<b>Net Cash Outflow from Investing Activities</b>		<b>(1,865)</b>	<b>(1,375)</b>
<b>Cash Flows from Financing Activities</b>			
Repayments of loans		(65,203)	(25,391)
Loans received		61,981	34,682
Interest paid		(2,405)	(4,115)
Dividends paid		(87)	(1,552)
<b>Net Cash (Outflow) / Inflow from Financing Activities</b>		<b>(5,714)</b>	<b>3,624</b>
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>		<b>7,392</b>	<b>(3,809)</b>
Cash and cash equivalents at the beginning of the period		5,094	7,569
Exchange gains on cash and cash equivalents		9	34
<b>Cash and Cash Equivalents at the End of The Period</b>		<b>12,495</b>	<b>3,794</b>

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

**AK "ALROSA"****IFRS consolidated interim condensed financial information (unaudited) – 31 March 2010***(in millions of Russian roubles, unless otherwise stated)***Condensed Consolidated Interim Statement of Changes in Equity (unaudited)**

	Attributable to shareholders of AK "ALROSA"							Non-controlling interest	Total equity
	Number of shares outstanding	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total		
<b>Balance at 31 December 2008</b>	272,306	12,473	10,431	(24)	(62)	55,631	78,449	(431)	78,018
Total comprehensive loss for the period		-	-	-	311	(14,201)	(13,890)	(76)	(13,966)
Purchase of non-controlling interest		-	-	-	-	-	-	(9)	(9)
<b>Balance at 31 March 2009</b>	272,306	12,473	10,431	(24)	249	41,430	64,559	(516)	64,043
<b>Balance at 31 December 2009</b>	272,173	12,473	10,431	(26)	54	58,966	81,898	(1,177)	80,721
Total comprehensive income for the period		-	-	-	20	8,391	8,411	74	8,485
Non-controlling interest in disposed net assets of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" (note 4)		-	-	-	-	-	-	1,082	1,082
<b>Balance at 31 March 2010</b>	272,173	12,473	10,431	(26)	74	67,357	90,309	(21)	90,288

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



## AK "ALROSA"

Notes to the IFRS condensed consolidated interim financial information (unaudited) – 31 March 2010

(in millions of Russian roubles, unless otherwise stated)

### 1. ACTIVITIES

The core activities of Closed Joint Stock Company AK "ALROSA" ("the Company") and its subsidiaries ("the Group") are the exploration and extraction of diamond reserves and the marketing and distribution of raw and cut diamonds. The Company was registered on 13 August 1992 as a closed joint stock company in the Republic of Sakha (Yakutia), which is located within the Russian Federation. The Group operates mining facilities in Mirny, Udachny, Aikhal, Nyurba and Anabar (located in Eastern Siberia) and Arkhangelsk. Licenses for the Group's major diamond deposits expire between 2015 and 2022. Management believes the Group will be able to extend the licenses' terms after they expire.

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

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

### 2. BASIS OF PRESENTATION

The condensed consolidated interim financial information is prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). This condensed consolidated interim financial information should be read together with the consolidated financial statements for the year ended 31 December 2009 prepared in accordance with International Financial Reporting Standards ("IFRS").

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

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

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 29.36 and 30.24 as at 31 March 2010 and 31 December 2009, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 39.70 and 43.39 as at 31 March 2010 and 31 December 2009, respectively.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies and methods of computation followed by the Group and the critical accounting judgments in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2009.

#### Recent accounting pronouncements

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

Amendments to IFRS 5 "Non-current Assets held for Sale and Discontinued Operations" which came into effect on 1 July 2009. The amendment clarifies the classification of assets and liabilities on disposal of a subsidiary. The amendment did not have an impact on Group's consolidated financial information.

Amendments to IFRS 2 ("Share-based payment – Group cash-settled share-based payment transactions"), which are effective for annual periods beginning on or after 1 January 2010. The amendments provide a clear basis to determine the classification of share based payment awards in both consolidated and separate financial statements. They incorporate IFRIC 8 and IFRIC 11 into the standard and expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendment also clarifies the defined terms in the Appendix to the standard. The amendment did not have an impact on Group's consolidated financial information.





## AK "ALROSA"

Notes to the IFRS condensed consolidated interim financial information (unaudited) – 31 March 2010

(in millions of Russian roubles, unless otherwise stated)

Amendment to IAS 39 "Financial instruments: recognition and measurement" ("IAS 39"), which is effective for annual periods beginning on or after 1 July 2009. The amendment to IAS 39 clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have an impact on Group's consolidated financial information.

Amendments to IFRIC 9 and IAS 39 "Embedded Derivatives", which are effective for annual periods beginning on or after 30 June 2009. The amendments clarify that on reclassification of a financial asset out of the "at fair value through profit or loss" category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on Group's consolidated financial information.

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

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

Improvements to International Financial Reporting Standards (issued in April 2009). Amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010. The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The amendments did not have any material effect on Group's consolidated financial information.

The following new Standards and amendments to Standards are not yet effective and have not been early adopted by the Group:

Amendment to IAS 24 "Related Party Disclosures" which is effective for annual periods beginning on or after 1 January 2011. IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group is currently assessing the impact of the amended IAS 24 on the Group's consolidated financial statements.

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

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at



## AK "ALROSA"

Notes to the IFRS condensed consolidated interim financial information (unaudited) – 31 March 2010

(in millions of Russian roubles, unless otherwise stated)

fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

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

The Group is currently assessing the impact of IFRS 9 on the Group's consolidated financial statements.

IFRIC 19 "Extinguishing financial liabilities with equity instruments", which is effective for annual periods beginning on or after 1 July 2010, clarifying the accounting when an entity renegotiates the terms of its debt with the result the liability is extinguished by the debtor issuing its own equity instruments to the creditor (referred to as a "debt for equity swap"). The application of IFRIC 19 is not expected to materially affect the Group's consolidated financial statements.

Amendment to IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interactions", which is effective for annual periods beginning on or after 1 January 2011, removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The application of this amendment is not expected to materially affect the Group's consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and generally effective for the Group from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the end of the reporting period and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.


**AK "ALROSA"**

Notes to the IFRS condensed consolidated interim financial information (unaudited) – 31 March 2010  
(in millions of Russian roubles, unless otherwise stated)

**4. GROUP STRUCTURE AND INVESTMENTS**

The Company's significant consolidated subsidiaries are as follows:

Name	Principal activity	Country of Incorporation	Percentage of ownership interest held	
			31 March 2010	31 December 2009
"ALROSA Finance" S.A.	Financial services	Luxembourg	100	100
"Sunland Trading" S.A.	Diamonds trading	Switzerland	100	100
"Arcos Belgium" N.V.	Diamonds trading	Belgium	100	100
ZAO "Irelyakhneft"	Oil production	Russia	100	100
AO "ALROSA-Gaz"	Gas production	Russia	100	100
OO "ALROSA-VGS"	Capital construction	Russia	100	100
AO "Almazy Anabara"	Diamonds production	Russia	100	100
AO "Investment Group ALROSA"	Investing activity	Russia	100	100
AO "Viluyskaya GES-3"	Electricity production	Russia	100	100
AO "Severalmaz"	Diamonds production	Russia	95	95
OO "MAK-Bank"	Banking activity	Russia	88	88
AO "ALROSA-Nyurba"	Diamonds production	Russia	88	88
AO "NNGK Sakhaneftgaz"	Oil & gas industry	Russia	-	50

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

**Disposal of AO "NNGK Sakhaneftgaz" and AO "Lenaneftgaz"**

In March 2010 the Company lost control over financial and operating activity of AO "NNGK Sakhaneftgaz" and AO "Lenaneftgaz" due to start of bankruptcy administration procedure (last stage of bankruptcy procedure) in accordance with the legal claim of AO "NK Rosneft". Gain on disposal in the amount of RR'mln 1,427 was recognised within other operating income (see note 18).

Net assets of AO "NNGK Sakhaneftgaz" and AO "Lenaneftgaz" at the date of disposal and are as follows:

Property, plant and equipment	1,190
Available-for-sale investments	195
Inventories	745
Trade and other receivables	367
Trade and other payables	(5,006)
Non-controlling interest	1,082
<b>Net assets</b>	<b>(1,427)</b>

**Associates**

Name	Country of incorporation	Percentage of ownership interest held as at		Carrying value of investment as at		Group's share of net profit / (loss) for the three months ended	
		31 March 2010	31 December 2009	31 March 2010	31 December 2009	31 March 2010	31 March 2009
"Catoca Mining Company Ltd"	Angola	33	33	1,600	1,278	359	315
AO "Almazny Mir"	Russia	47	47	176	174	2	2
Other	Russia			84	78	(1)	(1)
				1,860	1,530	360	316

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



"Catoca Mining Company Ltd" is a diamond-mining venture located in Angola. Currency translation loss recognised in the condensed consolidated interim statement of comprehensive income for the three months ended 31 March 2010 in respect of investment in "Catoca Mining Company Ltd" totalled RR'mln 37 (three months ended 31 March 2009: currency translation income totalled RR'mln 246).

#### Non-current available-for-sale investments

	Three months ended 31 March 2010	Three months ended 31 March 2009
Available-for-sale investments at the beginning of the period	420	512
Available-for-sale investments in disposed net assets of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz"	(195)	-
Disposals	-	(7)
Available-for-sale investments at the end of the period	225	505

## 5. DERIVATIVE FINANCIAL INSTRUMENTS

#### Long-term derivative financial instruments (liabilities)

	31 March 2010	31 December 2009
Fair value of put options granted by the Group to the buyers of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company"	3,245	3,658
Fair value of foreign exchange forward contracts	1,089	2,657
Fair value of cross currency interest rate swaps	100	187
	4,434	6,502

#### Short-term derivative financial instruments (liabilities)

	31 March 2010	31 December 2009
Fair value of foreign exchange forward contracts	2,089	3,643
Fair value of cross currency interest rate swaps	101	-
	2,190	3,643

#### 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 March 2010 under which it agreed to sell US\$ for RR during a five-year period starting in September 2006 and ending in September 2011, at a strike price fixed at the exchange rates ranging from RR 26.56 to RR 26.84 per US\$ 1, averaged on a quarterly basis. The transactions have varying maturities and amounts spread evenly over the five-year period in the aggregate amount of US\$m 215 per quarter (US\$m 4,300 in total over the five-year period). At 31 March 2010 the fair value of the forward foreign exchange contracts totalled RR'mln 3,178 (liability), including current portion in the amount of RR'mln 2,089 (as at 31 December 2009 - RR'mln 6,300 (liability), including current portion in the amount of RR'mln 3,643). It represents the net present value of the differences between the cash flows related to these contracts calculated at forward exchange rates prevailing at the market as at the end of the reporting periods and forward exchange rates fixed by the forward sales contracts concluded by the Company over the five-years period.

	Three months ended 31 March 2010	Three months ended 31 March 2009
Fair value of foreign exchange forward contracts at the beginning of the period	(6,300)	(21,348)
Net payment from exercising of foreign exchange forward contracts	616	1,688
Net gain / (loss) from change of fair value of foreign exchange forward contracts	2,506	(1,347)
Fair value of foreign exchange forward contracts at the end of the period	(3,178)	(21,007)

#### 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 March 2010. Under the swap

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transactions the Group agreed to convert into US\$ the amount due to "Bank VTB" totalling RR'mln 4,518 at the exchange rate of RR 26.62 and pay fixed interest rates ranging from 9.55 to 9.88 percent in exchange of RR floating interest rates based on three months MosPrime interest rate. The transactions have varying maturities and amounts spread from October 2008 to May 2011. At 31 March 2010 the fair value of the cross currency interest rate swap transactions totalled RR'mln 201 (liability), including current portion in the amount of RR'mln 101, at 31 December 2009 - RR'mln 187 (liability).

	Three months ended 31 March 2010	Three months ended 31 March 2009
Fair value of cross currency interest rate swap contracts at the beginning of the period	(187)	(1,096)
Net proceeds from exercising of swap contracts	(53)	(74)
Net gain / (loss) from change of fair value of cross currency interest rate swap contracts	39	(161)
Fair value of cross currency interest rate swap contracts at the end of the period	(201)	(1,331)

The discount rate used to calculate the fair value of the forward foreign exchange contracts and cross currency interest rate swap transactions as at 31 March 2010 was 6.5 percent (as at 31 December 2009: 9 percent), which represents the incremental interest rate on RR denominated borrowings applicable to the Group as at the end of the respective reporting period.

## 6. CASH AND CASH EQUIVALENTS

### *Restricted cash*

Restricted cash included within non-current assets in the statement of financial position of RR'mln 134 and RR'mln 107 as at 31 March 2010 and 31 December 2009, respectively, is represented by mandatory reserve deposits held with the Central Bank of the Russian Federation by OOO "MAK Bank", a subsidiary of the Group; these balances are not available for use in the Group's day to day operations. Payments to this restricted cash account are included in cash flows from operating activity in consolidated statement of cash flows (see note 22).

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

	31 March 2010	31 December 2009
Current accounts	12,149	4,567
Deposit accounts	346	527
	12,495	5,094

At 31 March 2010 the weighted average interest rate on the cash balances of the Group was 0.09 percent (31 December 2009: 0.43 percent).


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**7. PROPERTY, PLANT AND EQUIPMENT**

	Operating assets	Assets under construction	TOTAL
<b>As at 31 December 2008</b>			
Cost	194,406	61,057	255,463
Accumulated depreciation	(76,776)	(613)	(77,389)
<b>Net book value as at 31 December 2008</b>	<b>117,630</b>	<b>60,444</b>	<b>178,074</b>
<b>Three months ended 31 March 2009</b>			
Net book value as at 31 December 2008	117,630	60,444	178,074
Foreign exchange differences	694	656	1,350
Additions	566	3,163	3,729
Transfers	3,418	(3,418)	-
Disposals – at cost	(910)	(1)	(911)
Disposals – accumulated depreciation	568	(19)	549
Change in estimate of provision for land reclamation	(1)	-	(1)
Impairment of property, plant and equipment	-	(33)	(33)
Depreciation charge for the period	(2,687)	-	(2,687)
<b>Net book value as at 31 March 2009</b>	<b>119,278</b>	<b>60,792</b>	<b>180,070</b>
<b>As at 31 December 2009</b>			
Cost	210,041	41,756	251,797
Accumulated depreciation	(83,101)	(764)	(83,865)
<b>Net book value as at 31 December 2009</b>	<b>126,940</b>	<b>40,992</b>	<b>167,932</b>
<b>Three months ended 31 March 2010</b>			
Net book value as at 31 December 2009	126,940	40,992	167,932
Foreign exchange differences	(144)	(8)	(152)
Additions	860	2,101	2,961
Transfers	225	(225)	-
Disposals – at cost	(650)	(1)	(651)
Disposal through disposal of OAO "NNGK "Sakhaneftegaz" and OAO "Lenaneftegaz" – at cost	(1,205)	(150)	(1,355)
Disposals – accumulated depreciation	404	-	404
Disposal through disposal of OAO "NNGK "Sakhaneftegaz" and OAO "Lenaneftegaz" – accumulated depreciation	165	-	165
Change in estimate of provision for land reclamation	(9)	-	(9)
Reversal of impairment of property, plant and equipment	-	111	111
Depreciation charge for the period	(2,399)	-	(2,399)
<b>Net book value as at 31 March 2010</b>	<b>124,187</b>	<b>42,820</b>	<b>167,007</b>
<b>As at 31 March 2010</b>			
Cost	126,586	42,820	169,406
Accumulated depreciation	(2,399)	-	(2,399)
<b>Net book value as at 31 March 2010</b>	<b>124,187</b>	<b>42,820</b>	<b>167,007</b>

**8. INVENTORIES**

	31 March 2010	31 December 2009
Diamonds	16,268	19,844
Ores and concentrates	6,692	6,177
Mining and construction materials	9,774	12,509
Diamonds for resale	1,278	5,597
Consumable supplies	937	746
	<b>34,949</b>	<b>44,873</b>

**9. TRADE AND OTHER RECEIVABLES**

Long-term accounts receivable	31 March 2010	31 December 2009
Loans issued	1,671	1,324
Long-term VAT recoverable	537	576
Notes receivable	342	317
Other long-term receivables	3	14
	<b>2,553</b>	<b>2,231</b>

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<b>Current accounts receivable</b>	<b>31 March 2010</b>	<b>31 December 2009</b>
Trade receivables for supplied diamonds	3,441	638
Loans issued	2,915	3,648
Advances to suppliers	844	703
VAT recoverable	615	777
Prepaid taxes, other than income tax	611	1,349
Notes receivable	320	641
Receivables from associates (see note 24)	67	478
Other receivables	4,406	4,183
	<b>13,219</b>	<b>12,417</b>

Trade and other receivables are presented net of impairment provision of RR'mln 1,437 and RR'mln 1,746 as at 31 March 2010 and 31 December 2009, respectively.

**10. SHAREHOLDERS' EQUITY****Share capital**

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

**Distributable profits**

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the three months ended 31 March 2010 and 31 March 2009, the statutory profit/(loss) of the Company as reported in the published statutory reporting forms was RR'mln 5,022 and RR'mln (13,434), 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 this condensed consolidated interim financial information.

**Treasury shares**

At 31 March 2010 and 31 December 2009 subsidiaries of the Group held 553 ordinary shares of the Company. The Group management controls the voting rights of these shares.

**Non-controlling interest in subsidiaries**

	<b>Three months ended 31 March 2010</b>	<b>Three months ended 31 March 2009</b>
Non-controlling interest at the beginning of the period	(1,177)	(431)
Non-controlling interest share of net profit / (loss) of subsidiaries	74	(76)
Non-controlling interest in disposed net assets of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" (note 4)	1,082	-
Purchase of non-controlling interest	-	(9)
Non-controlling interest at the end of the period	<b>(21)</b>	<b>(516)</b>


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**11. LONG-TERM DEBT**

	<b>31 March 2010</b>	<b>31 December 2009</b>
<b>Banks:</b>		
US\$ denominated floating rate	4,403	3,262
US\$ denominated fixed rate	13,238	21,708
RR denominated floating rate	1,556	1,556
RR denominated fixed rate	306	44,480
	<b>19,503</b>	<b>71,006</b>
<b>Eurobonds</b>	<b>14,659</b>	<b>15,099</b>
Finance lease obligation	510	564
Commercial paper	314	359
Other US\$ denominated fixed rate loans	40	123
Other RR denominated fixed rate loans	1,525	1,476
	<b>36,551</b>	<b>88,627</b>
<b>Less: current portion of long-term debt (see note 12)</b>	<b>(10,696)</b>	<b>(65,046)</b>
	<b>25,855</b>	<b>23,581</b>

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

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

	<b>31 March 2010</b>	<b>31 December 2009</b>
<b>Banks:</b>		
US\$ denominated floating rate	4.1%	4.3%
US\$ denominated fixed rate	12.1%	14.5%
RR denominated floating rate	11.2%	13.7%
RR denominated fixed rate	12.6%	15.3%
<b>Eurobonds</b>	<b>8.7%</b>	<b>8.7%</b>
Finance lease obligation	7.6%	7.6%
Commercial paper	17.3%	21.7%
Other US\$ denominated fixed rate	9.0%	9.0%
Other RR denominated fixed rate loans	11.2%	11.9%

**Eurobonds**

	<b>Three months ended 31 March 2010</b>	<b>Three months ended 31 March 2009</b>
Balance at the beginning of the period	15,099	14,681
Amortisation of discount	14	13
Exchange (gains) / losses	(454)	2,284
Balance at the end of the period	14,659	16,978

**Finance lease obligation**

	<b>Minimum lease payments 31 March 2010</b>	<b>Discounted value of minimum lease payments 31 March 2010</b>	<b>Minimum lease payments 31 December 2009</b>	<b>Discounted value of minimum lease payments 31 December 2009</b>
Within 1 year	62	24	15	57
Between 2 and 4 years	574	486	607	507
	<b>636</b>	<b>510</b>	<b>622</b>	<b>564</b>



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

	31 March 2010	31 December 2009
Banks:		
US\$ denominated fixed rate	62,927	15,939
RR denominated fixed rate	10	5
	<b>62,937</b>	<b>15,944</b>
European commercial paper	10,211	11,237
Commercial paper	540	616
Other US\$ denominated fixed rate loans	9	9
Other RR denominated fixed rate loans	1,667	1,519
	<b>75,364</b>	<b>29,325</b>
Add: current portion of long-term debt (see note 11)	10,696	65,046
	<b>86,060</b>	<b>94,371</b>

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

	31 March 2010	31 December 2009
Banks:		
US\$ denominated fixed rate	7.5%	10.4%
RR denominated fixed rate	14.2%	14.4%
European commercial paper	9.5%	9.8%
Commercial paper	7.8%	7.8%
Other RR denominated fixed rate loans	1.7%	1.9%

**European commercial paper**

	Three months ended 31 March 2010	Three months ended 31 March 2009
Balance at the beginning of the period	11,237	1,366
Issued	-	1,671
Repayment	(698)	-
Exchange (gains) / losses	(328)	131
Balance at the end of the period	10,211	3,168

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

**13. TRADE AND OTHER PAYABLES**

	31 March 2010	31 December 2009
Accrual for employee flights and holidays	4,681	4,367
Trade payables	2,968	4,477
Wages and salaries	1,626	1,594
Current accounts of third parties in OOO "MAK-Bank"	1,588	882
Interest payable	1,017	622
Advances from customers	1,002	1,055
Payables to associates	48	48
Accounts payable of OAO "NNGK Sakhaneftgaz" to the companies of former "YUKOS" Group (see note 4)	-	3,719
Other payables and accruals	862	474
	<b>13,792</b>	<b>17,238</b>



#### 14. INCOME AND OTHER TAX ASSETS AND LIABILITIES

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

	31 March 2010	31 December 2009
Payments to social funds	1,062	-
Extraction tax	871	754
Property tax	790	811
Value added tax	637	617
Personal income tax (employees)	195	324
Tax penalties	26	26
Unified social tax	-	750
Other taxes and accruals	56	229
	3,637	3,511

Since 1 January 2010 unified social tax was replaced by payments to several social funds.

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

	Three months ended 31 March 2010	Three months ended 31 March 2009
Property tax	767	724
Other taxes and accruals	143	159
	910	883

In accordance with Resolution № 795 of the Government of the Russian Federation dated 23 December 2006, in addition to the taxes noted above, the Group is obliged to pay 6.5 percent on the value of diamonds sold for export in the form of an export duty (see note 15).

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

During 2010 the Company accrued profit tax at the rate of 20 percent (year ended 31 December 2009: 20 percent). This tax rate was applied to determine the deferred tax balances as at 31 March 2010.

Income tax expense / (benefit) comprise the following:

	Three months ended 31 March 2010	Three months ended 31 March 2009
Current tax expense	915	41
Adjustments recognised in the period for current tax of prior periods	(91)	-
Deferred tax expense / (benefit)	613	(1,782)
	1,437	(1,741)



## 15. SALES

	Three months ended 31 March 2010	Three months ended 31 March 2009
Revenue from diamond sales:		
Export	19,340	359
Domestic	4,873	3,178
Revenue from diamonds for resale	4,482	468
	28,695	4,005
Other revenue:		
Transport	658	830
Social infrastructure	600	535
Construction	358	231
Trading	126	99
Gas and gas condensate	-	34
Other	645	1,193
	31,082	6,927

Export duties totalling RR'mln 1,407 for the three months ended 31 March 2010 (three months ended 31 March 2009: RR'mln 2) were netted against revenues from export of diamonds.

## 16. COST OF SALES

	Three months ended 31 March 2010	Three months ended 31 March 2009
Wages, salaries and other staff costs	4,729	4,613
Cost of diamonds for resale	4,349	679
Fuel and energy	2,173	2,498
Depreciation	2,134	2,310
Extraction tax	1,685	1,775
Materials	1,264	937
Services	879	612
Transport	387	346
Other	43	77
Movement in inventory of diamonds, ores and concentrates	3,062	(8,778)
	20,705	5,069

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 867 for the three months ended 31 March 2010 (three months ended 31 March 2009: unified social tax in the amount of RR'mln 897).

Depreciation totalling RR'mln 265 (three months ended 31 March 2009: RR'mln 377) and staff costs totalling RR'mln 476 (three months ended 31 March 2009: RR'mln 716) were incurred by the Group's construction divisions and were capitalised in the period.

## 17. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 31 March 2010	Three months ended 31 March 2009
Services and other administrative expenses	632	533
Wages, salaries and other staff costs	474	508
Impairment of accounts receivable	9	10
	1,115	1,051

**18. OTHER OPERATING INCOME**

	Three months ended 31 March 2010	Three months ended 31 March 2009
Net gain from foreign exchange forward contracts	2,506	-
Gain on disposal of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" (note 4)	1,427	-
Gain from change of fair value of put options granted by the Group to the buyers of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company"	413	-
Net gain from cross currency interest rate swap contracts	39	-
Other	140	218
	<b>4,525</b>	<b>218</b>

**19. OTHER OPERATING EXPENSES**

	Three months ended 31 March 2010	Three months ended 31 March 2009
Taxes other than income tax, extraction tax, payments to social funds and unified social tax (note 14)	910	883
Exploration expenses	771	900
Social costs	632	523
Loss on disposal of property, plant and equipment	40	189
Net loss from cross currency interest rate swap contracts	-	161
Net loss from foreign exchange forward contracts	-	1,347
(Reversal of impairment) / impairment of property, plant and equipment	(111)	33
Other	153	233
	<b>2,395</b>	<b>4,269</b>

**Social costs consist of:**

	Three months ended 31 March 2010	Three months ended 31 March 2009
Maintenance of local infrastructure	379	330
Hospital expenses	80	60
Education	9	16
Charity	9	13
Other	155	104
	<b>632</b>	<b>523</b>

**20. FINANCE INCOME**

	Three months ended 31 March 2010	Three months ended 31 March 2009
Interest income	74	649
Exchange gains	2,255	-
	<b>2,329</b>	<b>649</b>



## 21. FINANCE COSTS

	Three months ended 31 March 2010	Three months ended 31 March 2009
Interest expense:		
Bank loans	2,326	4,126
Eurobonds	333	390
European commercial paper	258	61
Commercial paper	55	42
Other	31	3
Unwinding of discount of provision for land reclamation	9	14
Exchange losses	-	7,925
	<b>3,012</b>	<b>12,561</b>

## 22. CASH GENERATED FROM OPERATIONS

Reconciliation of profit / (loss) before tax to cash flows from operations:

	Three months ended 31 March 2010	Three months ended 31 March 2009
Profit / (loss) before income tax	9,902	(16,018)
Adjustments for:		
Share of net profit of associates (note 4)	(360)	(316)
Interest income (note 20)	(74)	(649)
Interest expense (note 21)	3,012	4,636
Loss on disposal of property, plant and equipment (note 19)	40	189
(Reversal of impairment) / impairment of property, plant and equipment (note 19)	(111)	33
Gain on disposal of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" (note 18)	(1,427)	-
Net (gain) / loss from foreign exchange forward contracts (note 18, 19)	(2,506)	1,347
Net (gain) / loss from cross currency interest rate swap contracts (note 18, 19)	(39)	161
Gain from change of fair value of put options granted by the Group to the buyers of ZAO "Geotransgaz" and OOO "Urengoykaya Gazovaya Company" (note 18)	(413)	-
Depreciation (note 16)	2,134	2,310
Adjustment for inventory used in construction	(626)	(781)
Adjustments for non-cash financing activity (note 25)	(114)	153
Net payments from exercising of foreign exchange forward contracts	(616)	(1,688)
Net proceeds from exercising of cross currency interest rate swap contracts	53	74
(Payments to) / receipt from restricted cash account (note 6)	(27)	7
Unrealised foreign exchange effect on non-operating items	(2,659)	8,946
Net operating cash flow before changes in working capital	6,169	(1,596)
Net decrease / (increase) in inventories	9,181	(6,222)
Net increase in trade and other receivables, excluding dividends receivable, receivables for sale of gold mining operations and treasure shares	(1,846)	(1,863)
Net increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	1,375	210
Net increase in taxes payable	296	3,442
<b>Cash inflows / (outflows) from operating activity</b>	<b>15,175</b>	<b>(6,029)</b>
Income tax paid	(204)	(29)
<b>Net cash inflows / (outflows) from operating activities</b>	<b>14,971</b>	<b>(6,058)</b>



## 23. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

### (a) Operating environment of the Russian Federation

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

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

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

### (b) Taxes

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

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

As at 31 March 2010 the Group had tax contingencies, the magnitude of which may be significant for the Group. Management of the Group believes that the exposure in respect of these tax risks is not probable, therefore as at 31 March 2010 no provision for tax liabilities had been recorded.

### (c) Legal proceedings

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

### (d) Insurance

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

### (e) Capital commitments

As at 31 March 2010 the Group has contractual commitments for capital expenditures of approximately RR'mln 1,880 (31 December 2009: RR'mln 3,496).

### (f) Financial guarantee contracts

In August 2009 the Group provided a guarantee to VTB Bank Europe plc. on behalf of a third party related to the loan received by that company. As at 31 March 2010 the amount of guarantee amounted to RR'mln 1,546 (US\$m 45 plus 13.6 percent per annum).

### (g) 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 during 2007-2010 in accordance with the "Program for improvement of environmental situation in the area of operating activity of the Company". The Company recognised a provision for these future expenses in its consolidated financial statements as at 31

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March 2010 and 31 December 2009. Also the Group is obliged to restore riverbeds and the surrounding areas. These expenses are not expected to be material to the Group and are expensed in the period when incurred.

**24. RELATED PARTY TRANSACTIONS**

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

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

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

Governments of the Russian Federation and the Republic of Sakha (Yakutia) are the ultimate controlling parties of AK "ALROSA". As at 31 March 2010 83 percent of AK "ALROSA" issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Also as at 31 March 2010 8 percent of the Company's shares were owned by administrations or 8 districts of the Republic of Sakha (Yakutia). Following the General Meeting of Shareholders in June 2009, the 15 seats on the Supervisory Council include 12 representatives of the Russian Federation and the Republic of Sakha (Yakutia), 2 management representatives and 1 representative of districts of the Republic of Sakha (Yakutia). Governmental, federal and local economic and social policies affect the Group's financial position, results of operations and cash flows.

Tax balances are disclosed in the statement of financial position and in notes 9 and 14. Tax transactions are disclosed in the statement of comprehensive income, cash flow statement and in notes 14, 15, 16, 19 and 22.

***Parties under control of the Government***

In the normal course of business the Group enters into transactions with other entities under Governmental control. The principal forms of such transactions are diamond sales, electricity purchases and borrowings. Prices of diamonds sales are set by price lists approved by the Ministry of Finance of the Russian Federation; electricity tariffs in Russia are regulated by the Federal Tariffs Service; other transactions with entities under Governmental control were performed under market terms; loans received from Government controlled entities and loans issued to Government controlled entities are provided on the basis of market rates.

As at 31 March 2010 the accounts payable to the parties under Governmental control totalled RR'mln 901 (31 December 2009: RR'mln 3,091). As at 31 March 2010 the accounts receivable from the parties under Governmental control totalled RR'mln 767 (31 December 2009: RR'mln 572). As at 31 March 2010 and 31 December 2009 the accounts receivable from the parties under Governmental control and accounts payable to the parties under Governmental control were non-interest bearing, had a maturity within one year and were denominated in Russian Roubles.

During three months ended 31 March 2010 and 31 March 2009 the Group had the following significant transactions with parties under Governmental control:

	<b>Three months ended 31 March 2010</b>	<b>Three months ended 31 March 2009</b>
Sales of diamonds	2,403	3,127
Other sales	368	354
Electricity and heating expenses	1,661	1,331
Other purchases	234	222

As at 31 March 2010 the amount of loans received by the Group from entities under Governmental control totalled RR'mln 67,254 (31 December 2009: RR'mln 80,913). During the three months ended 31 March 2010 interest expense accrued in respect to the loans received by the Group from entities under Governmental control totalled RR'mln 1,782 (three months ended 31 March 2009: RR'mln 2,670).

As at 31 March 2010 the amount of loans issued by the Group to the entities under Governmental control totalled RR'mln 607 (31 December 2009: RR'mln 726). During the three months ended 31 March 2010 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR'mln 14 (three months ended 31 March 2009: RR'mln 35).

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**Key management compensation**

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

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

Supervisory Council and Management committee members received benefits for the three months ended 31 March 2010 totalling RR'mln 29 (three months ended 31 March 2009: RR'mln 39).

**Associates**

Significant transactions with associates are summarised as follows:

	31 March 2010	31 December 2009
"Catoca Mining Company Ltd.", dividends receivable	66	478
Other	27	26
Less: provision for bad debt	(26)	(26)
	67	478

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

**25. SIGNIFICANT NON-CASH TRANSACTIONS**

	Three months ended 31 March 2010	Three months ended 31 March 2009
<b>Non-cash financing activities:</b>		
Commercial paper issuance	-	343
Commercial paper and loans redemption	(114)	(190)
	(114)	153

**26. SEGMENT INFORMATION**

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

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

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





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

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

Three months ended 31 March 2009	Diamonds segment	Transpor- tation	Social infrastructure	Construction activity	Trading	Electricity production	Other activities	Total
Sales	4,007	844	535	231	196	650	1,239	7,702
Intersegment sales	-	(14)	-	-	(67)	(505)	(238)	(824)
Cost of sales, incl. Depreciation	3,048 2,042	1,073 138	1,616 159	216 17	139 2	222 54	1,085 78	7,399 2,490
<b>Gross margin</b>	<b>959</b>	<b>(229)</b>	<b>(1,081)</b>	<b>15</b>	<b>57</b>	<b>428</b>	<b>154</b>	<b>303</b>

Reconciliation of sales is presented below:

	Three months ended 31 March 2010	Three months ended 31 March 2009
<b>Segment sales</b>	<b>33,850</b>	<b>7,702</b>
Elimination of intersegment sales	(1,073)	(824)
Reclassification of custom duties <sup>1</sup>	(1,407)	(2)
Other adjustment and reclassifications	(288)	51
<b>Sales as per Statement of Comprehensive Income</b>	<b>31,082</b>	<b>6,927</b>

<sup>1</sup> Reclassification of custom duties – export duties netted against revenues from export of diamonds

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Reconciliation of cost of sales including depreciation is presented below:

	Three months ended 31 March 2010	Three months ended 31 March 2009
<b>Segment cost of sales</b>	<b>19,427</b>	<b>7,399</b>
Adjustment for depreciation of property, plant and equipment	(363)	(180)
Elimination of intersegment purchases	(1,073)	(824)
Accrued provision for pension obligation <sup>1</sup>	(218)	271
Reclassification of extraction tax <sup>2</sup>	1,371	1,574
Adjustment for inventories <sup>3</sup>	1,862	(1,994)
Accrual for employee flights and holidays <sup>4</sup>	533	181
Other adjustments	(285)	(230)
Reclassification of exploration expenses <sup>5</sup>	(697)	(783)
Other reclassifications	148	(345)
<b>Cost of sales as per Statement of Comprehensive Income</b>	<b>20,705</b>	<b>5,069</b>

<sup>1</sup> Accrued provision for pension obligation – recognition of pension obligation in accordance with IAS 19<sup>2</sup> Reclassification of extraction tax – reclassification from general and administrative expenses<sup>3</sup> Adjustment for inventories – treatment of extraction tax as direct expenses for financial statements prepared under IFRS, with a corresponding record in inventory figure and other adjustments<sup>4</sup> Accrual for employee flights and holidays – recognition of employee flights and holidays reserve under collective labour agreement of the Company<sup>5</sup> Reclassification of exploration expenses – reclassification to other operating expenses

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

	Sales		Non-current assets	
	Three months ended 31 March 2010	Three months ended 31 March 2009	31 March 2010	31 December 2009
Belgium	13,708	244	-	-
Russian Federation	9,293	5,891	169,986	170,259
India	3,658	307	-	-
Israel	2,711	103	122	126
United Arab Emirates	626	-	136	142
China	362	27	2	-
Angola	220	168	2,968	3,127
Switzerland	38	123	4	4
Other countries	466	64	-	1
<b>Total</b>	<b>31,082</b>	<b>6,927</b>	<b>173,218</b>	<b>173,659</b>

**27. EVENTS AFTER THE REPORTING PERIOD*****Borrowings***

In June 2010 the Company issued four series of RR denominated five-year bonds in the amount of RR'mln 26,000 at 8.25 and 8.95 percent per annum.

***Dividends***

On 26 June 2010 annual shareholders' meeting which is scheduled approved dividends for the year ended 31 December 2009 in the amount of RR'mln 250 (RR 916.3 per share).