ALROSA Finance S.A.

(incorporated as a société anonyme with limited liability in Luxembourg)

US$1,000,000,000 7.750 per cent. Notes due 2020

Unconditionally and irrevocably guaranteed by

"ALROSA" Company Limited

(incorporated in the Russian Federation)

Issue Price 100 per cent.

ALROSA Finance S.A. (the "**Issuer**"), a private company incorporated with limited liability under the laws of the Grand Duchy of Luxembourg ("**Luxembourg**") and a subsidiary of ALROSA Finance B.V., a private company incorporated with limited liability under the laws of The Netherlands, wholly owned by "ALROSA" Company Limited ("**ALROSA**" or the "**Guarantor**"), a closed joint stock company organised under the laws of the Russian Federation (or "**Russia**"), with the alternate legal name AK "ALROSA" (ZAO), is issuing the US$1,000,000,000 7.750 per cent. Notes due 2020 (the "**Notes**"). The Notes will be general unsecured and unsubordinated obligations of the Issuer, and will rank senior to all present and future subordinated obligations and equal to all present and future unsecured obligations of the Issuer. The Notes will be constituted by a trust deed to be dated 3 November 2010 (the "**Trust Deed**") made between the Issuer, ALROSA and BNY Corporate Trustee Services Limited (the "**Trustee**"). The Notes will be unconditionally and irrevocably guaranteed by ALROSA (the "**Guarantee**"). This Guarantee will be unsecured indebtedness of ALROSA and will rank senior to all present and future subordinated obligations and equal to all present and future unsecured obligations of ALROSA.

Interest on the Notes will accrue from, and including, 3 November 2010 and will be payable in equal instalments semi-annually in arrear on 3 May and 3 November of each year, commencing on 3 May 2011, at the rate of 7.750 per cent. per annum. Payments on the Notes will be made free and clear of, and without withholding or deduction for or on account of, any taxes imposed by Luxembourg or Russia, to the extent described under Condition 9 "Taxation" in the terms and conditions of the Notes (the "**Terms and Conditions**"). Except in certain limited circumstances, the Notes are not redeemable prior to the Maturity Date. If at any time while any Note remains outstanding a Change of Control occurs (as defined herein), the Issuer shall, at the option of the holder of any such Note, redeem or purchase such Note on the Change of Control Put Date (as defined herein) at 100 per cent. of its principal amount together with (or, where purchased, together with an amount equal to) interest accrued to but excluding the Change of Control Put Date. The Notes will mature on 3 November 2020 (the "**Maturity Date**").

The Notes will be in registered form, without interest coupons attached, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof.

References to the "**Group**" in this prospectus (the "**Prospectus**") are to ALROSA and its consolidated subsidiaries, including the Issuer. References to "**Noteholders**" are to the persons in whose name each Note is for the time being registered in the relevant register kept by The Bank of New York Mellon (Luxembourg) S.A. or The Bank of New York Mellon (each, a "**Registrar**") (or, in the case of a joint holding, the first named thereof). References to the "**Offering**" are to the offering of the Notes by the Issuer.

The Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under the Prospectus Directive 2003/71/EC (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange (the "**Irish Stock Exchange**") for the Notes to be admitted to the Official List (the "**Official List**") and trading on its regulated market. This Prospectus constitutes a "prospectus" for the purposes of the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**") (which implement the Prospectus Directive in Ireland). References in this Prospectus to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the regulated market of the Irish Stock Exchange.

An investment in the Notes involves risks. See "Risk Factors" beginning on page 6.

The Notes and the Guarantee (collectively, the "Securities") have not been, and will not be, registered under the US Securities Act of 1933 (the "Securities Act") or under any securities laws of any other jurisdiction. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States in offshore transactions to non-US persons in reliance on Regulation S under the Securities Act ("Regulation S") and within the United States to "qualified institutional buyers" ("QIBs") (as defined in Rule 144A under the Securities Act ("Rule 144A")) in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and distribution of this Prospectus, see "Plan of Distribution" and "Transfer Restrictions".

Notes that are sold to QIBs will be represented by interests in a global registered Note (the "**Rule 144A Global Note**"), deposited with a custodian for, and registered in the name of a nominee for, The Depository Trust Company ("**DTC**") on or about 3 November 2010 (the "**Closing Date**"). Notes that are sold in transactions outside the United States in reliance on Regulation S will be represented by interests in a global registered Note (the "**Regulation S Global Note**") and together with the Rule 144A Global Note, the "**Global Notes**"), deposited with a common depositary for, and registered in the name of a nominee for, Euroclear Bank S.A/N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**").

The Notes are expected to be assigned a rating of Ba3 by Moody's Investors Service, Inc. ("**Moody's**"), BB- by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("**S&P**") and BB- by Fitch Investor Rating Services ("**Fitch**"). A rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by Moody's, S&P or Fitch, as applicable. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

Joint Lead Managers and Joint Bookrunners

J.P. Morgan **UBS Investment Bank** **VTB Capital**

Prospectus dated 1 November 2010

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This Prospectus comprises a prospectus for the purposes of the Prospectus Directive and for the purposes of giving information with regard to the Issuer, ALROSA, the Notes and the Guarantee that is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and ALROSA.

The Issuer and ALROSA accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of each of the Issuer and ALROSA (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

None of the Managers named under "Plan of Distribution" (the "**Managers**") nor any of its affiliates nor any person acting on its behalf makes any representation or warranty, express or implied, or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus.

The Issuer and ALROSA are providing this Prospectus only to prospective purchasers of the Notes. You should read this Prospectus before making a decision whether to purchase the Notes. You must not use this Prospectus for any other purpose.

In addition, the distribution of this Prospectus may be restricted by law in certain jurisdictions, about which restrictions you agree to inform yourself. By accepting delivery of this Prospectus you agree to the foregoing restrictions.

The Issuer and ALROSA have prepared this Prospectus and are solely responsible for its contents. You are responsible for making your own examination of the Group's business and your own assessment of the merits and risks of investing in the Notes. By purchasing the Notes, you will be deemed to have acknowledged that:

- you have reviewed this Prospectus;
- you have had an opportunity, in connection with making an informed investment decision with respect to the Notes, to request additional information that you need from the Issuer and ALROSA; and
- the Managers (as defined below) are not responsible for, and are not making any representation to you concerning, the Group's future performance or the accuracy or completeness of this Prospectus or otherwise in connection with this Offering.

In making an investment decision, you should rely only on the information contained in this Prospectus. The Issuer, ALROSA and the Managers have not authorised any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer and ALROSA or the Managers.

None of the Issuer, ALROSA or the Managers or any of their respective representatives is making any representation to you regarding the legality of your investment under relevant investment or similar laws or providing you with any legal, business, tax or other advice in this Prospectus. You should consult with your own advisers, as needed, to assist you in making your investment decision and to advise you whether you are legally permitted to purchase the Notes.

Neither the delivery of this Prospectus nor the offer, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or ALROSA since the date of this Prospectus. You must comply with all laws that apply to you in any place in which you buy, offer or sell any Notes or possess this Prospectus. You must also obtain any consents and approvals that you need in order to purchase any Notes. Neither the Issuer and ALROSA nor the Managers are responsible for your compliance with these legal requirements.

Unless otherwise stated to the contrary, you should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the front cover of this Prospectus.

"ALROSA", "Brillianty ALROSA", "ALROSA-Nyurba", "Severalmaz" and "Almazny Dvor" are ALROSA's most important trademarks and trade names. All other trademarks and trade names referred to in this Prospectus are the property of their respective owners.

The Issuer and ALROSA are offering to sell the Notes only in places where such offers and sales are permitted.

IN CONNECTION WITH THE ISSUE OF THE NOTES, UBS LIMITED, ACTING AS THE STABILISING MANAGER (THE "**STABILISING MANAGER**") (OR PERSONS ACTING ON BEHALF OF THE

STABILISING MANAGER) MAY OVER-ALLOT THE NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.

CERTAIN INFORMATION CONTAINED IN THIS PROSPECTUS

In this Prospectus, ALROSA relies on and refers to publicly available information released by official and unofficial sources other than ALROSA. These sources include, but are not limited to, the Central Bank of Russia (the "**CBR**"), research reports, analyst reports, press releases, securities filings and industry publications, including the US Geological Survey Minerals Handbook, Diamond Intelligence Briefs, Rapaport, International Diamond Consultants, publications prepared by the De Beers Group (**"De Beers"**), International Diamond Exchange (**"IDEX"**) and IHS Global Insight. Although ALROSA believes that this information is reliable, it has not independently verified this information and cannot guarantee its accuracy and completeness. In addition, some of the information contained in this Prospectus has been derived from official data published by the Russian Government (the "**Russian Government**"). Official statistics and other data published by Russian federal, regional and local governments are substantially less complete or transparent than those of Western countries. Official statistics may also be compiled on the basis of methodologies different from those used in Western countries. ALROSA accepts responsibility for accurately reproducing such information from the relevant sources. As far as ALROSA is aware and is able to ascertain from information published by the relevant sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Prospectus includes market data and industry forecasts and projections that have been obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers' experience in the industry, and there is no assurance that any of the forecasts or projections will be achieved. Similarly, ALROSA believes that the surveys and market research others have performed are reliable, but ALROSA has not independently verified this information.

In addition, this Prospectus describes certain facts regarding the Group's diamond reserves and expected ability to continue mining at current production levels. See "Business — Diamond Reserves" and "Appendix A — Certification of Diamond Deposits". Although this information has been certified by the Federal Subsoil Use Agency of the Ministry of Natural Resources of the Russian Federation (the "**Ministry of Natural Resources**") and the Ministry of Finance of the Russian Federation (the "**Ministry of Finance**", and collectively with the Ministry of Natural Resources, the "**Ministries**"), the Notes have not been guaranteed by the Ministries or by any other agency or political subdivision of Russia, and do not represent obligations of any such body.

In addition, ALROSA has included its own estimates, assessments, adjustments and judgements in preparing some market information, which have not been verified by an independent third party. These estimates include, among others, ALROSA's estimate of its share of total world production in carats and as a multiple of average market prices and its share of diamond production in Russia. Market information included herein is unless otherwise attributed exclusively to a third party source, to a certain degree subjective. Market information prepared by other sources may differ materially from the market information included herein.

The contents of ALROSA's websites do not form any part of the content of this Prospectus.

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

IMPORTANT NOTICE

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, ALROSA or the Managers, to subscribe or purchase any of the Notes in any jurisdiction. The distribution of this Prospectus and the Offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, ALROSA and the Managers to inform themselves about and to observe any such restrictions.

United Kingdom

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**Relevant Persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes is only made to Relevant Persons. Any person who is not a Relevant Person should not act or rely on this document or any of its contents.

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, US persons within the meaning of Regulation S, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States in offshore transactions to non US persons in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Regulation S and Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and the distribution of this Prospectus, see "Plan of Distribution" and "Transfer Restrictions".

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE US SECURITIES AND EXCHANGE COMMISSION (THE "**SEC**"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER US REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

Russia

The Notes are securities of a foreign issuer under Russian law. The Notes are not eligible for initial offering and circulation in Russia and no sale, exchange or transfer of the Notes may take place in Russia or to any Russian person or entity. The information provided in this Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the Notes in Russia or to any Russian person or entity. The information contained in this Prospectus does not constitute an advertisement of the Notes in Russia and must not be passed on to third parties or otherwise be made publicly available in Russia.

The Managers have represented, warranted and agreed that they have not offered, sold, exchanged or otherwise transferred, and will not offer, sell, exchange or otherwise transfer as part of their initial distribution or at any time thereafter, any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in Russia, or to any person located within the territory of Russia unless and to the extent otherwise permitted under Russian law. Information provided in this Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the Notes in Russia.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("**RSA 421-B**") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING, NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

LIMITATION ON ENFORCEMENT OF JUDGMENTS

Substantially all of ALROSA's directors and executive officers reside in Russia. All or a substantial portion of their and the Group's assets are located in Russia. As a result, it may not be possible for you to:

- effect service of process outside Russia upon substantially all of ALROSA's directors and executive officers; or
- enforce non-Russian court judgments obtained against ALROSA or substantially all of its directors and executive officers in non-Russian courts in any action, including actions under the civil liability provisions of US securities laws.

In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions located outside the United States or the United Kingdom, respectively, liabilities predicated upon the United States securities laws or English law, as applicable.

Judgments rendered by a court in any jurisdiction outside Russia will generally be recognised and enforced by courts in Russia if (i) an international treaty providing for the recognition and enforcement of judgments in civil cases exists between Russia and the jurisdiction where the judgment is rendered and/or (ii) a federal law providing for the recognition and enforcement of foreign court judgments is adopted in Russia. Even where such a treaty or federal law exists, Russian courts could nonetheless refuse to recognise and/or enforce a foreign court judgment on the grounds provided in such treaty and/or in Russian legislation in effect at the moment when such recognition and/or enforcement is sought. No federal law or international treaty exists between either of the United Kingdom or the United States and Russia directly providing for the recognition and enforcement of foreign court judgments in civil and commercial cases generally.

In the absence of an applicable treaty, a final judgment rendered by a foreign court may still be recognised and enforced by a Russian court on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. While some Russian courts have recently recognised and enforced English court judgments on these grounds, the existence of reciprocity must be established in each case at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether in the future a Russian court will recognise and enforce a judgment issued by a foreign court, including an English court, on the basis of reciprocity.

The Trust Deed will be governed by English law and will provide the option for disputes, controversies and causes of action brought by any party thereto against ALROSA to be settled by arbitration in accordance with the LCIA Rules in London, England. Russia and the United Kingdom are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (the "**New York Convention**"). However, it may be difficult to enforce arbitral awards in Russia due to a number of factors, including:

- a contradiction between the arbitral award and a judgment rendered earlier by a Russian court on the same issue;
- a contradiction of the arbitral award with Russian legislation;
- the lack of experience of the Russian courts in international commercial transactions and enforcement of arbitral awards; and
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign parties.

See "Risk Factors — Risks Related to the Legal and Regulatory Environment in Russia — Russia's unpredictable acknowledgement and enforcement of foreign court judgments or arbitral awards give rise to significant uncertainties".

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus includes statements that may be considered to be "forward-looking statements" within the meaning of the US Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact contained in this Prospectus, including, without limitation, those regarding the Group's future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets in which the Group participates or seeks to participate, and any statements preceded by, followed by or that include the words "believes", "expects", "aims", "intends", "plans", "will", "may", "anticipates" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements include, amongst other things, statements concerning:

- estimates of future production for specific operations;
- estimates of future production costs and other expenses for specific operations;

- estimates of future capital expenditures and other cash needs and expectations as to the funding thereof;
- statements as to the projected development of certain diamond deposits, including estimates of development and other capital costs, financing plans for these deposits and expected production commencement dates;
- estimates of future costs and other liabilities for certain environmental matters;
- estimates of remaining years of diamond production based on current reserves levels; and
- estimates of certain tax liabilities.

The forward-looking statements included in this Prospectus involve known and unknown risks, uncertainties and other factors which may cause the Group's actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are based on numerous assumptions regarding present and future business strategies and the environment in which the Group will operate in the future. You should be aware that a number of important factors could cause the industry's or the Group's own actual results or performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements, including, amongst others:

- the Group's ability to obtain additional financing in the future;
- the Group's ability to adapt its business to Russia's changing regulatory environment and to implement and successfully execute ALROSA's strategy;
- the Group's ability to complete existing and future projects on schedule and within budget;
- losses from operational hazards and uninsured risks;
- risks related to the Group's business development, operations and financial condition;
- the Group's ability to obtain, maintain and renew the permits, licences and other governmental authorisations required to conduct its operations;
- legal, political and regulatory compliance risks relating to the Group's operations;
- risks relating to the Guarantor's obligations under put option agreements relating to certain oil and gas assets;
- inflation, interest rate and exchange rate fluctuations;
- the effects of, and changes in, the policy of the Russian Government;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- acquisitions or divestitures;
- technological changes;
- the effects of international political events on the Group's business; and
- the Group's success in managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. Additional factors that could cause actual results, performance or achievements to differ materially include those discussed under "Risk Factors". When considering forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as of the date on which they are made, and the Issuer and ALROSA do not undertake any obligation to update or revise any of them, whether as a result of new information, further events or otherwise. The Issuer and ALROSA do not make any representation or warranty that the results anticipated by such forward-looking statements will be achieved.

PRESENTATION OF FINANCIAL INFORMATION

This Prospectus includes audited consolidated financial statements of the Group as of and for the years ended 31 December 2009 and 2008 (the "**2009/2008 Group Financial Statements**") and as of and for the years ended 31 December 2008 and 2007 (the "**2008/2007 Group Financial Statements**" and together with the 2009/2008 Group Financial Statements, the "**Audited Group Financial Statements**") as well as unaudited condensed consolidated interim financial statements of the Group as of and for the three and six months ended 30 June 2010 and 2009 (the "**Interim Financial Statements**", and together with the Audited Group Financial Statements, the "**Group Financial Statements**"). The Group Financial Statements included in the Prospectus have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IFRS**"). The Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". The Rouble is the functional and presentation currency for the Group Financial Statements. The Group Financial Statements and the Group's financial information included elsewhere in this Prospectus have, unless otherwise noted, been presented in Roubles.

In addition, this Prospectus includes audited stand-alone financial statements of the Issuer for the years ended 31 December 2009 and 2008 (the "**Issuer's Financial Statements**"), prepared in accordance with the Luxembourg legal and regulatory requirements relating to the preparation of annual accounts ("**Luxembourg GAAP**"). The euro is the functional and presentation currency for the Issuer's Financial Statements. The Issuer's Financial Statements and the Issuer's financial information included elsewhere in this Prospectus have, unless otherwise noted, been presented in euros.

In this Prospectus, diamond sales figures expressed in Roubles have been calculated net of value added tax ("**VAT**") and export duties. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Sales".

Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetical aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100 per cent., when aggregated.

The Group also presents EBITDA, adjusted EBITDA, net debt and total debt, which are not specifically defined under IFRS. These measures may not be comparable to other similarly titled measures of other companies and are not measurements under IFRS or other generally accepted accounting principles, and they should not be considered as substitutes for the information contained in the Group Financial Statements.

Impact of New Accounting Standards and reclassifications

In its 2009/2008 Group Financial Statements, the Group adopted new accounting pronouncements, as required by IFRS, resulting in changes to the presentation of certain financial information in its financial statements as required by IFRS. As a result, certain information presented in the 2009/2008 Group Financial Statements is presented on a different basis from the information presented in the 2008/2007 Group Financial Statements.

The Group implemented the following accounting standards as at 1 January 2009 and reflected the related changes in its 2009/2008 Group Financial Statements. Financial statements for prior periods, including the 2008/2007 Group Financial Statements, were not required to be and were not restated for these changes and accordingly may not be presented on a directly comparable basis:

- International Financial Reporting Standard 8 ("**IFRS 8**") "Operating Segments": beginning with the period ended 31 December 2009, the Group now reports seven segments, being Diamonds segment, Transportation, Social infrastructure, Construction activity, Trading, Electricity production and Other Activities. Previously, the Group had reported one segment, being Diamonds. This presentation has been applied in the 2009/2008 Group Financial Statements. The 2008/2007 Group Financial Statements are not required to be and have not been restated for this change in presentation of segments;

- International Accounting Standard 1 ("**IAS 1**") (revised) "Presentation of Financial Statements": as from 1 January 2009, the Group has elected to present one statement; a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available for sale investments. This is not a material change in presentation. This presentation has been applied in the 2009/2008 Group Financial Statements. The 2008/2007 Group Financial Statements are not required to be and have not been restated for this change in presentation of segments.

The group reclassified the following balances in the statement of financial position as at 31 December 2009, restating the comparative period of 31 December 2008 in the 2009/2008 Group Financial Statements. The 2008/2007 Group Financial Statements are not required to be and have not been restated for these reclassifications.

- Non-current portion of derivative instruments was reclassified to non-current liabilities as at 31 December 2008 and non-current portion of derivative instruments was reclassified to non-current assets from current assets as at 1 January 2008. This reclassification increased non-current liabilities as at 31 December 2008 by RUB16,174 million and non-current assets as at 1 January 2008 by RUB3,037 million.

CURRENCIES AND EXCHANGE RATES

All references in this Prospectus to:

- "**RUB**" and "**Rouble**" are to the lawful currency of Russia;
- "**$**", "**US$**", "**Dollars**" and "**US Dollars**" are to the lawful currency of the United States of America; and
- "**€**", "**EUR**" and "**euro**" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the treaty establishing the European Community ("**EC**"), as amended by the Treaty on European Union.

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Rouble and the US Dollar, based on the official exchange rate quoted by the CBR. Fluctuations in the exchange rates between the Rouble and the US Dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

	RUB per US$1.00			
	High	**Low**	**Period average(1)**	**Period end**
Month				
October 2010	30.80	29.63	30.32	30.78
September 2010	31.08	30.40	30.84	30.40
August 2010	30.90	29.80	30.34	30.66
July 2010	31.37	30.19	30.38	30.19
June 2010	31.78	30.73	31.17	31.20
May 2010	31.43	29.15	30.36	30.50
April 2010	29.50	28.93	29.20	29.29
March 2010	29.98	29.19	29.57	29.36
February 2010	30.52	29.88	30.19	29.95
January 2010	30.43	29.38	29.95	30.43
Year				
2009	36.43	28.67	31.72	30.24
2008	29.38	23.13	24.86	29.38
2007	26.58	24.26	25.58	24.55
2006	28.78	26.18	27.19	26.33
2005	29.00	27.46	28.29	28.78

Note:

(1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

Solely for the convenience of the reader, and except as otherwise specified, this Prospectus contains translations of some Rouble amounts into US Dollars given as of 30 June 2010 at the conversion rate of RUB31.20 to US$1.00, which was the official exchange rate quoted by the CBR on 30 June 2010. No representation is made that the Rouble amounts referred to in this Prospectus could have been or could be converted into US Dollars at the above exchange rate or at any other rate. For a discussion of the effects of fluctuating exchange rates on the Group's results of operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain Factors Affecting the Group's Results of Operations — Exchange Rates".

OVERVIEW OF ALROSA

This summary highlights information contained elsewhere in this Prospectus. This summary does not contain all of the information that you should consider before investing in the Notes. ALROSA does not disclose in this Prospectus certain data on diamond reserves and production that were previously classified as official state secrets. ALROSA's internal diamond reserves estimates and estimates of the productive lives of mines have been prepared for purposes of regulatory submission to the Ministries of Natural Resources and of Finance of the Russian Federation, and for internal planning purposes and solely on the basis of standard Russian reserves methodology, which differs in material respects from the methodology used in other countries. These estimates have not been the subject of any review or examination by an independent mining engineer. Because of this and because the format, nomenclature, units of presentation and methodology for preparing ALROSA's internal reserves information differ substantially from international presentation standards, ALROSA believes that such information would be of limited utility to investors, and accordingly, that information has not been presented in this Prospectus. The Ministries have certified certain information relating to the expected useful lives of the Group's diamond mines as set forth in Appendix A hereto. The review by the Ministries may differ in significant respects from the review that would be conducted by an internationally recognised independent mining engineer certifying reserves information in accordance with international standards. Prospective investors should read the entire Prospectus carefully, especially the discussion of risks of investing in the Notes discussed in the "Risk Factors" section.

The Group is the largest diamond mining company in the world by diamond production, based on carat volume. In 2009, the Group produced approximately 30 per cent. of the world's rough diamond output, measured as a multiple of average market prices for the year, and approximately 28 per cent. by carat volume. The Group's principal mining operations are located in Yakutia, in northeastern Siberia, where it operates open-pit, underground and alluvial mines located near the cities of Aikhal, Anabar, Mirny, Nyurba and Udachny. The Group produces rough diamonds (88.5 per cent. of revenues in the first half of 2010; 82.8 per cent. of revenues in 2009), which are cut and used primarily in jewellery, and industrial diamonds. In the first half of 2010 and in 2009, ALROSA and its subsidiaries produced rough diamonds valued at US$1,174 million and US$2,268 million, respectively, based on average market prices at period end. The Group had total sales of rough diamonds of RUB56,976 million (US$1,826 million) in the first half of 2010 and RUB64,565 million (US$2,069 million) in 2009.

Revenue from diamonds for resale amounted to RUB5,717 million (US$183 million) in the first half of 2010 and RUB6,483 million (US$208 million) in 2009, and accounted for 9.7 per cent. and 9.8 per cent. of the Group's total diamond sales revenue in the first half of 2010 and in 2009, respectively. As of 30 June 2010, ALROSA also held a 32.8 per cent. interest in Sociedade Mineira de Catoca Lda. ("**Catoca Mining**"), a diamond mining company in Angola. The Group is also engaged in diamond exploration throughout northeastern Russia and Angola.

Exports accounted for 68.7 per cent. and 49.3 per cent., respectively, of the Group's sales of rough diamonds in the first half of 2010 and in 2009. The remainder were sold to domestic diamond purchasers, primarily Russian cutting and polishing companies that process the diamonds for use in jewellery, and, in 2009, to the Russian Federation's precious metals and gems repository ("**Gokhran**"). The Group also cuts and polishes some of its rough diamonds, primarily through ALROSA's division Brillianty ALROSA. The Group's sales of polished diamonds were RUB2,086 million (US$66.8 million) in the first half of 2010 and RUB1,775 million (US$56.8 million) in 2009. The Group sold RUB68 million (US$2.2 million) and RUB54 million (US$1.7 million), respectively, of industrial diamonds in the first half of 2010 and in 2009.

To reduce the Group's costs and ensure operational support, the Group engages in a number of businesses that provide materials and services to the Group's mining operations, including construction and freight transportation services, agriculture and food supplies and passenger air transport. The Group has also developed oil and natural gas extraction and hydroelectric plants to supply a portion of its energy needs. In addition, the Group continues to maintain certain non-productive "social" assets, which ALROSA inherited from its predecessor entities for the benefit of its Russian employees. The Group has been transferring and intends to continue transferring the obligation to maintain these assets to the Government of Yakutia.

Strengths

ALROSA believes that the Group benefits from the following strengths:

The world's largest producer of rough diamonds by carat volume

In 2009, ALROSA became the world's largest producer of rough diamonds, measured by carat volume. ALROSA also produces substantially all of the rough diamonds produced in Russia, accounting for approximately 97 per cent. of the country's rough diamond output in 2009. See "Risk Factors — Risks Related to the Group's Business — Estimates of ALROSA's reserves and other information are subject to uncertainties".

ALROSA has significant diamond reserves

ALROSA has increased the reserves of its predecessor entities through a combination of successful exploration and investment. Based upon its internal analyses and certifications of the Federal Subsoil Use Agency of the Russian Ministry of Natural Resources and the Russian Ministry of Finance, ALROSA believes that it has sufficient diamond reserves to continue to extract over the next 24 years an average annual volume of diamonds at least as great as that extracted in 2009, with an average quality of extracted diamonds continuing at the current level. See "Risk Factors — Risks Related to the Group's Business — Estimates of ALROSA's reserves are subject to uncertainties".

The Group's mines have consistently produced high-quality gems

Other than the Group's smaller alluvial operations, the Group's mines have consistently produced gem and near-gem diamonds with average per carat values ranging, for example, from US$100 to US$120 at its International underground mine, which produces some of ALROSA's highest quality gems. ALROSA believes that the quality of its diamonds is relatively high compared to the quality of diamonds of other producers.

The Group has a limited number of competitors

In general, the global diamond mining industry is characterised by a limited number of competitors and high entry barriers for potential new players, which ALROSA believes results primarily from a combination of the limited number of diamond deposits suitable for commercial mining and the large capital requirements for exploration and excavation. Within Russia, ALROSA holds exclusive prospecting licences in numerous locations and in 2009, produced approximately 97 per cent. of the rough diamonds produced in Russia.

The Group has strong technical mining expertise

The Group's predecessor entities have been engaged in diamond mining since 1957. In particular, the Group has developed extensive mining expertise related to the permafrost environment of northeastern Russia, where winter temperatures can reach -50^{o}C. ALROSA's YakutNiproAlmaz division specialises in research and development, including development of new techniques in underground mining and ore processing. ALROSA believes that its experience helps the Group to increase efficiency and output and makes it an attractive partner for the joint development of mines outside of Russia.

The Group has strong support from the Russian Government

The Russian Government is a controlling shareholder of ALROSA, holding 50.9 per cent. of its share capital. Mr. Aleksey Leonidovich Kudrin, the current Russian Minister of Finance, has been Chairman of ALROSA's Supervisory Board since 2002. The Group plays a central role in Yakutia where it is the region's largest employer and taxpayer and is an important player in the overall Russian economy.

As a state-owned strategic company, ALROSA enjoys strong support of its controlling shareholder. The government support was demonstrated during the recent global economic crisis when ALROSA suspended rough diamond sales to the market from November 2008 through July 2009 and sold over US$1 billion of diamonds to Gokhran. Government support also helped ALROSA secure financing from the state-owned banks, which currently account for approximately 41 per cent. of ALROSA's debt. These measures allowed ALROSA to maintain its pre-crisis levels of production and continue its transition to underground mining while its major international competitors were forced to curtail their production significantly. See "Risk Factors — Risks Related to the Group's Business — ALROSA is subject to the control of its existing shareholders, whose interests may differ from those of Noteholders".

Maintaining production during the recent global economic crisis has positioned the Group to benefit from recovery in the diamond markets

Unlike many of its competitors, the Group maintained production during the recent global economic crisis. The Group believes this gives it an advantageous position from which to benefit from and pursue market share gains during the post-crisis recovery in rough diamond demand. The Group aims to achieve this through sales of diamond inventories and maintaining production levels that remain unhindered by the start-up periods that would have been necessary had the Group halted production during the crisis.

Strategy

The key elements of ALROSA's strategy are:

- Pursuing transition to underground mining and completing construction of new mines to enhance production
- Lowering costs and seeking production efficiencies
- Improving liquidity profile
- Divesting non-core assets
- Developing strategic iron ore deposits in Yakutia
- Protecting operating cash flow through long-term framework agreements with clients
- Continuing to enhance transparency and corporate governance standards

OVERVIEW OF THE OFFERING

The following summary contains basic information about the Notes and the Guarantee and is not intended to be complete. For a more complete understanding of the Notes and the Guarantee, please refer to the Terms and Conditions and the Trust Deed.

Issuer:	ALROSA Finance S.A.
Guarantor:	“ALROSA” Company Limited.
Issue:	Guaranteed Notes due 2020.
Principal Amount:	US$1,000,000,000.
Issue Price:	100 per cent.
Closing Date:	3 November 2010.
Maturity Date:	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 3 November 2020.
Interest:	7.750 per cent. per annum accruing from and including the Closing Date and payable in equal instalments semi-annually in arrear on 3 May and 3 November in each year, commencing on 3 May 2011.
Form:	The Notes will be in registered form, without interest coupons attached, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. Notes will be offered and sold outside the United States to non U.S. persons in offshore transactions in reliance upon Regulation S and within the United States to “qualified institutional buyers” in reliance on Rule 144A. The Notes will be issued in the form of a Regulation S Global Note and a Rule 144A Global Note, each in registered form without interest coupons. Notes in definitive form will be issued only in limited circumstances.
Status of the Notes:	The Notes constitute (subject to Condition 4 of the Terms and Conditions) unsecured and unsubordinated obligations of the Issuer, which rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and of the Guarantor under the Guarantee shall, save for such exceptions as may arise by mandatory operation of law and subject to Condition 4 of the Terms and Conditions, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer and the Guarantor, respectively.
Guarantee:	The payment, when due, of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes has the benefit of an unconditional and irrevocable guarantee of the Guarantor (see Condition 2(a) of the Terms and Conditions and Clause 5 of the Trust Deed).
Cross Default:	There will be a cross default provision in respect of certain Indebtedness (as defined in the Terms and Conditions) of the Issuer, the Guarantor or any Material Subsidiary (as defined in the Terms and Conditions) equal to or greater than US$30 million (or its equivalent in another currency) (see Condition 10(c) of the Terms and Conditions).
Negative Pledge:	There will be a negative pledge in respect of certain Indebtedness of the Issuer, the Guarantor and its Material Subsidiaries (see Condition 4 of the Terms and Conditions).
Covenants:	The Terms and Conditions contain restrictions on certain activities of the Issuer, the Guarantor and certain subsidiaries of the Guarantor, including their ability, amongst other things, to incur indebtedness,

	and enter into certain merger, consolidation and disposal transactions. For more information, see "Terms and Conditions of the Notes". The Terms and Conditions contain a covenant fall-away provision, pursuant to which certain covenants will no longer be applicable to the Notes if (i) the Notes are rated Baa3 or better by Moody's and BBB- or better by S&P (or, if either such entity ceases to rate the Notes for reasons outside the control of the Guarantor, the equivalent investment grade credit rating from any other "nationally recognised statistical rating organisation" within the meaning of Section 3(a)(62) of the US Securities Exchange Act of 1934 (the "**Exchange Act**")) selected by the Guarantor as a replacement agency, if any such agency exists at such time and (ii) no potential event of default or event of default shall have occurred and be continuing. Such covenants include covenants relating to limitations on incurrence of indebtedness, asset sales and enter into certain merger, consolidation and disposal transactions. There is no assurance that the Notes will ever achieve or maintain an investment grade credit rating.
Redemption at the option of the holders upon a change in control:	If at any time while any Note remains outstanding a Change of Control (as defined herein) occurs, the Issuer shall, at the option of the holder of any such Note, redeem or purchase such Note on the Change of Control Put Date (as defined herein) at 100 per cent. of its principal amount together with (or, where purchased, together with an amount equal to) interest accrued to but excluding the Change of Control Put Date. For the purposes of this provision a "**Change of Control**" will occur at any time that (i) the Russian Federation, the Republic of Sakha (Yakutia) and/or any Agency of the foregoing and/or any entity wholly-owned by the foregoing shall together cease to be the beneficial owners, directly or indirectly, of at least 50 per cent. plus one share of the issued and outstanding voting share capital of the Guarantor or cease to be able to appoint the majority of the Board of Directors of the Guarantor or (ii) the Russian Federation and/or any Agency thereof and/or any entity wholly-owned thereby shall together cease to be the beneficial owner, directly or indirectly, of at least 25 per cent. plus one share of the issued and outstanding voting share capital of the Guarantor.
Tax Redemption:	The Issuer may redeem the Notes, in whole but not in part, at their principal amount, plus accrued interest, in the event of certain changes in taxation in Luxembourg or Russia.
Listing of Notes:	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market.
Transfer Restrictions:	The Notes and the Guarantee have not been and will not be registered under the Securities Act. You may offer to sell the Notes only in transactions exempt from, or not subject to, the registration requirements of the Securities Act and in compliance with all applicable laws of any relevant jurisdiction. See "Transfer Restrictions".
Principal Paying Agent and Transfer Agent:	The Bank of New York Mellon, London Branch
New York Paying Agent, Transfer Agent and Rule 144A Notes Registrar	The Bank of New York Mellon
Irish Listing Agent:	The Bank of New York Mellon (Ireland) Limited

Irish Paying Agent:	The Bank of New York Mellon (Ireland) Limited
Trustee:	BNY Corporate Trustee Services Limited
Regulation S Notes Registrar:	The Bank of New York Mellon (Luxembourg) S.A.
Governing Law and Arbitration:	The Notes and the Trust Deed (including the Guarantee) will be governed by and construed in accordance with English law and contain provisions for the jurisdiction of the courts of England and Wales or arbitration in London, England.
Use of Proceeds:	ALROSA expects to use the net proceeds of this Offering to refinance a portion of the Group's outstanding short-term indebtedness. See "Use of Proceeds".
Security identification:	

	ISIN	Common Code	CUSIP
Rule 144A Notes	US02109TAC62	055554609	02109TAC6
Regulation S Notes	XS0555493203	055549320	

RISK FACTORS

An investment in the Notes involves risks. Accordingly, you should carefully consider the risks described below, as well as the other information in this Prospectus, before making an investment decision. The risks and uncertainties below are not the only ones the Group faces. Additional risks and uncertainties not presently known to ALROSA, or that ALROSA currently believes are immaterial, could also impair its business operations. If any of the following risks actually materialises, the Group's business, results of operations and financial condition could be materially and adversely affected. If that were to happen, the trading price of the Notes could decline and ALROSA may be unable (i) to meet its financial obligations to the Issuer, in which case the Issuer would be unable to pay interest or principal on the Notes, or (ii) to fully perform its obligations under the Guarantee, and you could lose all or part of your investment.

Risks Related to the Group's Business

The Group's business is highly susceptible to fluctuations in diamond prices and demand for rough diamonds

The Group's revenues are derived primarily from the mining and sale of rough diamonds (see "Business — Marketing and Sales of Diamonds") and, as a result, its financial results are affected significantly by the marketability and price of diamonds. Rough diamond prices are based on the clarity, colouring and quality of individual diamonds sold, as well as general trends in market supply and demand for diamonds.

A number of factors could result in fluctuations in rough diamond prices, including, amongst other things, the following:

- international or regional political and economic events or trends;
- structural changes in the world diamond market;
- speculative trading in diamonds;
- decreased demand for diamonds used in connection with the manufacture of jewellery, as well as for industrial and investment purposes;
- overproduction of diamonds;
- inability of diamond wholesalers/distributors to purchase rough diamonds due to liquidity constraints;
- sales of existing diamond inventories held by private entities, governments and government agencies (including Gokhran), industrial organisations and individuals; and
- potential discovery of new material commercial diamond deposits.

Consumer demand for polished diamonds, and the resulting demand for rough diamonds by diamond cutters and polishers, is particularly sensitive to changes in global economic conditions. During economic downturns, consumers tend to reduce their purchases of luxury items such as diamonds. The global financial and economic crisis that began in the second half of 2008 and its impact on the broader markets and economy including in the United States, Europe, Asia and the Middle East, which together account for most of the world demand for diamonds, led to a sharp downturn in demand for diamonds and diamond prices in the second half of 2008 and the first half of 2009. Similar economic downturns could have similar effects in the future, and although the diamond market has shown signs of recovery since the second half of 2009, the extent and sustainability of the recovery remain uncertain.

Any sustained decline in the market price of and consumer demand for diamonds is likely to have an adverse impact on the Group's business, results of operations and financial condition.

This Prospectus does not disclose certain information regarding ALROSA's diamond reserves

Information about volumes of diamond reserves, as well as extraction, production, delivery and consumption of natural diamonds was previously considered a state secret under the Law of the Russian Federation "On State Secrecy" dated 21 July 1993, as amended and related presidential decrees. Although these restrictions were lifted for diamonds not held by Gokhran or the CBR in 2004, ALROSA's internal diamond reserves estimates and estimates of the productive lives of mines have been prepared for purposes of regulatory submission to the Ministries of Natural Resources and of Finance of the Russian Federation, and for internal planning purposes and solely on the basis of standard Russian reserves methodology, which differs in material respects from the methodology used in other countries. These estimates have not been the subject of any review or examination by an independent mining engineer. Because of this and because the format, nomenclature, units of presentation and methodology for preparing ALROSA's internal reserves information differ substantially from international presentation standards, ALROSA believes that such information would be of limited utility to investors, and accordingly, that information has not been presented in this Prospectus. The Ministries have certified certain information relating to the expected useful lives of the Group's diamond mines as set forth in Appendix A hereto. The review by the Ministries may differ in significant respects from the review that would be conducted by an internationally recognised independent mining engineer certifying reserves information in accordance with international standards. No report or presentation in accordance with Industry Guide 7 of the Securities Act has been prepared or is available, and there is no reserve information available that is based on the definitions adopted by the Society for Mining, Metallurgy and Exploration ("**SME**") or the Council of Mining and Metallurgical Institutions ("**CMMI**"). See "Calculation of Reserves — ALROSA's Calculation of Reserves".

Because of the foregoing factors, reserves information that is available to ALROSA is not in a tabular, summary or readily encapsulable quantitative format that would be customary for use in public documents and reports by non-Russian mining companies. Accordingly, ALROSA does not disclose in this Prospectus the following information:

- diamond recovery rates;
- disposition of its diamond production in carats;
- consumption of diamonds within Russia in carats;
- certain diamond reserves located within Russia in carats; and
- diamond stockpiles in carats.

Accordingly, you will need to make your investment decision regarding the Notes without the benefit of this information, which may be material to that decision.

The Ministries have given certain confirmations regarding ALROSA's reserves of diamonds and, with respect to future years, the expected average quality and production volumes to be realised by ALROSA. See "Appendix A — Certification of Diamond Deposits". However, the Notes have not been guaranteed by the Russian Federation, the Ministries or any other agency or political subdivision of Russia, and do not represent obligations of any such body.

Estimates of ALROSA's reserves and other information are subject to uncertainties

Estimates concerning ALROSA's reserves or estimates of the productive lives of mines are not comparable to Western reserves estimates and are subject to considerable uncertainty. These estimates may be based on interpretations of geological data obtained from sampling techniques. In addition, these estimates may rely on feasibility studies to predict grades of ore, configuration of the ore body, expected recovery rates of diamonds from the ore and other factors. See "Calculation of Reserves". In addition, it may take many years from the initial phase of drilling before production is possible. During that time, the economic feasibility of exploiting a discovery may change as a result of changes in the market price of rough diamonds, which would determine the projected realisable value of diamonds from the deposit.

In addition, although feasibility of production is considered by the Ministries in assessing ALROSA's reserves (see "—This Prospectus does not disclose certain information regarding ALROSA's diamond reserves" above), the official reserves estimates are more a function of analysis of the physical minerals in place and less a function of a commercial viability of such deposits than Western reserves estimates. See "Appendix A — Certification of Diamond Deposits". Actual production results may differ significantly from original estimates.

ALROSA relies on and refers to publicly available information released by official and unofficial sources other than ALROSA. These sources include, but are not limited to, the CBR, research reports, analyst reports, press releases, securities filings and industry publications. Although ALROSA believes that this information is reliable, it has not independently verified this information and cannot guarantee its accuracy and completeness. In addition, some of the information contained in this Prospectus has been derived from official data published by the Russian Government. Official statistics and other data published by Russian federal, regional and local governments are substantially less complete or transparent than those of Western countries. Official statistics may also be compiled on the basis of methodologies different from those used in Western countries. Furthermore, this Prospectus includes certain data, forecasts and projections that have been obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers' experience in the industry: there is no assurance that any of the forecasts or projections will be achieved and ALROSA has not independently verified this information. See "Certain Information Contained in this Prospectus", "Overview of ALROSA — Strengths — The world's largest producer of rough diamonds by carat volume", "Overview of ALROSA — Strengths — ALROSA has significant diamond reserves", "Business — Strengths — The world's largest producer of rough diamonds by carat volume", "Business — Strengths — ALROSA has significant diamond reserves", "Business — Diamond Mining Operations", "Calculation of Reserves", "Appendix A — Certification of Diamond Deposits".

The Group is dependent on licences issued by the Russian state authorities to conduct its business

The Group is dependent on a variety of licences and regulation approvals to conduct its business, including, among others, licences required for its diamond mining and diamond exporting activities as well as licences for other mining activities and certain of its other non diamond activities. These licences and approvals can be terminated or suspended by the licensing authorities if the Group is found to have violated the terms of the licences or to have repeatedly violated Russian law, or the licences and/or approvals are found to have been issued in violation of Russian law. See "Regulatory Matters".

The termination or modification of licences, or failure, for any reason, to renew licences in a timely manner could require the Group to suspend some or all of its current activities. Further, revocation and/or expiration of one of the Group's material licences may constitute an event of default under certain financing agreements of the Group, if such licence is not timely renewed. Any such termination, modification or failure to renew the licences could have a material adverse effect on the Group's business, results of operations and financial condition.

Failure or delay in obtaining separate export licences by ALROSA's subsidiaries could limit or impede exports of diamonds

Under current Russian legislation, ALROSA may not export diamonds produced by its subsidiaries under its export licence, and each of these subsidiaries must obtain separate export licences. In addition to ALROSA, the Group produces rough diamonds in Russia at ALROSA-Nyurba, Severalmaz and OJSC Almazy Anabara ("**Almazy Anabara**"). These diamond-producing subsidiaries (excluding ALROSA) collectively accounted for 33 per cent. and 24 per cent. of the Group's production in the first half of 2010 and in fiscal year 2009.

Failure to obtain the necessary licences by ALROSA-Nyurba, Severalmaz and Almazy Anabara in a timely manner, or any failure or delay in receiving export licences by these companies, may force ALROSA either to offer the diamonds produced by them and subject to export licences on the domestic market, which may result in lower revenues and operating cash flows as a result of a negative impact on domestic prices or a decision to stockpile a portion of such diamonds until the necessary licences have been received.

Under Russian law, ALROSA and its Russian diamond-producing subsidiaries are currently subject to restrictions on their ability to sell large and rare diamonds

Under applicable Russian regulations, the Group may export diamonds weighing 10.8 carats or more only pursuant to an auction. This provision is also considered to apply to sales of diamonds weighing 10.8 carats or more on the domestic market. Diamonds sold at such auctions must be subject to a prior valuation with the participation of state controllers of the Ministry of Finance.

In addition, the Federal Law of the Russian Federation No. 41-FZ "On Precious Metals and Precious Stones", dated 26 March 1998, as amended (the "**Law on Precious Stones**") requires "unique"diamonds, as determined by the Ministry of Finance, to be offered for purchase on a priority basis to the Russian Government, acting through Gokhran, and then to the sub-federal unit on the territory from which these diamonds are extracted. These special diamonds include diamonds with characteristics that make them rare, such as their colouring, as well as all diamonds weighing more than 50.0 carats. Although sales of these diamonds to Gokhran and to the sub-federal units are at agreed market prices, the valuation of large and unique diamonds is generally difficult due to their relative scarcity. Unique diamonds may be offered to other customers only if Gokhran and then the sub-federal unit waive their right to buy them. Export of these diamonds must be authorised by an individual decision of the Russian Government. Sales of such diamonds on the domestic market may take place only pursuant to an auction as described above.

Because auctions of diamonds of 10.8 carats or more are subject to strict governmental controls that could deter potential purchasers from participating, ALROSA cannot give any assurance that the prices received in these auctions are indicative of the prices that could be achieved if the sale of these gems were to be conducted without such controls. Given that the Russian Government and then the sub-federal units on the territory of which unique diamonds are extracted have priority over the purchase of such diamonds, and that the subsequent sale of these diamonds is strictly regulated, the Group may be unable to sell certain high-value diamonds for extended periods of time. To the extent that the sale restrictions set forth above prevent the Group from receiving the highest prices for its largest and most unique diamonds in the future, the Group's revenue will be negatively affected.

The statutory preferential rights of the state depositories of Russia and Yakutia to purchase diamonds produced by the Group could interfere with the Group's ability to meet its contractual supply commitments

Pursuant to the Law on Precious Stones, Russia and Yakutia have a priority right to acquire the Group's output of Russian rough diamonds to be kept in the state depositaries of precious metals and precious stones of Russia and Yakutia, respectively. Although the Law on Precious Stones places conditions on the exercise of this right, including the advance entry into a purchase agreement between the authorized agencies of Russia or Yakutia and the concerned Group company specifying the volume of purchases, and the purchases generally must be provided for in the budget of the Russian Federation or Yakutia, the Group cannot predict with certainty beyond a certain term the amount of diamonds that will be purchased under these pre-emptive rights. In addition, unique rough diamonds with "special gemological qualities" must be offered for purchase in priority to Gokhran of Russia and then to Gokhran of Yakutia (see "Regulatory Matters — Sales of Unique Diamonds"). Gokhran's ability to purchase diamonds is constrained by the need for allocations for this purpose in the federal budget, which could limit its ability to significantly increase its purchasing budget quickly. Gokhran is under no obligation to purchase diamonds from the Group and no assurance can be given that third parties would not be willing to purchase rough diamonds sold to Gokhran at higher prices than Gokhran.

To date, the Group's production of rough diamonds has been sufficient to meet its supply obligations both under the Law on the Precious Stones and sale contracts made in the market. However, a material increase in government purchases could require the Group to curtail its export of rough diamonds or disrupt its relationships with customers, which could have a material adverse effect upon the Group's business, results of operations and financial condition.

A sudden increase in sales of rough diamonds by Gokhran from its stockpiles may cause a significant decline in the diamond market price and thus adversely affect the Group

From November 2008 through July 2009, substantially all of the Group's sales, in an amount exceeding US$ 1 billion, were to Gokhran. The market price of rough diamonds is dependent on the correlation between demand and supply. Any significant sale of diamond stockpiles by Gokhran in the market could disrupt supply/ demand dynamics and cause a significant decrease in the prevailing market price, which could have a material adverse effect with respect to the Group's business, results of operations and financial condition.

If a substantial portion of the Group's long-term framework agreements terminate at the same time, the Group's revenues and operating profits could suffer if it were unable to find alternate buyers willing to purchase rough diamonds on acceptable terms. The Group could have difficulty enforcing price and quantity terms of the framework agreements if the other parties object, which could have an adverse effect on the Group's revenues and operating profits.

To improve the stability of operating cash flow, between June 2009 and July 2010, ALROSA entered into 24 long-term framework agreements for the supply of rough diamonds, comprising 19 agreements with major foreign diamond traders and producers based in Belgium, Israel and India and five agreements with Russian diamond producers and re-sellers. The average term of these agreements is three years.

The long-term framework agreements with 15 of ALROSA's export customers, which accounted for approximately 31.3 per cent. of the Group's diamond sales in the first half of 2010, expire in December 2014. The nine remaining long-term framework agreements with export and domestic customers of ALROSA accounted for approximately 16.3 per cent. of the Group's diamond sales in the first half of 2010 and expire in December 2012. None of these long-term framework agreements currently provides for an automatic renewal upon expiration. If a substantial portion of the long-term framework agreements terminate at the same time, the Group's revenues and operating profits could suffer if no alternate buyers are found willing to purchase rough diamonds on terms as favourable as those in the long-term framework agreements, which could have a material adverse effect upon the Group's business, results of operations and financial condition. Alternatively, upon termination of these agreements, the customers under the agreements could decide to return to purchasing diamonds on a spot basis rather than under long-term framework agreements, which could reduce the predictability of the Group's revenues.

The framework agreements give ALROSA the right to determine the prices, and to some extent the quantities, of rough diamonds sold thereunder each month. If the other parties were to object to such price or quantity determinations (for example, in a declining diamond market), ALROSA could have significant difficulties enforcing such provisions and/or suffer significant delay and expense in doing so. This could have an adverse effect on the Group's revenues and operating profits.

Risks Related to Oil and Gas Put Options

ALROSA may be required to repurchase certain Russian oil and gas companies (the "Gas Companies") in September 2012 for a total price of between US$1.1 and US$1.2 billion, if the current owners, affiliates of VTB Bank, do not decide, in their sole discretion, either to retain the Gas Companies or to sell them to one or more third parties. The Group currently has no financing arranged for such possible repurchase. At the time the Gas Companies were sold by the Group in October 2009, they had certain business and financial problems, including non-compliance with the terms of their exploration and production licences, that, if unresolved, could give rise to liability under warranties and indemnities given in connection with their sale and could materially and adversely affect their fair value and their saleability to any third party. To ALROSA's knowledge, certain problems have been addressed but others remain unresolved.

On 14 October 2009, the Group sold approximately 90 per cent. of the outstanding shares (the "**Shares**") of each of the Gas Companies, CJSC Geotransgaz ("**GTG**") and LLC Urengoy Gas Company ("**UGC**"), which are engaged in hydrocarbon exploration and development in Russia, to affiliates of VTB Bank (the "**VTB Buyers**") for sale prices of US$480 million and US$140 million respectively. The acquisitions were entirely funded by another affiliate of VTB Bank (the "**VTB Lender**") under loan facilities (the "**Loans**") that also provide funding for corporate expenses and for future approved investment programmes, up to a maximum of US$ 200.0 million for GTG and US$ 50.0 million for UGC, which amounts have been partly drawn at present. The remaining approximately 10 per cent. of the Gas Companies is held by Investment Financial Company Metropol, a Russian institutional investor.

At the time of the sale, ALROSA entered into put agreements (the "**Puts**") with the VTB Buyers and with the VTB Lender, agreeing to repurchase either (i) the Shares of GTG and/or UGC or (ii) the related Loan(s), in the sole discretion of the VTB Buyers and the VTB Lender, in each case at a purchase price equal to the amount outstanding under the relevant Loan at the time of repurchase, including interest accrued at a rate of 12 per cent. *per annum*. No interest is payable under the Loans until their final maturity in October 2012. The Puts may be exercised during the 30 days following 14 September 2012 (the "**Put Period**") or earlier in the event of certain ALROSA financial or solvency problems, the failure of the relevant VTB Buyer to pay any sum due under the relevant Loan, or the loss of the relevant Gas Company's mineral licence. If the VTB Lender exercises its Put with respect to a Loan, ALROSA has a right (a "**Call**") to purchase the Shares of the related Gas Company at the Put price, which Call supersedes the Put of the Loan (provided that the Call closes). Otherwise, the Group has no right to reacquire any Shares.

Depending on the precise amount and timing of drawdowns for investment programmes, ALROSA estimates that, if the Puts are exercised during the Put Period, the respective Put prices would be in the range of US$800 million to US$900 million for GTG and US$220 million to US$275 million for UGC.

The VTB Buyers may, in their sole discretion, sell the Shares of either or both of GTG and UGC to a third party or retain them. ALROSA understands that no efforts are currently in course or planned to sell either Gas Company and that the VTB Buyers are considering retaining them after the Put Period. There can, however, be no assurance that the VTB Buyers will do so.

A Put on the Shares may only be assigned to a transferee of all Shares of the relevant Gas Company, that is also an affiliate of VTB Bank. The VTB Lender may freely transfer interests in either Loan and may assign the Put on a Loan to any transferee of all interests in the Loan (whether or not an affiliate of VTB Bank). ALROSA understands that, at present, there has been no transfer or assignment of any Shares, Put or Loan and that none is currently planned, but there can be no assurance that there will not be such transfers or assignments in the future.

ALROSA's repurchase obligations under the Puts are unconditional and not dependent on the business or financial condition of the Gas Companies at the time of exercise. Further, the VTB Buyers are not subject to any obligations or restrictions regarding the management of the Gas Companies or their assets, but are free inter alia to buy and sell assets, incur debt, make distributions and, in the case of GTG only, issue additional shares to third parties (that would dilute the GTG Shares subject to the Puts). ALROSA understands that the VTB Buyers have not undertaken any such actions to date and have no current plans to do so, but there can be no assurance that they will not take such actions in the future prior to the expiry of the Put Period.

At the time of sale to the VTB Buyers in October 2009, each Gas Company had significant business and financial problems that, if unresolved, could materially and adversely affect its value and saleability to a third party, including (i) significant non-compliance with the required work programmes under its respective exploration and production licences, which could permit the Russian authorities to terminate the licences concerned, (ii) negative net assets which, under applicable Russian law, requires a company to recapitalise or liquidate, (iii) inadequate internal cash flow to fund expenses and required investment, and (iv) an absence of external sources of funding. The VTB Buyers undertook no obligation to remedy these problems, but ALROSA understands that the VTB Buyers have restored minimum capital and net assets and that the Loans have provided sufficient immediate funding. ALROSA further understands that the Gas Companies are in regular contact with governmental authorities regarding their licences and that, while the licences have not been amended to resolve outstanding violations, the government authorities appear satisfied with the current work programmes and have not taken or threatened any action to enforce or cancel the licences. Nonetheless, there can be no assurance that government authorities will not cancel some or all of the licenses in the future.

In addition to its potential liability under the Puts, ALROSA also provided substantial warranties and indemnities to the VTB Buyers in connection with the sales of the Gas Companies, including with respect to various known problems such as those described above. ALROSA's potential liability under such warranties and indemnities is limited to US$1.15 billion with respect to GTG and US$350 million with respect to UGC. Under the indemnities, claims may be asserted for three years following the closing of the sales (seven years in the case of tax matters). Any amounts paid to a VTB Buyer or its affiliate under a warranty or indemnity would be deducted from the Put price for the Gas Company concerned. At present, neither VTB Buyer has made or threatened any claim under any warranty or indemnity, but there can be no assurance that such claims will not be made in the future.

If the VTB Buyers or the VTB Lender exercise one or more Puts (or if they make substantial claims under a warranty or indemnity), ALROSA would likely need to arrange external financing in whole or in part. (ALROSA would also have to arrange funding for the Gas Companies in the future.) This could divert financing resources away from other, core activities and investments and might, depending on the amount of the Group's existing indebtedness at the time, its earnings during the preceding four calendar quarters and other factors, require waivers from creditors under the Notes, the 2014 Notes or other financings in order to avoid non-compliance with certain financial covenants and limitations on further indebtedness (e.g., the "fixed charge coverage ratio" under the Notes and the 2014 Notes). There can be no assurance that the Group would obtain any such external financing or necessary waivers on attractive terms or at all.

If required to repurchase one or both Gas Companies, ALROSA might be unable to resell them either quickly or without a substantial loss and might need to make substantial additional investments in order to maintain their business and financial condition.

The Group acquired legal ownership of GTG and UGC (together with certain other Russian oil and gas companies, such as Sibintek) in 2007 for aggregate total consideration of US$440 million, as part of a strategy to diversify mineral resource production. This strategy has subsequently been abandoned. Following their acquisition, the Group invested a further approximately US$55 million in GTG and UGC. The Group is currently seeking to sell Sibintek.

ALROSA is subject to the control of its existing shareholders, whose interests may differ from the interests of Noteholders

The Russian Federation, acting through the Federal Agency for the Management of Federal Property, is the controlling shareholder of ALROSA with a 50.9 per cent. stake. See "Principal Shareholders". As a result, the Russian Federation is entitled to appoint a majority of the 15 members of the Supervisory Board of ALROSA, and exercises effective control over ALROSA, including the disposition of virtually all matters submitted to a vote of shareholders. As a sovereign entity, the interests of the Russian Federation may not be aligned with the interests of private investors who have principally an economic interest in ALROSA. Specifically, the Russian Federation may support policies that contribute to national and regional interests, such as policies intended to increase employment or to support regional projects and other state-owned enterprises or other entities, which may conflict with the interests of Noteholders. For example, in 2008 and 2009, ALROSA held large long-term deposits at OJSC KIT Finance Investment Bank ("**KIT Finance Bank**") and acquired a 45 per cent. interest in the parent company of KIT Finance Bank at a nominal cost (subsequently sold to JSC Russian Railways ("**Russian Railways**")), as part of the government effort to stabilise KIT Finance Bank. Future actions taken in support of government policy, which could include investments by the Group in non-core businesses or other projects, could adversely affect the interests of Noteholders or have a material adverse effect on the business, results of operations or financial condition of ALROSA.

Although the Group has benefitted significantly from the support of the Russian Federation, including through purchases of diamonds by Gokhran, the Notes are not guaranteed or backed by the Russian Federation and the Russian Federation is under no obligation to purchase diamonds from or to provide financial or other support to the Group.

Diamond supply and demand may not evolve as expected in future periods

No assurance can be given that demand for rough or polished diamonds will continue to grow at a rate exceeding the growth in supply for diamonds. Demand from the United States, Japan and Europe may recover more slowly than expected, and emerging markets such as India and China may grow more slowly than expected and retail demand for polished diamonds may evolve differently than demand for rough diamonds. On the supply side, new deposits or production techniques may be discovered that enable a larger number of diamonds to be produced than expected. If the imbalance between supply and demand does not evolve as expected, diamond prices may fall, remain stable or grow more slowly than expected.

ALROSA's status as a closed joint stock company may violate Russian law and its potential conversion into an open joint stock company may occur more slowly than expected or may never occur

ALROSA was established in 1992 in an uncertain and internally contradictory legal environment. A number of Presidential decrees and resolutions of the Russian Government pursuant to which ALROSA was set up were inconsistent and, to a certain extent, contradicted each other and other applicable laws. ALROSA was established and continues to exist as a closed joint stock company, which may not be in strict compliance with the Federal Law "On Joint-Stock Companies" of 26 December 1995, as amended (the "**Joint-Stock Companies Law**"). If ALROSA were found not to be in strict technical compliance with the Joint-Stock Companies Law, it could be subject to mandatory change of its corporate form into an open joint stock company or to liquidation.

The shareholders of ALROSA are considering the possibility of converting ALROSA's corporate form into an open joint stock company. The definitive timeline for such a conversion has not been determined, and significant hurdles to the conversion exist. In particular, ALROSA's ability to become an open joint stock company would depend upon shareholder approval of the required amendments to its charter, which require a three-quarters majority of the shares voting at a quorate general shareholders' meeting of ALROSA. The Republic of Sakha (Yakutia) owns a blocking stake in ALROSA. The Law of the Republic of Sakha (Yakutia) No. 8-3 N 17-III of 24 April 2003 (as amended in 2010) may require representatives of Yakutia to vote against ALROSA's conversion to an open joint stock company. Although the parliament of Yakutia could repeal or amend this law to permit the conversion and has adopted an amendment to permit the conversion in the first reading, no final amendment has yet been passed.

Acceleration of claims against, or forced liquidation of, Russian subsidiaries of ALROSA due to insufficient or negative net assets could have an adverse effect on the Group

In accordance with Russian legislation, if the net assets of a Russian joint stock company (determined in accordance with the Russian Accounting Standards) fall below its charter capital at the end of its third or any subsequent financial year where they were also below the charter capital at the end of the previous financial year, the company is required to voluntarily liquidate itself or decrease its charter capital to match the net assets. In addition, if the net assets of a Russian joint stock company at the end of its second or any subsequent financial year fall below the statutory minimum share capital, the company must voluntarily liquidate. If a company fails to comply with either of the requirements stated above within six months after the end of the relevant financial year, the company's creditors may accelerate their claims and require the company to perform its obligations early and pay damages, and governmental authorities may seek the involuntary liquidation of the company. Substantially similar rules apply, if net assets of a limited liability company fall below the charter capital or the statutory minimum charter capital. Courts have on occasion ordered the involuntary liquidation of a company for having insufficient net assets, even if the company continued to fulfil its obligations and had net assets in excess of the minimum amount at the time of liquidation.

Also, if the net assets of a joint stock company fall below its charter capital by more than 25 per cent. at the end of each quarter in a financial year following its second (or each subsequent) financial year, at the end of which its net assets were insufficient, the company is required to make two publications to that effect. Creditors whose rights of claim arose before such publication may require the company to perform its obligations early and pay damages. A court may refuse to satisfy a creditor's claim if the company establishes that: (i) a decrease in the net assets does not violate the creditor's rights; or (ii) the obligation is adequately secured.

The net assets of Severalmaz were below the statutory minimum charter capital as at 31 December 2007, 2008 and 2009 and each completed quarter in 2010. On 22 September 2010, Severalmaz published a notice to its creditors advising them of their right to claim early performance of obligations. Irelyakhneft had negative net assets as at 31 December 2007 and 2008. Other subsidiaries of ALROSA incorporated in Russia, including OJSC Mining Company Timir ("**Timir**") may have insufficient or negative net assets in future periods. If an involuntary liquidation or claims for early repayment of obligations were to occur, they could have a material adverse effect upon the Group's business, results of operations and financial condition.

The Audit Chamber periodically investigates various matters relating to ALROSA, and may issue recommendations which, if implemented by the Russian Government, could adversely affect the Group's business

The Russian Audit Chamber (the "**Audit Chamber**") is a permanent auditing body that was formed by and reports to the Federal Assembly of the Russian Federation and is authorised to investigate Russian agencies and other entities associated with the Russian Government or entities that receive budgetary funds. The Audit Chamber may report its findings and make recommendations to such entities; however, these recommendations do not carry the force of law and are, therefore, not mandatory. The Audit Chamber periodically investigates various matters relating to the Group's business, its financial data, and its regulatory environment and, more generally, all matters relating to the Group. See "Business — Legal and Regulatory Proceedings — The Audit Chamber". As a result of such investigations, the Audit Chamber has made and may make in the future recommendations to ALROSA and to the Russian Government. As of the date of this Prospectus, no action has been taken by the Russian Government or the General Prosecutor's Office to implement the recommendations of the Audit Chamber with respect to ALROSA or its business. However, ALROSA can give no assurance that past, present or future recommendations will not result in the Russian Government or the General Prosecutor's Office taking action that will adversely affect the Group's business.

ALROSA maintains social infrastructure in Yakutia and may be obliged to make extraordinary payments at the requests of local authorities in the future

ALROSA's predecessor entities established most of the physical infrastructure in the areas within Yakutia in which ALROSA operates, as these areas were largely uninhabited prior to the discovery of diamond deposits in the 1950s. See "Business — Non-Mining Activities — Social Services". Although in recent years the economy of Yakutia has become more diversified with the development of oil and gas and other industries, the region remains economically dependent on the Group's business to a significant degree. The Group is by far the largest employer in its areas of operation within Yakutia. ALROSA estimates that its payments to Yakutia, including the Group's mineral resources extraction tax payments in respect of diamonds and support payments made by ALROSA's subsidiary ALROSA-Nyurba, account for a substantial part of Yakutia's total budget. Certain material licences of the Group contain provisions that require the Group's participation in the socio-economic development of the regions where exploration and extraction activities are conducted.

Yakutia and its local municipalities party have historically appealed to ALROSA for additional assistance, beyond legally required amounts, when local budgets have been insufficient to provide necessary public services. For instance, ALROSA has from time to time undertaken to complete necessary road repairs and maintenance to the extent that local budgets could not provide for these activities. ALROSA has also, in the past, been called upon to assist in remedying natural disasters. Although Yakutia is developing other industries that are not dependent on the Group's business, ALROSA expects that Yakutia and its local municipalities will continue to rely on the Group for additional assistance, where necessary. If ALROSA were to be required to make such payments to Yakutia in the future and these local entities and these payments were not set off or reimbursed or reimbursement were delayed, then such payments would increase the Group's expenses and could adversely affect its liquidity position.

The Group is subject to general mining risks

The Group's business operations, like those of other mining companies, are subject to all of the hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in work stoppages damage to property, injury to persons or death. In particular, hazards associated with the Group's open-pit mining operations include:

- flooding of the open pit;
- collapses of the open-pit wall;
- accidents associated with the operation of large open-pit mining and rock transportation equipment;
- accidents associated with the preparation and ignition of large-scale open-pit blasting operations;
- production disruptions due to weather; and
- hazards associated with the disposal of mineralised waste water, such as groundwater and waterway contamination.

Hazards associated with ALROSA's underground mining operations include:

- underground fires and explosions, including those caused by flammable gas;

- cave-ins or ground falls;
- discharges of gases and toxic chemicals;
- flooding;
- sinkhole formation and ground subsidence; and
- other accidents and conditions resulting from drilling, blasting, removing and processing material from an underground mine.

Hazards associated with the Group's rock dump, production stockpile and tailings disposal include:

- accidents associated with operating a rock dump, production stockpile and with rock transportation;
- production disruptions due to weather;
- collapses of tailings dams; and
- ground and surface water pollution.

In addition, the Group's mining operations are generally located in remote areas that are characterized by harsh weather conditions and in some cases are not accessible year round, which could lead to delays in access for maintenance or spare parts that could adversely affect production. The Group could experience any and all of these hazards. The occurrence of any of these hazards could delay production, increase production costs or result in damage to property, injury or death as well as liability for the Group.

To the extent that liabilities resulting from any of these risks are not adequately covered by insurance, the Group may incur significant costs that could have a material adverse effect upon the Group's business, results of operations and financial condition.

As the Group's open-pit mines mature, the Group must increasingly rely on underground mining, which is more capital intensive and subjects the Group to additional risks

ALROSA has historically operated open-pit mines. However, as some of its open-pit mines have matured and reached their target depths and some are close to maturity and reaching their target depths, ALROSA is in the process of shifting to underground mining in order to continue extracting diamonds from the deposits related to these open-pit mines. ALROSA now conducts underground mining at the International mine, Aikhal and Mir mines. In addition, ALROSA is currently constructing an underground mine at the Udachny mine, where open-pit mining is expected to cease in 2013. See "Business — Diamond Mining Operations — Russian Mining Operations".

Underground mines typically have lower ore production volumes than open-pit mines because the volume of ore that can be extracted is limited by the necessity of using access shafts to transport ore to the surface. In addition, underground mining is generally more capital-intensive than open-pit mining. As a result, once ALROSA replaces open-pit mining with underground mining, the historical operating and financial results of the replaced open-pit mines will not necessarily be indicative of the operating and financial results that may be achieved in the future with underground mining. Transition from open-pit to underground mining will also lead to increased capital expenditures and increased operating expenses to maintain the more complex extraction infrastructure of underground mines. Any reductions in volumes and/or increases in operating expenses relating to ALROSA's increasing use of underground mining could have an adverse effect on the Group's business, results of operations and financial condition.

Underground mining is also considered to be more dangerous than open-pit mining. Underground mines present an increased risk of cave-ins and flooding and are dependent on artificial ventilation systems. Although ALROSA believes that the safety record of its current underground mines has been consistent with that of its open-pit mining operations, ALROSA can offer no assurance that it will not experience material losses due to accidents in the future. For a description of the risks relating to underground mining, see "—The Group is subject to general mining risks" above. Any such losses may have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's operations may be adversely affected by difficult geological conditions

The success of the Group's operations depends, in part, upon the success of its engineering solutions to difficult hydrological and geothermal conditions. Significant removal of groundwater inflow and geothermal control is required during mining at some diamond fields. While the Group has achieved considerable success to date in addressing these conditions, no assurance can be given that future efforts will be adequate or will meet future operational demands or expectations. A failure to resolve any unexpected problems relating to these conditions at a commercially reasonable cost could adversely affect the economics and/or feasibility of the Group's operations.

ALROSA and some of its subsidiaries could be subject to liabilities that are not covered by insurance

The insurance industry is not yet well developed in Russia, and many forms of insurance protection common in some economically developed countries are not yet available in Russia on comparable terms, including coverage for business interruption. ALROSA insures the transport of all diamonds from its production sites in Yakutia to its sorting facility in Moscow. ALROSA also maintains general liability insurance in an amount that ALROSA believes is sufficient for its mining operations. Although most of ALROSA's operating assets are insured, the insurance is generally insufficient to cover replacement costs. With respect to the Group's passenger air transport, ALROSA maintains carrier liability insurance and it also insures its aeroplanes. In addition, ALROSA maintains insurance with respect to accidents and additional medical insurance for its employees.

However, in the course of the Group's business, certain claims may be brought against ALROSA or some of its subsidiaries relating to, amongst other things, personal injury, death or property damage caused by the Group's operations. Accordingly, the Group may incur uninsured losses of assets and may be subject to a claim that is not covered, or not sufficiently covered, by insurance. Any such loss or claim may have a material adverse effect on the Group's business, results of operations and financial condition.

The Group depends on its port facilities in Lensk and other self-maintained transportation infrastructure within Yakutia

For all of the Group's mines in Yakutia, the vast majority of materials and supplies are shipped by rail to the river port at Osetrovo, then transported by the River Lena to ALROSA's port at Lensk and delivered to the mines by truck, in part over gravel roads that ALROSA has constructed and maintains. In addition, ALROSA has built and maintains airports located in Mirny, Vitim, Lensk, Aikhal, Polyarny, Olenek and Saskylakh for transportation of passengers, including its employees, and cargo used in its operations. In the future the Group may experience interruptions to this transportation network, including as a result of natural causes such as the severe flooding that in 2001 significantly damaged the municipality of Lensk along with its port facilities. In 2001, the Group incurred significant costs in connection with the flood, which included payments to flood victims and construction of replacement housing. Although there have been no recent significant interruptions in the transportation of materials, supplies or employees similar in magnitude to the 2001 interruptions, no assurance can be given that material interruptions in the transportation of its materials, supplies and employees will not occur in the future. Any such interruption may adversely affect the Group's ability to operate its business, and may result in material additional costs associated with repairs and the implementation of alternative modes of transportation.

The Group's diamond cutting and polishing activities subject the Group to additional risks that may increase in the future

Through ALROSA's division Brillianty ALROSA and its subsidiary LLC Barnaul Kristall ("**Barnaul Kristall**"), a diamond-polishing factory in Russia, and, to a lesser extent, through ALROSA's subsidiaries LLC Orel-ALROSA ("**Orel-ALROSA**") and CJSC Almaz-Neva ("**Almaz-Neva**"), the Group cuts and polishes a limited amount of its production of rough diamonds. The business of diamond cutting and polishing entails difficulties and risks that are different from those the Group faces as a producer of rough diamonds. The further processing and sale of diamonds as polished gems rather than rough diamonds affects the Group's cash flows by delaying receipt of the sale proceeds for those diamonds. In addition, demand for polished diamonds is more seasonal and may be more sensitive to fluctuations in the world economy than the rough diamond market. The market for polished diamonds has in the past also been more prone to overproduction than the rough diamond market. ALROSA can give no assurance that its cutting and polishing operations will continue to be profitable in the future. Any losses resulting from the Group's polishing operations could have a material adverse effect on the Group's business, results of operations and financial condition. In the event that the Group decides to expand its polishing activities in the future, the risks relating to these activities will increase.

The Group's efforts to develop iron ore deposits may not be successful

The Group's efforts to develop the four Yakutian iron ore deposits owned by the Group's subsidiary Timir involve significant risks. These risks include, among others:

- delays in building the facilities required under the terms of the licences for the project could lead to a breach of the licences resulting in their revocation;

- the Group may be unable to obtain sufficient funding or a suitable partner with whom to develop the mines and related facilities required under the related licences;
- conditions under the iron ore licences may make the project less attractive to potential partners, and the Group may be unable to secure amendments to the licences to make them more attractive;
- adverse developments in the iron ore market could adversely impact the Group's ability to sell any iron ore produced in sufficient volumes at sufficiently attractive prices to recoup its investment; and
- further review of the potential exploitation of the projects may reveal issues that call the feasibility of the project into question.

If the Group is unable to develop the Timir deposit on acceptable terms, it may be unable to recover its investment in the related licences and development efforts, which could have a material adverse effect upon the Group's business, results of operations and financial condition. Expansion into the iron ore business or other businesses other than diamond mining could present different or greater risks than the Group's core diamond mining operations and divert management's attention from the Group's core business, all of which could have a material adverse effect on our business, financial condition and results of operations.

ALROSA and its mining subsidiaries may be subject to environmental liabilities

As part of their mining operations, ALROSA and its mining subsidiaries use various chemicals and produce overburden and wastewater that could have a negative impact on wildlife and vegetation of adjacent areas if improperly discharged. In addition, ALROSA and its mining subsidiaries use hazardous materials, such as explosives used in mining operations and solvents used to clean, refurbish and maintain mining, processing and other equipment. Through ALROSA's subsidiary, Irelyakhneft, the Group is also currently engaged in the extraction, transport and storage of oil principally for use in its mining operations, and dispenses petroleum products from underground and aboveground storage tanks on its mining sites. These activities are subject to a number of federal laws and regulations relating to environmental protection (including a "pay-to-pollute" regime) administered by the Ministry of Natural Resources the Federal Service for Supervision in the Sphere of Use of Natural Resources, the Federal Service for Hydrometeorology and Environmental Monitoring, the Federal Service for Ecological, Technological and Nuclear Supervision (the "**Service**") and local authorities. Fees are assessed for exceeding agreed limits on emissions and effluents. Currently these fees are generally small in relation to the cost of environmental protection equipment and it is generally less expensive to pay the fees than to install anti-pollution devices. Further, the applicable laws do not generally require clean-up of environmental pollutants, and when clean-up is required, the applicable laws provide no guidance as to the extent to which the clean-up must be carried out. ALROSA is not currently subject to any material claims for environmental remediation or enforcement. However, enforcement of existing legislation, regulations and licences may become more stringent, and more comprehensive legislation could be adopted, particularly in connection with Russia's application to join the World Trade Organisation. Accordingly, future changes in environmental laws or in the enforcement of such laws may require the Group to make significant capital expenditures or otherwise alter aspects of its operations and this may have an adverse effect on the Group's operations and financial condition.

The Group's business may be negatively affected by US Dollar/Rouble exchange rate fluctuations

The Group's revenues are denominated in both the US Dollar and the Rouble. However, the Group's Rouble revenues are primarily linked to the US Dollar because its domestic diamond sales are generally based on prices established in the world rough diamond market, which are quoted primarily in US Dollars. Conversely, the vast majority of the Group's production costs are incurred in Roubles and are not linked to the US Dollar. The Group also has a significant amount of debt denominated in US Dollars. As a result, the Group's business is affected to a significant extent by fluctuations in US Dollar/Rouble exchange rates and a sustained depreciation of the US Dollar against the Rouble may have a material adverse effect on the Group's business, results of operations, financial condition and cash flows by causing the Group's costs to increase in real terms relative to the Group's revenue.

To hedge the Group's US Dollar/Rouble exchange rate exposure, ALROSA entered into US Dollar/Rouble exchange rate hedging transactions in 2006. Appreciation or depreciation of the Rouble against the US Dollar relative to the strike prices under the Group's foreign exchange hedging arrangements can generate significant gains or losses under these agreements. In fiscal year 2009 and fiscal year 2007, the Group generated gains of RUB10,686 million, and RUB5,149 million, respectively under these agreements. In the first half of 2010 and 2008, the Group recorded a loss of RUB255 million and RUB25,077 million, respectively, million under these agreements.

Catoca Mining and ALROSA's other Angolan operations are subject to the risks of doing business in Angola

As of 30 June 2010, ALROSA held a 32.8 per cent. interest in Catoca Mining, a joint venture that, pursuant to a concession from the Government of Angola, mines the Catoca diamond pipe in Angola. ALROSA also has other ventures in Angola, including certain oil and gas assets. See "Business — Diamond Mining Operations — Angolan Mining Operations". From 2005 to 2009, the Group also purchased rough diamonds, produced in Angola (including production from the Catoca mine), for subsequent resale in the international market. See "Business — Diamond Mining Operations — Marketing and Sales of Diamonds — Sale of Rough Diamonds — Resale of Diamonds".

There are substantial risks associated with investments in less developed countries and countries with emerging economies, such as Angola, where civil unrest, nationalist movements, political violence and economic crises are possible. These countries may also pose heightened risks of expropriation of assets, increased taxation and a unilateral modification of concessions and contracts. Exploration, development and production activities in these countries are potentially subject to political and economic risks, including:

- cancellation or renegotiation of contracts;
- changes in domestic laws or regulations, including tax laws;
- royalty and tax increases or claims by governmental entities, including retroactive claims;
- expropriation or nationalisation of property;
- currency fluctuations and foreign exchange controls;
- import and export regulations, including restrictions on the export of diamonds; and
- risks of loss due to civil strife, acts of war, guerrilla activities, insurrection and terrorism.

Angola ended three decades of civil war with a ceasefire in February 2002. The Angolan economy is still recovering from the effects of the civil war, which has displaced millions of people. In addition, the war destroyed much of the country's industrial infrastructure, and many landmines remain in Angola's countryside. The Group's Angolan operations may be materially affected by these factors.

ALROSA relies on the continued services of key managerial and technical personnel and, because of its remote operations, ALROSA may have difficulty retaining and attracting new employees

ALROSA's continued success will depend in part on its ability to retain its managers and skilled employees and to attract additional managers and employees who are skilled in the diamond business. Currently, there is a high level of competition for highly trained managers, qualified geologists and other technical personnel. ALROSA may also have difficulties attracting and retaining skilled workers at its Yakutian facilities due to their remote location and the local climate. Although ALROSA believes that it will continue to hire the majority of its Yakutia-based employees from the cities surrounding its mining operations, and has been successful to date in attracting other skilled employees, in part through scholarship programmes with Russian universities and technical colleges, ALROSA may not be able to continue to attract and retain skilled employees in the future. Any failure in this regard could have a material adverse effect on the Group's business, results of operations and financial condition.

Adverse publicity regarding "conflict diamonds" could have an adverse impact on the diamond industry and the Group's business

Increasing attention has been focused within the last few years on the issue of "conflict diamonds", the name ascribed to diamonds that are extracted in war-torn regions and sold by rebel forces to fund insurrection. Allegations have been made in the press that such diamonds are used in connection with the financing of terrorist activities. Although participants in the diamond industry have established the "Kimberley Process", a system of self-regulation in which a seller of diamonds must certify that it either has personal knowledge or has received a written warranty that the diamonds have been purchased from a legitimate source, to combat such sales, efforts by non-governmental organisations to increase consumer awareness of the issue and encourage governmental initiatives to curb the proliferation of "conflict diamonds" could affect consumer demand for polished diamonds and decrease demand for rough diamonds in the future. See "Regulatory Matters — Export Sales."

The diamond industry may be adversely affected by the discovery of an economically viable method of producing artificial gem-quality diamonds

Since the creation of the first artificial industrial diamonds, there have been several attempts to develop an inexpensive process for the creation of gem-quality artificial diamonds. From time to time, third parties have made public claims of having successfully manufactured gem-quality diamonds by artificial means. To the extent that the synthetic manufacture of gem-quality diamonds is successfully commercialised in the future and the resulting artificial diamonds receive consumer acceptance as a substitute for naturally occurring gem-quality diamonds, such developments could have an adverse effect on the prices of diamonds generally as well as on the Group's business, results of operations and financial condition.

Risks Related to the Political and Social Environment in Russia

Political instability or changes in government or in economic policy could adversely affect the Group's business and the value of the Notes

Political conditions in Russia were highly volatile in the 1990s, as the national government sought to manage the difficult transition from a planned to a market economy and surrendered authority to the regions, but the political situation has stabilised since 2000. While the current government has generally continued recent policies, significant changes in the economic and political environment could still occur. Shifts in governmental policy and regulation in Russia could negatively affect the Russian economic and political environment in the near term, and accordingly have a negative adverse effect on the Group's business and the value of the Notes.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the limited success of some of them, the Russian political system remains vulnerable to popular dissatisfaction, as well as to unrest by some social and ethnic groups.

Russia's involvement in any future economic or military conflicts could adversely affect the Group's operations and the value of the Notes

Over the last several years, Russia has been involved in conflicts, both economic and military, with other countries, including former members of the Soviet Union. On several occasions, this has resulted in the deterioration of Russia's relations with other members of the international community, including the United States and various countries in Europe. For example, a military conflict in August 2008 between Russia and Georgia has resulted in the deterioration of Russia's relations with certain other countries. The Russian stock exchanges experienced heightened volatility and significant overall price declines following these events. The emergence of new or escalated tensions between Russia and other countries, including any escalation of such conflicts, or the imposition of economic or other sanctions in response to the tensions, could negatively affect economies in the region, including the Russian economy. In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict and terrorist attacks. For example, the conflict in Chechnya brought normal economic activity within Chechnya to a halt for a period of time and also had a negative effect on the economic and political situation in neighbouring regions. Violence and attacks relating to the conflicts in the North Caucasus region also spread to other parts of Russia and resulted in terrorist attacks in Moscow and in various other places in Russia. In the future, such tensions, military conflicts or terrorist activities could have significant economic and political consequences in the Russian Federation, and accordingly have a negative adverse effect on the Group's business and the value of the Notes.

Conflicts between Russian federal and regional authorities could create an uncertain operating environment for ALROSA

Russia is a federation of 83 sub-federal units comprising republics, territories, regions, autonomous districts, cities of federal importance and an autonomous region. The delineation of authority among Russia's constituent entities as well as among the branches of government is often uncertain and at times contested. The Russian political system is therefore vulnerable to tension and conflict between federal, regional and local authorities over various issues, including tax revenues, authority for regulatory matters and regional autonomy, and such conflicts may arise between Russia and Yakutia with respect to their ownership and control of the Group's business. In addition, lack of consensus often results in the enactment of conflicting regulations at various levels, and may result in political instability. This lack of consensus creates uncertainties in the operating environment in Russia, which may prevent ALROSA from carrying out its business strategy effectively and efficiently.

Organised crime, corruption and social instability may adversely affect the Group's operations

Crime and corruption could disrupt the Group's ability to conduct business and could adversely affect the Group's financial condition and results of operations.

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness. The Russian and international press have reported high levels of organised criminal activity and official corruption in Russia and other countries of the former Soviet Union, including the bribery of officials. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further commercial interests of select constituencies. The Group's ability to conduct its business, as well as the Group's financial condition and results of operations, could be adversely affected by illegal activities and corruption or by claims alleging involvement in illegal activities. The implementation of Russia's economic reforms has also led from time to time to social protest.

Social instability in Russia, coupled with difficult economic conditions, the failure of the state and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest and increased support for a renewal of centralised authority, increased nationalism, restrictions on foreign involvement in the economy, and increased violence. Any of these could restrict the Group's operations, lead to the loss of revenues and materially adversely affect the value of the Notes.

Risks Related to the Economic Situation in Russia

Emerging markets such as Russia are generally subject to greater risks than more developed markets, and global financial or economic crises or financial turmoil in other emerging markets could have an adverse effect on ALROSA's business or cause the price of the Notes to suffer

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Emerging markets such as Russia are subject to rapid change, and information may become outdated relatively quickly. Moreover, global financial or economic crises or financial turmoil in any large emerging market country tend to adversely affect prices in stock markets and prices for debt securities of most or all emerging market countries as investors move their money to more stable, developed markets. In addition, during such times, emerging market companies can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the fundamentals of the Russian economy remain relatively sound, financial turmoil in any emerging market country could seriously disrupt it, adversely affecting the Group's business and the value of the Notes.

As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia, increase the cost of borrowing for the Russian Government and companies and adversely affect the Russian economy. The markets in Russia have been highly volatile during the recent global economic crisis. These developments could severely limit ALROSA's access to capital and could adversely affect ALROSA's business, financial condition and results of operations.

Economic instability in Russia could adversely affect the Group's operations

The Russian economy has been subject to abrupt downturns in the past. For example, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian Government defaulted on its Rouble-denominated securities, the CBR stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events.

The recent global economic crisis led to extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP around the world. The impact of the global economic crisis on the Russian economy led to, among other things, a reduction in the disposable income of the general population, a crisis of bank liquidity, a significant depreciation of the Rouble against the US dollar and Euro and the rise of unemployment. There can be no assurance that the measures adopted by the Russian Government in response to the financial and economic crisis will result in a sustained recovery of the Russian economy. Moreover, any future deterioration of the international economic situation may lead to a worsening of the economic situation in Russia, and, as a result, is likely to adversely affect the profitability of the Group's business.

In addition, since Russia produces and exports large quantities of crude oil, natural gas and other commodities, its economy is particularly vulnerable to fluctuations in world commodity prices, which reached record high levels in mid-2008 and have since experienced significant decreases, particularly the price of crude oil, which decreased by approximately 70 per cent. in the second half of 2008, only to recover approximately 75 per cent. in the second half of 2009. A sustained decline in the price of crude oil, natural gas and other commodities could further disrupt the Russian economy.

In July and August 2010, a series of fires broke out across Western Russia and around Moscow, covering at one stage over 193,000 hectares. The fires, combined with a summer of drought and record high temperatures, have resulted in a decline in the Russian harvest, and accordingly an increase in demand for imported grain, reported to be Russia's largest import demand for over ten years. The costs associated with controlling and reducing the fires, containing environmental concerns and repairing the damage caused by the fires may have an adverse impact on the Russian economy.

Any deterioration in the general economic conditions in Russia could have a material adverse effect on the Group's business, results of operations and financial condition.

ALROSA is only able to conduct banking transactions with a limited number of creditworthy Russian banks, as the Russian banking system remains underdeveloped

Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector lags behind internationally accepted norms in certain respects. Banking supervision is also often inadequate, and, as a result, many Russian banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations, or a more stringent approach to enforcement, could lead to determinations of inadequate capital and the insolvency of some banks.

The global economic crisis has led to the collapse or bailout of some Russian banks and to significant liquidity constraints for others. Profitability levels of most Russian banks have been adversely affected. Indeed, the global economic crisis has prompted the Government to inject substantial funds into the banking system and take other actions amid reports of difficulties among Russian banks and other financial institutions. As a state-controlled company, ALROSA has in the past and may in the future be required to take actions to support Russian Government policies in connection with the banking sector or other segments of the Russian economy. For example, in 2008 and 2009, ALROSA held large long-term deposits at KIT Finance Bank and acquired a 45 per cent. interest in the parent company of KIT Finance Bank (subsequently sold to Russian Railways), as part of the Government effort to stabilize KIT Finance Bank. Actions taken in support of government policy may adversely affect the business, results of operations or financial condition of ALROSA.

Most creditworthy Russian banks are located in Moscow and there are few creditworthy Russian banks in the regions outside Moscow. ALROSA has endeavoured to reduce its risk by receiving and holding funds in a number of Russian banks. The continuation or worsening of the global economic crisis or the bankruptcy or insolvency of one or more of the banks in which ALROSA receives or holds its funds could prevent the Group from accessing its funds for several days or affect the Group's ability to complete banking transactions in Russia, or may result in the loss of its deposits altogether, which could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and/or the value of the Notes. Russian companies face significant liquidity problems due to the limited supply of domestic savings, the scarcity of foreign sources of funds, high taxes, limited lending by the banking sector to the industrial sector and other factors. An intensification of liquidity problems or a further deterioration in the Russian banking system could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and/or the value of the Notes.

Inflation could adversely affect the Group's business

The Russian economy has been characterised by high rates of inflation, including an annual inflation rate of 84.4 per cent. in 1998. According to the CBR, the annual inflation rate was approximately 11.9 per cent. in 2007, 13.3 per cent. in 2008 and 8.8 per cent. in 2009. The rate of inflation in Russia was 4.4 per cent. in the first half of 2010 compared to the first half of 2009. Wages or other categories of expense may experience higher levels of inflation than other expenses. Future periods of high inflation or government action to respond to inflation, could adversely affect the Group's business, financial condition and results of operations.

There is a lack of reliable official data in Russia

Official statistics and other data published by the CBR, federal, regional and local governments, and federal agencies are substantially less complete or transparent than those of Western countries, and there can be no assurance that the official sources from which certain of the information set forth herein has been drawn are reliable or complete. Official statistics may also be produced on the basis of methodologies different from those used in Western countries. Any discussion of matters relating to Russia herein may therefore be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The Group could experience disruptions in its normal business activities as a result of problems associated with Russia's physical infrastructure

Much of Russia's physical infrastructure dates back to Soviet times and has not been adequately funded or maintained over the past decades. Particularly affected are the power generation and transmission, communication systems, building stock and rail, road and pipeline networks. Breakdowns and failures of any part of Russia's physical infrastructure may disrupt normal business activity. Road conditions throughout Russia are poor, with many roads not meeting minimum quality requirements.

The Russian Government is actively pursuing plans to reorganise the nation's rail, electricity and telephone systems. These reorganisations may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The poor condition or further deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations, all of which could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and/or the value of the Notes.

Risks Related to the Legal and Regulatory Environment in Russia

Weaknesses in Russia's legal system, legislation and regulations create an uncertain environment for business and investment activity in Russia

Weaknesses in the Russian legal system and overlapping, ambiguous and often inconsistent legislation and regulations create an uncertain environment for business and investment activity in Russia. Risks relating to such matters include:

- inconsistencies between or ambiguities in the Constitution, the Civil Code and other federal laws, decrees, orders and regulations issued by the President, the Russian Government and federal ministries and regional and local rules and regulations;
- decrees, resolutions and regulations may be adopted by governmental authorities and agencies without a clear constitutional or legislative basis;
- a high degree of discretion on the part of government authorities, leaving opportunities for arbitrary or capricious government action;
- substantial gaps in the regulatory structure may be created by the delay or absence of regulations implementing certain legislation;
- a lack of judicial and administrative guidance on interpreting applicable rules and limited precedential value of judicial decisions;
- underdeveloped bankruptcy procedures which are subject to abuse;
- a judiciary with limited experience in interpreting and applying newly adopted legislation and interpreting complex commercial arrangements;
- a lack of judicial independence from political, social and commercial factors;
- instances of alleged corruption within the judiciary or government authorities; and
- weak enforcement procedures for court judgments with no guarantee that a foreign investor will obtain effective redress in a Russian court.

These weaknesses could adversely affect ALROSA's ability to carry out its business activities, enforce its rights under contracts or defend itself against claims by others. Furthermore, there can be no assurance that regulators, judicial authorities or third parties will not challenge ALROSA's compliance with applicable laws, decrees or regulations.

Russia's unpredictable acknowledgement and enforcement of foreign court judgments or arbitral awards give rise to significant uncertainties

Russia is not a party to any multilateral or bilateral treaties with most Western jurisdictions for the mutual enforcement of court judgments, and federal law does not generally provide for the recognition and enforcement of foreign court judgments. Although foreign court judgments are sometimes recognised and enforced by Russian courts on the basis of reciprocity, if courts of the country where the foreign judgment was rendered have previously enforced judgments issued by Russian courts. The existence of reciprocity must be established in each case at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether in the future a Russian court will recognise and enforce a judgment issued by a foreign court on the basis of reciprocity. Consequently, should a judgment be obtained from a foreign court, it may not be given direct effect in Russian courts.

However, Russia is a party to the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards of 10 June 1958. The Terms and Conditions of the Notes and Trust Deed contain a provision allowing for arbitration of disputes (the **"New York Convention"**) in a country that is also a party to the New York Convention. A foreign arbitral award obtained in a jurisdiction that is a party to the New York Convention should be recognised and enforced by a Russian court, subject to the qualifications provided for in the New York Convention and compliance with Russian rules of civil procedure and applicable Russian law. There is also a risk that Russian rules of civil procedure will be amended to introduce further grounds preventing foreign court judgments and arbitral awards from being recognised and enforced in Russia. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other officials, thereby introducing delays and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in Russia.

In addition, Russian courts may be reluctant to enforce foreign court judgments or arbitral awards against enterprises, such as the Guarantor, which are systemically important for the economy and development of a region.

Unlawful or arbitrary government action may have an adverse effect on the Group's business and the value of an investment in the Notes

Authorities of the Russian Government and regional and local government authorities exercise a high degree of discretion in Russia and at times appear to act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that may be contrary to, or not directly within the scope of, applicable law or that may be influenced by political or commercial considerations. Moreover, the government authorities may have the power in certain circumstances, by regulation or government decree, to interfere with the performance of, to nullify or to terminate contracts. Unlawful, selective or arbitrary governmental actions may include denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Government entities may also use common defects in matters surrounding share issuances and registration as pretexts for court actions, claims and other demands to invalidate such issuances and registrations and/or to void transactions. Unlawful, selective or arbitrary government action, if directed at ALROSA, could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and/or the value of the Notes.

Russia's developing securities laws and regulations may limit ALROSA's ability to attract future investment

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States or Western Europe. Corporate governance, disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and directors' duties are relatively new to Russia and are unfamiliar to many Russian companies and managers. In addition, several different agencies regulate the Russian securities market, including the FSFM, the Ministry of Finance, the FAS, the CBR, and various professional self-regulatory organizations. The regulations adopted by these various authorities are not always coordinated and may be contradictory.

While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas can result in delays in conducting securities offerings and in accessing the capital markets. In addition, Russian rules and regulations can change rapidly, and it is often unclear whether, or how, certain regulations, decisions and letters issued by the various regulatory authorities apply to ALROSA. These uncertainties may adversely affect ALROSA's ability to conduct securities-related transactions in the future, including sales of additional debt securities. Further, ALROSA may be subject to fines or other enforcement measures despite its best efforts at compliance, which could cause the Group's business, results of operations, financial results and/or prospects to suffer.

Russian law may expose ALROSA to liability for actions taken by its subsidiaries or joint venture entities

ALROSA has a number of Russian subsidiaries. Under Russian law, ALROSA may be jointly and severally liable for any obligations of a subsidiary or joint venture entity under a transaction if ALROSA is able to give compulsory instructions to that subsidiary or joint venture entity and the liability arises pursuant to actions taken in accordance with ALROSA's mandatory instructions. ALROSA may also have secondary liability for any obligations of a subsidiary or joint venture entity, which becomes insolvent or bankrupt due to ALROSA's faulty actions or failure to act. In either of these circumstances, the shareholders of the subsidiary or joint venture entity may seek compensation from ALROSA for the losses sustained by the subsidiary or a joint venture entity if ALROSA knew that the action taken pursuant to its instructions or the failure to act would result in losses. This type of compensation could result in significant liabilities for ALROSA and could adversely affect the Group's business.

Shareholder rights provisions under Russian law may impose additional costs on ALROSA, which could cause the Group's financial results to suffer

Federal Law No. 208-FZ "On Joint Stock Companies", dated 26 December 1995, as amended (the "**Law on Joint Stock Companies**"), provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to ALROSA at market value, as determined in accordance with Russian law. The decisions that trigger this right to sell shares include:

- a reorganisation (for example, merger, consolidation or change of the form of legal entity);
- the execution of a "major transaction" that involves property worth more than 50 per cent. of the book value of ALROSA's assets, calculated in accordance with Russian accounting standards; and
- the amendment of a company's charter or adoption of a new version thereof in a manner limiting shareholder rights.

ALROSA's obligation to purchase shares, as well as similar obligations of ALROSA's subsidiaries that have minority shareholders, in these circumstances will be limited to 10 per cent. of its net assets calculated according to the Russian accounting standards at the time the matter at issue is voted upon and could have an adverse effect on ALROSA's cash flow and ability to service its indebtedness, as well as on its business, financial condition and results of operations.

Some transactions between ALROSA and interested parties or affiliated companies require the approval of disinterested independent directors or disinterested shareholders and ALROSA's failure to obtain such approvals may lead to invalidation of transactions that are important for the Group's business

Russian law requires a joint stock company that enters into transactions with certain related persons, referred to as "interested party transactions", to comply with special approval procedures. Under Russian law, an "interested party" — in relation to a company — means: (i) any member of the board of directors (supervisory council) or the management board of the company, (ii) the CEO of the company, or the external manager or management company, (iii) any shareholder that, together with its affiliates, owns at least 20 per cent. of the company's voting shares or (iv) a person that is entitled to give mandatory instructions to the company, if any of the foregoing persons, or a close relative or affiliate of such person, is:

- a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- the owner of at least 20 per cent. of the shares in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- a member of a governing body of a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction or an officer of the managing organisation of such company; or
- otherwise deemed an "interested party" under the company's charter.

Under applicable Russian law, in a joint stock company with 1,000 shareholders with a right to vote, interested party transactions must be approved by a majority vote of disinterested independent directors of the company, or by a majority vote of disinterested shareholders of the company, in the event that (i) all directors are interested and/or are not independent, (ii) the value of the transaction is equal to or exceeds 2 per cent. of the company's assets as determined under Russian accounting standards as of the latest reporting date, or (iii) in case of certain share placements. If valid approval of the interested party transaction is not obtained, the transaction may be invalidated by a Russian court upon a motion by the company or any of its shareholders.

The concept of "interested parties" is defined by reference to the concepts of "affiliated persons" and "group of persons", which are subject to different interpretations under Russian law. Moreover, the provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to different interpretations. ALROSA cannot be certain that its compliance with applicable requirements will not be subject to challenge. Any successful challenge could result in the invalidation of transactions that are important to the Group's business. In addition, the terms and conditions of certain of the Group's borrowings require approval of related party transactions to be obtained under applicable law relating to interested party transactions. Uncertainty relating to the interpretation of these requirements could lead to claims of covenant breaches under certain such borrowings.

Expansion of limitations on foreign investment in strategic sectors could affect ALROSA's ability to attract and/or retain foreign investment and create joint ventures

The Federal Law No. 57-FZ "On the procedure for foreign investment in companies with strategic impact on national defence and security of the Russian Federation" (the "**Strategic Industries Law**") was adopted on 29 April 2008. It regulates foreign investments in, and other transactions, which may lead to foreign control over, companies with strategic importance for the national defence and security of the Russian Federation. See "Regulatory Matters — Regulation of Foreign Ownership — Strategic Industries Law". The Strategic Industries Law provides a list of strategic activities, engagement in which makes a company subject to its regulations. Among others, the list of such activities includes exploration and/or extraction of natural resources on subsoil plots of federal importance. In accordance with the current version of the Federal Law No. 2395-1 "On Subsoil" of 21 February 1992, as amended (the "**Subsoil Law**") such subsoil plots include, *inter alia,* plots with diamond deposits. See "Regulatory Matters — Regulation of Mineral Resources — Subsoil Plots of Federal Importance". The list of subsoil plots of federal importance is officially published by the competent state authority.

ALROSA and its diamond-mining subsidiaries, ALROSA-Nyurba, Almazy Anabara and Severalmaz qualify as Subsoil Strategic Companies ("**Subsoil Strategic Companies**") as they conduct exploration and extraction activities on plots with diamond deposits included in the list of subsoil plots of federal importance. Any sale to a foreign entity or a group of entities of 10 per cent. or more of the voting shares in any of these companies or otherwise obtaining control, as defined by the Strategic Industries Law, by a foreign entity or a group of entities over any of these companies, including obtaining an indirect control over ALROSA-Nyurba, Almazy Anabara and Severalmaz through a sale of the relevant stake in ALROSA, will be subject to prior approval from state authorities. In addition, if a foreign entity or a group of entities which is a holder of securities of ALROSA, ALROSA-Nyurba, Almazy Anabara and/or Severalmaz becomes a holder a number of voting shares which is deemed sufficient to give them direct or indirect control over these companies in accordance with the Strategic Industries Law due to a change in allocation of voting shares pursuant to the procedures provided by Russian law (*e.g.* as a result of a buy-back by the relevant company of its shares), such shareholders will have to apply for state approval within three months after they received such control. The above 10 per cent. threshold is lowered to 5 per cent., if a foreign investor is a foreign state, international organisation or entity controlled by a foreign state / international organisation.

As a result, the necessity to receive prior or subsequent state approvals and the risk that such approvals are not granted might affect ALROSA's ability to attract foreign investments in the course of a public offering or otherwise, as well as to create joint ventures with foreign partners with respect to the Group's Russian diamond-mining companies that qualify as Subsoil Strategic Companies, which could adversely affect ALROSA's operating results, financial condition and prospects.

The position of certain companies of the Group as natural monopolies may result in adverse regulatory interference in their operations

ALROSA and OJSC ALROSA-Terminal are involved in services at transportation terminals, ports and airports, which are among the activities regulated by Federal Law "On Natural Monopolies" No. 147-FZ dated 17 August 1995, as amended (the "**Natural Monopoly Law**"). ALROSA and OJSC ALROSA-Terminal are, therefore, acknowledged natural monopolies subject to special regulation under the Natural Monopoly Law. OJSC ALROSA-Gaz ("**ALROSA-Gaz**") is involved in gas transmission services, which also fall within the scope of the Natural Monopoly Law. In particular, the FAS, local antimonopoly authorities and the Federal Tariff Service (the "**FTS**") regulate the activities of such companies by establishing tariffs for the part of their services considered to be monopolistic, requiring non-discriminatory provision of services to all market participants or exercising control over certain transactions or investments of natural monopolies valued at more than 10 per cent. of its "own" capital. They are also entitled to issue mandatory orders to such companies, demanding them to perform certain actions in order to avoid abuse of their natural monopoly status. See "Regulatory Matters — Natural Monopoly Regulation".

The heavy regulation of natural monopolies' activities, the restrictions associated with natural monopoly status and regulatory interference into, and supervision of, natural monopolies' operations may result in substantial limitations of the Group's activities and operational flexibility, as well as in civil and administrative liability of the Group, which may have a material adverse effect on the Group's business, results of operations and financial condition.

Also, natural monopolies must use open tenders in selecting certain service providers, which could restrict their commercial flexibility and reaction time and adversely affect the Group's business. As the relevant law is vague and subject to discretionary interpretations, there is a risk that certain transactions may be successfully challenged and/or declared invalid by a Russian court on the basis that the Group did not fully comply with the Natural Monopoly Law, which may also have a material adverse effect on the Group's business, financial position and results of operations.

Russian competition law may restrict ALROSA's ability to conduct its business

ALROSA and its certain subsidiaries are included in the Register of Entities Having a Market Share in Excess of 35 per cent. on a Particular Commodity Market maintained by the Russian antimonopoly authorities (the "**FAS Register**"). Russian law prescribes prior consent of the Russian antimonopoly authorities for certain transactions to which an entity included in the FAS Register is a party (or in which such entity is a target), including, *inter alia,* acquisition of shares, participation interests or assets, subject to thresholds established by Russian law. Moreover, under Russian law, ALROSA has a dominant position in the Russian diamond market as it has a market share in a specific commodity market in excess of 50 per cent., and the Russian antimonopoly authorities did not specifically establish that ALROSA (together with its subsidiaries) does not have a dominant position. Under Russian law, an entity with a dominant position in a particular commodity market must not engage in certain types of activities, including the creation of discriminatory conditions, the reduction or termination of production of goods, for reasons not economic or technological in nature, where demand for the goods exists, so long as the goods can be produced at a profit, or the carrying out of any other activities that result or may result in the prevention, limitation or elimination of competition and/or the infringement of interests of other individuals or entities. Russian law grants the Russian antimonopoly authorities ample powers necessary to cope with violations of antimonopoly legislation, which include, *inter alia,* issuance of statutory prescriptions to business entities regarding termination of, or entry into, agreements, performance of actions aimed at ensuring the competition, or filing with a court or an arbitration court applications in respect of violations of antimonopoly laws, including, *inter alia,* invalidating in full or in part any agreements that do not comply with the antimonopoly law. See "Regulatory Matters — Regulation of Competition". If any of the required approvals of the Russian antimonopoly authorities are not obtained, or if the Russian antimonopoly authorities take any actions to restrict ALROSA's ability to conduct its routine business, ALROSA's business, results of operations and financial condition may be materially adversely affected.

The Russian tax system imposes substantial burdens on ALROSA and is subject to frequent change and significant uncertainty

ALROSA is subject to a broad range of taxes imposed at the federal, regional and local levels, including but not limited to profits tax, value added tax, or VAT, mineral resources extraction tax, corporate property tax and compulsory insurance payments.

Laws related to these taxes such as the Tax Code of the Russian Federation (the "**Tax Code**") have been in force for a relatively short period of time, as compared to tax laws in more developed market economies. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in continuous changes being introduced into existing laws and the interpretation thereof by various authorities.

Although Russia's tax climate and the quality of tax legislation have generally improved with the introduction of the Tax Code, the possibility exists that Russia may impose arbitrary and/or onerous taxes and penalties in the future, which could adversely affect the business of ALROSA and the Russian subsidiaries of the Group. Russia's inefficient tax collection system increases the likelihood of such events. A large number of changes have been introduced to various chapters of the Tax Code since its adoption.

The taxation system in Russia is subject to frequent change and inconsistent enforcement at the federal, regional and local levels. Some of the sections of the Tax Code relating to the aforementioned taxes are comparatively new. The interpretation and application of Russian tax laws and regulations is often unclear, inconsistent or non-existent. Differing interpretations of tax regulations exist both between the taxpayers and the government bodies at the federal, regional and local levels, resulting in uncertainties and inconsistent enforcement of these regulations in practice. In some instances the Russian tax authorities have applied new interpretations of tax laws retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period several times. 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. In practice, taxpayers often have to resort to court proceedings to defend their position against the tax authorities. In the absence of consistent court practice, rulings on tax or other related matters by different courts relating to the same and similar circumstances may also be inconsistent or contradictory.

On 12 October 2006 the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53 (the "**Ruling**") that introduced a concept of "unjustified tax benefit". This concept is defined mainly by reference to specific examples of such tax benefits (for example, absence of business purpose), which may lead to disallowance of their application for tax purposes. To date there has been little guidance or interpretation of this concept by the tax authorities or by the courts, but based on the available court practice relating to the Ruling, the tax authorities actively seek to apply the "unjustified tax benefit" concept when challenging tax positions taken by taxpayers, interpreting this concept in a broader sense than may have been intended by the Supreme Arbitration Court of the Russian Federation as the intention of the Ruling was to combat abuses of the tax law. Importantly, the Group is aware of cases where this concept has been applied by the tax authorities in order to disallow benefits granted by double tax treaties. To date in the majority of cases where this concept was applied, the courts have ruled in favour of the taxpayers. However, the court practice is insufficiently developed yet to anticipate how the concept of "unjustified tax benefit" may be interpreted in the future.

Tax declarations together with related supporting documentation are subject to review and investigation by a number of authorities, which are enabled by Russian law to impose severe fines and interest charges on taxpayers. Generally, the tax declarations remain open and subject to inspection by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a year has been reviewed by the tax authorities does not entirely close that year, or any tax declarations applicable to that year, for further review by the tax authorities during the three-year limitation period. Therefore, previous tax audits do not preclude subsequent claims relating to the audited period. In particular, a repeat tax audit may be conducted (1) by a higher-level tax authority as a measure of control over the activities of the lower-level tax authorities, or (2) in connection with the reorganisation/liquidation of a taxpayer, or (3) as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable to the revenue.

The statute of limitations for tax liabilities and penalties for a tax offence is three years from the date on which it was committed or from the next date following the date of the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). The Tax Code provides for the possible extension of the three-year statute of limitations for tax liabilities and penalties if actions of the taxpayer created insurmountable obstacles for the tax audit. Because the terms "obstructed", "hindered" and "insurmountable obstacles" are not specifically defined in Russian law, the tax authorities may have broad discretion to argue that a taxpayer has "obstructed", "hindered" or "created insurmountable obstacles" for an inspection and ultimately seek additional tax adjustments and penalties beyond the three-year term. Therefore, the statute of limitations is not entirely effective with respect to liability for tax in Russia.

The Russian tax system still relies heavily on the judgments of local tax officials and fails to address many of the existing problems. In addition, local tax officials have made several material tax claims against major Russian companies in the past. It is, therefore, possible that transactions and activities of ALROSA and the Russian subsidiaries of the Group that have not been challenged in the past may be challenged in the future.

Currently, ALROSA is involved in court proceedings related to the tax audit performed by the Russian tax authorities in 2002 with respect to tax liabilities for 1999 — 2001. See section "Business — Legal and Regulatory Proceedings — Tax Claims".

It should also be noted that Russian law does not provide for a possibility of group relief or fiscal unity. Consequently, no losses eligible for reducing the tax liability of any Russian entity in the Group may be used to reduce the tax liability of any other Russian entity of the Group.

The Group operates in various jurisdictions and includes companies incorporated outside of Russia. Russian tax laws currently in effect do not provide detailed rules on the taxation of foreign companies in Russia. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities and/or the courts to their interpretation and application, the Group could become subject to additional taxation in Russia.

Payments of dividends between two Russian companies are currently subject to income tax at a rate of 9 per cent. levied by withholding at the time of payment. Dividends received by Russian companies on their foreign equity holdings are also subject to income tax at a rate of 9 per cent. Effective 1 January 2008, certain dividends received by Russian companies on their Russian and foreign equity holdings are taxed at a zero rate provided that the relevant dividends are received on at least a 50 per cent. stake, the acquisition costs of such stake exceeded RUB 500 million (this requirement will be removed starting 1 January 2011 with respect to distribution of dividends from profit generated in 2010 and thereafter), the stake has been held for at least 365 calendar days, and the dividend paying entity is not a resident of a jurisdiction black-listed by the Russian Ministry of Finance. However, there remains a risk of additional tax liabilities and inefficiencies in multi-level Russian groups such as the Group.

These facts create tax risks in Russia that may be substantially more significant than typically found in countries with more developed tax systems and complicate tax planning and related business decisions of the Group. Even if further reforms to tax laws are enacted, they may not result in a reduction of the tax burden on Russian companies and the establishment of a more efficient tax system. Conversely, they may introduce additional tax collection measures. There can be no assurance that the current tax rates will not be increased, that new taxes will not be introduced or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. There also can be no assurance that the Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the Russian tax system.

In general, it is expected that Russian tax legislation will progressively become more sophisticated. Introduction of new taxes or amendments to current rules of taxation may affect the Group's overall tax efficiency and may result in significant additional tax liabilities. The Group cannot provide prospective investors with any assurance that additional Russian tax exposures will not arise whilst the Notes are outstanding. Additional tax exposures could have a material adverse effect on the Group's business, financial conditions, results of operations and prospects.

Transfer pricing legislation in Russia allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs), provided that the transaction price differs upwards or downwards from the market price by more than 20 per cent. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e., if the price applied under such transaction differs from prices applied under similar transactions carried out within a short period of time by more than 20 per cent.). Special transfer pricing rules apply to transactions with securities and derivatives.

The Russian transfer pricing rules currently in effect are vaguely drafted, generally leaving wide scope for their interpretation by the Russian tax authorities and courts. Moreover, in the event that a transfer pricing adjustment is assessed by the Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment.

There is a plan to introduce substantial amendments to the Russian transfer pricing legislation. A new draft law radically amending the transfer pricing legislation was approved by the Russian Parliament in the first reading on 19 February 2010 with the second and third readings expected during the remainder of the 2010 autumn session of the State Duma. At this point it cannot be predicted with absolute certainty when these amendments will be enacted, if at all, and what effect they may have on taxpayers, including the Group. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse effect on the Group's business, financial conditions, results of operations and prospects.

Restrictive currency regulations may interfere with the Group's ability to conduct routine business transactions

Notwithstanding significant liberalisation of the Russian currency control regime and the abolition of certain restrictions from 1 January 2007, the Federal Law No. 173-FZ "On Currency Regulation and Currency Control" of 10 December 2003, as amended (the "**Currency Law**"), and current regulations still contain a number of limitations on currency operations. In particular, foreign currency operations between Russian residents are generally prohibited (except for operations specifically listed in the Currency Law and operations between authorized banks). Moreover, certain limitations, such as the requirement to notify the Russian tax authorities regarding the holding of bank accounts abroad and to maintain transaction passports for certain cross-border transactions, are still applicable. These currency control restrictions may make certain foreign currency operations burdensome and financially unattractive and may restrict the Group's operational flexibility.

As a result of the current state of the banking sector, considerable delays may occur in the transfer of funds within, and the remittance of funds out of, Russia. Any delay or other difficulty in transferring and remitting funds could limit ALROSA's ability to meet payment and debt obligations as they become due, which could result in the acceleration of debt obligations and cross-defaults and, in turn, have a material adverse effect on the Group's business, results of operations, financial condition, prospects and/or the value of the Notes.

The Group may be adversely affected by the underdeveloped nature of the Russian currency market

The Group has Rouble-denominated revenues and incurs significant expenses in Roubles. Because of the limited development of the foreign currency market in Russia, ALROSA may experience difficulty converting Roubles into other currencies. Furthermore, the Russian Government and the CBR may impose burdensome requirements governing currency operations, as it has done in the past. Any delay or other difficulty in converting Roubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit ALROSA's ability to meet its payment and debt obligations, which could result in the acceleration of debt obligations and cross defaults.

Risks Related to an Investment in the Notes

The Group's substantial indebtedness could adversely affect its financial condition

The Group has incurred a substantial amount of debt. As of 30 June 2010, the Group had total short term and long term borrowings of RUB112,529 million (US$3,607 million) outstanding. The Group's substantial leverage poses the risk that:

- a significant portion of the Group's cash flow from operations must be dedicated to servicing the Group's debt obligations;
- the Group's ability to obtain additional financing for working capital, capital expenditures or business opportunities may be limited by certain covenants associated with the Group's debt obligations;
- the Group's debt may put it at a competitive disadvantage and may make it difficult for ALROSA to pursue its business strategy and make the Group more vulnerable to general economic and industry conditions than competitors who have less debt;
- the Group's debt level may make it more difficult to adequately plan for or react to changing market conditions and changes in the diamond mining industry; and
- ALROSA may have difficulty meeting its obligations under the Intercompany Loan or the Guarantee.

ALROSA's ability to make payments on and to refinance its debt, including the Intercompany Loan, will depend on the Group's ability to generate cash in the future. The ability to generate cash is, to a certain extent, beyond ALROSA's control. Accordingly, ALROSA cannot provide any assurance that it will generate sufficient cash from operations or additional financing activities to meet debt service obligations and liquidity needs in the future or that ALROSA's subsidiaries will be able to transfer assets to ALROSA for such debt obligations and liquidity needs. In addition, future borrowings may not be available to the Group in an amount sufficient to enable it to fund its liquidity needs or to make required payments on its debt in the future.

ALROSA may need to refinance all or a portion of the Group's existing indebtedness, as well as the Notes, on or before maturity. ALROSA may not be able to refinance existing indebtedness and, even if ALROSA can, the terms of such refinancing may be less favourable than the terms of existing indebtedness, which could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and/or the value of the Notes.

The Guarantee is subordinated to secured obligations of ALROSA and structurally subordinated to indebtedness of ALROSA's subsidiaries

The Guarantee is effectively subordinated in right of payment to the existing and/or future secured indebtedness of ALROSA. There is currently no indebtedness of the Group secured with the assets of ALROSA, excluding certain items of the Group's indebtedness that are subject to guarantees and general security interests over ALROSA's assets that, by their terms, do not identify any specific assets pledged. ALROSA believes that, under applicable Russian law, it is likely that such indebtedness would be deemed to rank *pari passu* with ALROSA's unsecured indebtedness, including the Notes. However, the Group has had in the past and may have in the future indebtedness secured with the assets of ALROSA. If an event of default occurs under a secured credit facility, the lenders may foreclose upon the respective collateral. Generally, in the event of a bankruptcy, liquidation, dissolution, reorganisation or similar proceeding, proceeds of the sale of the collateral will be used for satisfaction of claims of the respective secured lenders and certain other categories of creditors, before such collateral (or sale proceeds) becomes available for satisfaction of any amount payable pursuant to the Guarantee.

The Guarantor owns and operates a significant proportion of its assets at a subsidiary level, including its mining operations. Moreover, some of the Guarantor's income is generated through operating companies, jointly controlled by the Guarantor with third parties. Investors will not have any direct claims on the cash flows or the assets of the other entities of the Group, except for the Issuer and the Guarantor, and such entities have no obligation, contingent or otherwise, to pay amounts due under the Notes or to make funds available to the Issuer or the Guarantor for these payments. Claims of the creditors of the other entities of the Group have priority as to the assets of such entities over the claims of the Issuer's and the Guarantor's creditors. Consequently, holders of the Notes are in effect structurally subordinated on insolvency to the prior claims of the creditors of the other entities of the Group. As of 30 June 2010, the consolidated subsidiaries of ALROSA (other than the Issuer) had RUB12,020 million (US$385 million) of external liabilities, all of which would have ranked structurally senior to the Guarantee.

ALROSA has the ability to incur substantially more debt, and this could increase the risks described above

ALROSA may decide to incur substantial additional debt in the future. The limitations on incurrence of indebtedness in the Terms and Conditions permit the Company and its subsidiary to borrow additional amounts so long as its fixed change coverage ratio is at least 3.5 to 1, and also permit the incurrence of certain indebtedness even when that ratio is not met. See 'Items and Conditions of the Notes'. In addition, debt permitted to be incurred by ALROSA's subsidiaries, other than the Issuer, will be structurally senior to the Notes and the Guarantee. If new debt is added to ALROSA's current debt levels, the magnitude of the related risks described above could increase, and the foregoing factors could have a material adverse effect on ALROSA's ability to pay amounts due in respect of the Notes.

Limitations on ALROSA's ability to borrow and invest and to engage in certain transactions could impair ALROSA's ability to expand or finance its future operations

The agreements that govern ALROSA's debt instruments contain certain restrictions limiting ALROSA's flexibility in operating the Group's business. Such restrictions limit or may limit ALROSA's ability to:

- borrow money;
- sell assets;
- make investments, pay dividends and make distributions;
- engage in mergers or consolidations;
- enter into new lines of business;
- enter into transactions with affiliates other than on arm's-length terms; and
- pay dividends or make other distributions.

These restrictions could hinder ALROSA's ability to carry out its business strategy, ALROSA's ability to make payments on the Intercompany Loan or the Guarantee and the Issuer's ability to make payments of principal or interest on the Notes. Moreover, the interpretation of these covenants and their application to specific transactions or circumstances may in some circumstances be uncertain, and the lenders under these borrowings typically have a degree of discretion in determining whether to enforce certain covenants. In some cases technical breaches of covenants that have not been enforced may not be capable of being remedied. If a lender were to notify the Group of a breach of covenants and the Group was unable to remedy the breach within the required grace period, it could lead to the acceleration of the amounts due under such borrowings, which could trigger cross default or cross acceleration provisions under the Notes or other borrowings, causing all debt under those financing arrangements to become due. ALROSA can offer no assurance that if the indebtedness under the Notes or other borrowings were to be accelerated, the assets of ALROSA would be sufficient to generate the funds necessary to repay the Notes in full in satisfaction of its obligations under the Intercompany Loan or the Guarantee.

Insolvency and administrative laws in Russia, The Netherlands and Luxembourg could negatively affect the ability of Noteholders to enforce their rights

Russian bankruptcy law may prohibit ALROSA from making payments pursuant to the Guarantee or the Intercompany Loan under certain circumstances. Specifically, Russian bankruptcy law provides that transactions or payments entered into or made within specified time periods before a bankruptcy petition is filed or at or after the time when a bankruptcy petition is filed may be declared void by a Russian court. After a bankruptcy petition is filed, the subject company is prohibited from paying any debts outstanding prior to the bankruptcy proceedings, subject to specified exceptions. After the company becomes insolvent, creditors of that company may not effectively pursue any legal action to obtain an order for payment of indebtedness, to set aside a contract for non-payment or to enforce the creditor's rights against any asset of the debtor outside the framework of the bankruptcy proceedings. Contractual provisions, which would accelerate the payment of the debtor's obligations upon the occurrence of certain bankruptcy events, are not enforceable under Russian law. In addition, an administrator may renounce or set aside executory contracts.

Additionally, if a court orders bankruptcy proceedings, it can prohibit the sale of an asset that it deems to be essential to the continued business of the debtor and can postpone the payment of debts owed by the debtor. Russian bankruptcy law assigns priority to the payment of certain creditors, including creditors on personal injury obligations, employees, secured creditors, the government, tort plaintiffs and certain post-petition creditors. If any of these laws are applied to ALROSA, the amounts available to make payments under the Guarantee may decrease substantially and holders of the Notes may not be able to enforce their rights under the Guarantee.

The Issuer is incorporated under the laws of Luxembourg, and its corporate parent ALROSA Finance B.V. is incorporated under the laws of The Netherlands. Generally, insolvency and administrative laws in Luxembourg and The Netherlands could negatively affect the ability of Noteholders to enforce their rights under the Notes and the Guarantee in a manner similar to the Russian laws described above.

A court could invalidate or subordinate the Notes or the Guarantee pursuant to fraudulent conveyance laws

The offering and sale of the Notes may be subject to review under Russian law if a bankruptcy case or a lawsuit is commenced by or on behalf of unpaid creditors of ALROSA. If a court were to find that ALROSA incurred indebtedness pursuant to the offering of the Notes with the intent to hinder, delay or defraud its creditors, then the Intercompany Loan and the Guarantee could be declared void, but only if its creditors' interests were actually harmed and ALROSA's respective counterparties knew about such intent at the time of the transaction. Similarly, if a court were to find, in connection with a bankruptcy or other proceeding, that:

- ALROSA received less than equivalent value for incurring indebtedness in connection with the offering of the Notes, compared with analogous transactions;
- the Notes and the Guarantee result in or may result in a priority satisfaction of certain creditors vis-a-vis other creditors;
- ALROSA was rendered insolvent at the time of or pursuant to the offering of the Notes;
- ALROSA was engaged or was about to engage in a business or transaction for which the assets remaining constituted unreasonably small capital to carry on its business; or
- ALROSA intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they matured,

then, in each such case, a Russian court could declare void, in whole or in part, the Notes, or the Guarantee in respect thereof and take other action detrimental to the holders of these instruments, including, under certain circumstances, ordering the return of payments previously made thereunder. For purposes of the foregoing, ALROSA would be considered insolvent if it is unable to settle its current liabilities from available assets.

No prior market for the Notes

The Notes are newly issued securities with no prior trading market. Although application has been made to list the Notes on the Irish Stock Exchange, an active trading market in the Notes may not develop or be maintained after listing. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.

Risks Related to the Taxation of the Notes

Payments under the Guarantee may be subject to Russian withholding tax

Payments under the Guarantee to a Non-Resident Noteholder Legal Entity (as defined in section "Taxation — Russian Federation") related to interest on the Notes are likely to be characterised as Russian source income. Such payments should be subject to withholding tax in Russia at a rate of 20 per cent., or such other rate as may be in force at the time of payment, at source of payment in Russia. There can be no assurance that such withholding tax would not be imposed on the full payment under the Guarantee, including with respect to the principal amount of the Notes. In addition, while it may be possible for some Noteholders who are eligible for withholding tax relief under applicable double tax treaties to reduce or eliminate the Russian withholding tax or to claim a refund of tax already withheld, there could be considerable practical difficulties in obtaining any such treaty relief given that the Noteholders will not be the immediate recipients of the payments under the Guarantee.

Payments under the Guarantee to a Non-Resident Noteholder Individual (as defined in section "Taxation — Russian Federation") made by the Guarantor may be subject to Russian tax as Russian source income. In this case, depending on how these payments would be effected, either the full amount of payment or a part of such payments covering the interest on the Notes would be subject to a 30 per cent. tax, which may be withheld at the source or paid on a self-assessed basis. This tax may be subject to relief or a reduced tax rate under the terms of an applicable double tax treaty. See section "Taxation — Russian Federation". However, given the uncertainties regarding the form and procedures for providing the documentary support, it is unlikely that Non-Resident Noteholders - Individuals in practice would be able to obtain advance treaty relief, while obtaining a refund of the taxes withheld can be extremely difficult, if not impossible.

If payments under the Guarantee become subject to Russian withholding or deduction for any taxes, duties, assessments or governmental charges of whatsoever nature (as a result of which the Guarantor would have to reduce payments made under the Guarantee by the withheld amount), the Guarantor will be obliged (subject to certain conditions) to increase payments under the Guarantee so as to result in the receipt by the Trustee acting on behalf of the Noteholders of such amounts as would have been received by it if no such withholding or deduction had been required. However, there is some uncertainty under Russian law as to the enforceability of such gross-up provisions. If the Guarantor were to fail to make tax gross-up payments in accordance with the terms of the Guarantee and the related provisions under the Guarantee were deemed to be unenforceable, the net amount of the payments made by the Guarantor to the Trustee acting on behalf of the Noteholders could be insufficient to make payment in full under the Notes.

The Issuer may, at its option, redeem the Notes if: (i) the Issuer (or, if the Guarantee was called, the Guarantor) has or will become obliged to pay additional amounts as a result of any change in, or amendment to, the laws or regulations of Luxembourg or Russia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the issue date of the Notes and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it. If the Issuer redeems the Notes under such circumstances, the redemption price will be equal to the principal amount of the Notes outstanding plus any interest and additional amounts accrued but unpaid as of the date of the redemption. See section "Taxation — Russian Federation".

Tax might be withheld on disposals of the Notes, reducing their value

If a Non-Resident Noteholder — Legal Entity (as defined in section "Taxation — Russian Federation") that holds the Notes other than through its permanent establishment in Russia sells the Notes and receives proceeds from a source within Russia, there is a risk that the part of the payment, if any, representing accrued interest may be subject to a 20 per cent. Russian withholding tax (even if a disposal resulted in a capital loss), although such tax may be reduced or eliminated under provisions of an applicable double tax treaty subject to compliance with the treaty clearance formalities. However, no assurance can be given that such relief will be available in practice.

Where proceeds from a disposition of the Notes are received from a source within Russia by a Non-Resident Noteholder — Individual (as defined in section "Taxation — Russian Federation"), a tax would be charged at a rate of 30 per cent. on gross proceeds from such disposal of the Notes less any available documented cost deduction. Although such tax may be reduced or eliminated under an applicable double tax treaty subject to compliance with the treaty clearance formalities, in practice individuals would not be able to obtain advance treaty relief in respect of withholding tax which may be applicable to receipt of proceeds from a source within Russia due to uncertainties regarding the form and procedures for providing evidence to obtain such treaty relief. Whilst obtaining a refund of taxes withheld is theoretically possible, it can be extremely difficult, if not practically impossible. Furthermore, even though the Tax Code requires only a licensed broker or an asset manager that is a Russian legal entity or organisation, or any other person, including a foreign company with a registered autonomous subdivision in Russia or an individual entrepreneur located in Russia who carries out operations under an agency agreement, a commission agreement or other similar agreement, to withhold the tax from payment to an individual associated with the disposition of securities, there is no guarantee that other Russian companies or foreign companies operating in Russia through a registered autonomous subdivision or an individual entrepreneur located in Russia would not seek to withhold the tax.

The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See section "Taxation — Russian Federation".

Interest payments on the Notes may be subject to Luxembourg withholding tax

Pursuant to recent developments in the European tax law, interest on the Notes paid to individuals resident in EU Member States, in certain EU dependent or associated territories and certain non-EU countries or to certain residual entities as described in the EU Directive on the Taxation of Savings Income in the Form of Interest Payments (Council Directive 2003/48/EC passed on 3 June 2003 and published on 26 June 2003, the "**Savings Directive**") and relating to agreements with certain EU dependants and associated territories and certain non-EU countries, may be subject to Luxembourg withholding tax. For further information on this legislation and the applicability of Luxembourg withholding tax to interest payments, see section "Taxation — Luxembourg".

If the Issuer is required by applicable law to make any withholding or deduction for any taxes, duties or assessments or governmental charges of whatsoever nature from any payment under the Notes, in certain circumstances the payments due by the Issuer will be required to be increased so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required subject to the exceptions set out in Condition 9 of the "Terms and Conditions of the Notes".

Risk Related to the Issuer

Both ALROSA and the Issuer are dependent on intercompany cash flow

The Issuer is a special purpose financing entity with no business operations other than the issuance of debt securities, including the Notes, and the lending of the proceeds of such offerings to ALROSA. The Intercompany Loan and similar agreements and payments by ALROSA thereunder comprise the only significant assets of the Issuer. Accordingly, the Issuer will rely on the payments ALROSA must make under the Intercompany Loan to provide the necessary funds for it to pay principal and interest on the Notes and to pay its other expenses. Therefore, the Issuer is subject to all risks to which ALROSA is subject, to the extent such risks could limit the ability of ALROSA to satisfy its obligations under the Intercompany Loan and perform its obligations under the Guarantee.

In addition, although ALROSA is an operating company, it derives a portion of its operating income from its subsidiaries. ALROSA's subsidiaries have no obligation, contingent or otherwise, to pay any amount owed under the Notes, the Intercompany Loan or the Guarantee or to make any funds available for such payment. Therefore, ALROSA's operating cash flow and ability to meet its debt obligations, including under the Intercompany Loan and the Guarantee, will depend in part on the cash flow provided by its subsidiaries in the form of loans, dividends or other payments to ALROSA as a shareholder. The ability of ALROSA's subsidiaries to make such payments will depend on their earnings, as well as applicable tax considerations and legal restrictions. In the event of insolvency, liquidation, dissolution or reorganisation of any of ALROSA's subsidiaries, the creditors of each subsidiary would be entitled to payment in full from such subsidiary's assets. After paying their own creditors, these subsidiaries may not have any remaining assets for distribution to ALROSA as a shareholder and, consequently, none of these assets may be available for payment to the Issuer pursuant to the Intercompany Loan or the Noteholders pursuant to the Guarantee. In that event, the Issuer or the Guarantor, as the case may be, may be unable to meet its obligations to Noteholders. As of 30 June 2010, the consolidated subsidiaries of ALROSA (other than the Issuer) had RUB12,020 million (US$385 million) of external liabilities, all of which would have ranked structurally senior to the Guarantee.

In the event that there is a default in payment of principal, interest or other amounts by the Guarantor to the Issuer under the Intercompany Loan resulting in the Issuer not being able to meet its obligations to Noteholders, Noteholders will have to rely on the Guarantor's payment obligations under the Guarantee.

USE OF PROCEEDS

The net proceeds from the Offering, after payment of commissions and estimated expenses, are expected to be approximately US$992.5 million. ALROSA intends to use the net proceeds of this Offering to refinance a portion of the current short-term indebtedness of the Group, as follows:

- US$586 million to repay US$586 million drawn down under a US$600 million credit facility agreement with VTB Bank, entered into on 20 January 2010, with a weighted average rate of 8.00 per cent. *per annum* and a maturity date in December 2010;
- US$300 million to repay a US$300 million tranche under the Issuer's ECP Programme guaranteed by ALROSA, with a weighted average rate of 5.23 per cent. *per annum* and a maturity date on 19 November 2010. The tranche was issued to an affiliate of VTB Bank to refinance a US$300 million credit facility agreement with VTB Bank, which was repaid in full on 22 October 2010; and
- the remainder to repay a portion of a US$321 million tranche under the Issuer's ECP Programme guaranteed by ALROSA, with a weighted average rate of 9.13 per cent. *per annum* and a maturity date in December 2010.

THE ISSUER

General

The Issuer was incorporated on 17 April 2003 as a *société anonyme* with limited liability under the laws of Luxembourg, and registered with the Trade and Companies Register, Luxembourg, under number B93147. The principal purpose of the Issuer is to finance the business operations of ALROSA and its subsidiaries, as described in this Prospectus. The Issuer's telephone number is +352 46 61 11-1.

The Issuer has no subsidiaries or significant business other than the issuance of debt securities to finance intercompany loans to ALROSA. The Issuer is not expected to produce any income except payments received from ALROSA under such intercompany loans. The only assets of the Issuer available to meet the claims of the Noteholders will be the obligations owed to the Issuer under any loan entered into between the Issuer and the Guarantor and any amounts representing its issued and paid-up capital. Expenses of the Issuer are payable by ALROSA.

The Issuer has its registered office at 412 F route d'Esch, L - 1030 Luxembourg, Grand Duchy of Luxembourg. The share capital of the Issuer is €31,000 divided into 310 ordinary shares with a par value of €100 each. The Issuer has issued a total of 310 ordinary shares, all of which have been one-quarter paid. The Issuer has no other authorised or issued securities.

Shareholders

ALROSA Finance B.V., a Dutch company wholly owned by ALROSA, owns 309 of the Issuer's shares and LOUV S.à.r.l., a company established under the laws of Luxembourg, owns one share. Although no specific measures are in place to control shareholder abuse, the Issuer believes that control by its shareholders is not abused.

Articles

Pursuant to Article 3 of the Issuer's articles of incorporation, the Issuer's purpose is the holding of participations, in any form whatsoever, in Luxembourg and foreign companies and any other form of investment, the acquisition by purchase, subscription or in any other manner as well as the transfer by sale, exchange or otherwise of securities of any kind and the administration, control and development of its portfolio; the Issuer may further guarantee, grant loans or otherwise assist the companies in which it holds a direct or indirect participation or which form part of the same group of companies as the Issuer; and the Issuer may carry out commercial, industrial or financial activities which it may deem useful in the accomplishment of this purpose. The articles of incorporation of the Issuer have been published in the *Mémorial, Journal Officiel du Grand-Duché de Luxembourg, Receuil des Sociétés et Associations C-No 531* on 16 May 2003. Any person interested in inspecting them may do so at the Trade and Companies Register, Luxembourg.

Management

The board of directors of the Issuer consists of Mrs Laetitia Antoine, M. Luca Gallinelli and Mrs Myriam Scussel, having their professional address at 412F, route d'Esch, L-2086 Luxembourg, each of whom was appointed by the shareholders of the Issuer.

To the best of the Issuer's knowledge, there are no conflicts of interest between the duties that any director owes to the Issuer and such director's private interests and other duties.

Auditors

The auditors of the Issuer are PricewaterhouseCoopers S.à r.l., a member of the *Institut des Réviseurs d'Entreprises;* with their registered office at 400, route d'Esch, L-1014 Luxembourg, Grand Duchy of Luxembourg.

Financial Year

The Issuer's financial year begins on 1 January and ends on 31 December. The Issuer prepares and publishes annual audited stand-alone financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation of annual accounts. The latest audited stand-alone financial statements of the Issuer are those related to the year ended 31 December 2009, which have been filed with the Trade and Companies Register in Luxembourg on 17 August 2010 and are included herein.

CAPITALISATION

The following table shows the consolidated capitalisation of ALROSA as of 30 June 2010, on an actual basis and as adjusted to reflect the application of the net proceeds of the offering of the Notes to refinance short-term debt, as described under "Use of Proceeds". You should read this table in conjunction with the Group Financial Statements included elsewhere in this Prospectus.

	As at 30 June 2010	As Adjusted[4]
	(unaudited)	(unaudited)
	(in millions)	
	(RUB)	(RUB)
Short-term loans and current portion of long-term debt[1]	**43,699**	**13,329**
Long-term debt[2]	**68,830**	**99,201**
Equity attributable to shareholders of ALROSA		
Share capital[3]	12,473	12,473
Share premium	10,431	10,431
Treasury shares	(26)	(26)
Retained earnings and other reserves	63,719	63,719
Total Equity attributable to shareholders of ALROSA	**86,597**	**86,597**
Total capitalisation	**199,126**	**199,126**

Notes:

(1) Short-term loans without current portion of long-term debt includes RUB27,766 million (US$890 million) of bank debt, RUB10,848 million (US$348 million) of notes issued under the ECP Programme, RUB302 million (US$10 million) of commercial paper, RUB1,822 million (US$58 million) of other debt and RUB2,961 million (US$95 million) representing the current portion of long-term debt. As at 30 June 2010, there were no short-term loans secured with the assets of ALROSA.

(2) Long-term debt and current portion of long-term debt includes RUB27,834 million (US$892 million) of bank debt, RUB15,576 million (US$499 million) of 2014 Notes, RUB26,000 million (US$833 million) of Rouble denominated non-convertible bonds, RUB536 million (US$17 million) of finance lease obligations, RUB297 million (US$10 million) of commercial paper and RUB1,548 million (US$50 million) of other long-term indebtedness. As at 30 June 2010, there was no long-term debt secured with the assets of ALROSA.

(3) As of 30 June 2010, ALROSA's authorised share consisted of 272,726 ordinary shares at RUB13,502.5 (US$432.8) par value per share, all of which have been issued and fully paid. See "Principal Shareholders".

(4) As adjusted to reflect the receipt of the estimated net proceeds of this Offering of US$992.5 million and their intended use to repay US$992.5 of short term indebtedness, including the repayment of a US$300 million tranche of the Issuer's ECP Programme guaranteed by ALROSA. The tranche was issued in October 2010 to refinance a US$300 million credit facility loan from VTB Bank that was repaid in full with the proceeds thereof in October 2010. For the purposes of this presentation, an exchange rate of US$1 to RUB30.6, the official exchange rate quoted by the CBR on 28 October 2010, has been used.

Except as described above, there has been no material change in the capitalisation of ALROSA since 30 June 2010.

SELECTED FINANCIAL INFORMATION

The following table contains historical financial information derived from the Group Financial Statements. The Interim Financial Statements are not necessarily indicative of the results that may be expected for the year ended 31 December 2010. The Interim Financial Statements include all the usual recurring adjustments which ALROSA's management considers necessary for a fair presentation of the Group's consolidated position and results of operation for these periods.

Solely for the convenience of the reader, certain of the Group's summary consolidated historical financial information set forth below has been translated from Roubles into US Dollars at the rate of RUB31.20 to US$1, which was the official exchange rate quoted by the CBR on 30 June 2010. The amounts translated into US Dollars should not be construed as representations that the Rouble amounts have been or could have been converted to US Dollars at that or any other rate as being representative of the US dollars amounts. See "Currencies and Exchange Rates."

You should read the following selected consolidated financial information in conjunction with the information contained in "Capitalisation", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Group Financial Statements included elsewhere in this Prospectus.

Statement of Comprehensive Income Data

	Six months ended June 30			Year ended 31 December			
	2010		2009	2009		2008	2007
	(RUB million)	(US$ million)	(RUB million)	(RUB million)	(US$ million)	(RUB million)	(RUB million)
	(unaudited)	(unaudited)	(unaudited)		(unaudited)		
Sales[1]	64,392	2,064	17,543	77,949	2,498	91,082[5]	90,734
Cost of sales	(38,012)	(1,218)	(11,571)	(43,689)	(1,400)	(52,555)	(51,441)
Royalty[2]	(1,755)	(56)	(1,755)	(3,509)	(112)	(3,990)	(4,816)
Gross profit	**24,625**	**790**	**4,217**	**30,751**	**986**	**34,537**	**34,477**
General and administrative expenses	(2,106)	(68)	(2,144)	(8,316)	(267)	(6,379)	(5,266)
Selling and marketing expenses	(641)	(21)	(505)	(1,173)	(38)	(1,759)	(1,722)
Net gain/(loss) from foreign exchange forward contracts	(255)	(8)	5,943	10,686	343	(25,077)	5,149
Gain on disposal of subsidiaries	—	—	—	2,438	78	—	—
Other operating income	1,649	53	388	1,130	36	573	3,912
Other operating expenses	(7,396)	(237)	(4,978)	(12,135)	(389)	(15,992)	(12,120)
Operating profit/(loss)	**15,876**	**509**	**2,921**	**23,381**	**749**	**(14,097)**	**24,430**
Finance costs, net[3]	(9,625)	(308)	(9,435)	(17,279)	(553)	(22,582)	(1,377)
Share of net profit of associates	526	17	151	559	18	676	936
Profit/(loss) before income tax	**6,777**	**218**	**(6,363)**	**6,661**	**214**	**(36,003)**	**23,989**
Income tax expense/(benefit)[4]	(1,762)	(57)	(955)	(3,198)	(103)	3,236	(7,805)
Profit for the period	**5,015**	**161**	**(7,318)**	**3,463**	**111**	**(32,767)**	**16,184**

Notes:

(1) Sales includes revenue from diamond sales and ancillary activities, including exploration, research and development, diamond polishing, construction, trading and supporting operations, such as transportation and supply of energy, fuel and water. In addition, Almazy Anabara, a wholly-owned subsidiary of the Group, has produced and sold gold since September 2007.

(2) Royalty expense represents payments made to Yakutia pursuant to the Lease Agreement through to 20 December 2006, then under the Temporary Agreement. The Temporary Agreement expired on 1 October 2008. See "Business —Termination of the Lease Agreement". ALROSA-Nyurba will continue to make support payments in agreed amounts through 2018.

(3) Exchange gain/(losses) form part of Finance income/(cost) in the Group Financial Statements.

(4) Income tax includes current income tax and deferred income tax.

(5) Includes RUB10,495 million in respect of sales of rough diamonds to Interdiam in December 2008 that were subsequently repurchased in September 2009. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview— Sales — Interdiam Sales".

Balance Sheet Data

	As of 30 June		As of 31 December			
	2010		2009		2008	2007
	(unaudited)		(audited)	(unaudited)	(audited)	(audited)
			(in millions)			
	(RUB)	(US$)	(RUB)	(US$)	(RUB)	(RUB)
Assets						
Property, plant and equipment	165,774	5,313	167,932	5,382	178,074	155,696
Other non-current assets	5,870	188	5,727	184	21,103	9,873
Total current assets	60,697	1,945	62,580	2,006	65,898	62,260
Total Assets	**232,341**	**7,447**	**236,239**	**7,572**	**265,075**	**227,829**
Equity						
Equity attributable to owners	86,597	2,775.5	81,898	2,625	78,449	121,090
Non controlling interest	(16)	(0.5)	(1,177)	(38)	(431)	1,190
Total Shareholders Equity	**86,581**	**2,775**	**80,721**	**2,587**	**78,018**	**122,280**
Liabilities						
Long-term debt, excluding current portion	68,830	2,206	23,581	756	80,331	32,296
Other long-term liabilities	11,498	369	12,698	407	19,445	8,771
Total current liabilities (incl. current portion of long-term debt)	65,432	2,097	119,239	3,822	87,281	64,482
Total Liabilities	**145,760**	**4,672**	**155,518**	**4,985**	**187,057**	**105,549**
Total Equity and Liabilities	**232,341**	**7,447**	**236,239**	**7,572**	**265,075**	**227,829**

Statement of Cash Flows Data

	For the six months ended 30 June			For the year ended 31 December			
	2010		2009	2009		2008	2007
	(unaudited)			(audited)	(unaudited)	(audited)	(audited)
				(in millions)			
	(RUB)	(US$)	(RUB)	(RUB)	(US$)	(RUB)	(RUB)
Net cash provided by (used in) operating activities	26,010	834	(9,974)	13,986	448	5,127	25,271
Net cash provided by (used in) investing activities	(3,886)	125	(4,056)	19,557	627	(36,261)	(31,051)
Net cash provided by (used in) financing activities	(14,463)	(464)	13,365	(36,446)	(1,168)	15,954	23,458

Other Financial Data

All line items in the table below are unaudited with the exception of "Total debt" and "Net debt" as of 31 December 2009, 2008 and 2007 and "Net interest expense" for the year ended 31 December 2009, 2008 and 2007. All line items in this table as of and for the six months ended 30 June 2010 and 30 June 2009 are unaudited.

	For the six months ended 30 June			For the year ended 31 December			
	2010		2009	2009		2008	2007
	(unaudited, except otherwise indicated) (in millions, except certain ratios)						
	(RUB)	(US$)	(RUB)	(RUB)	(US$)	(RUB)	(RUB)
EBITDA[(8)]	20,269	649	7,291	31,916	1,024	(5,200)	32,534
Adjusted EBITDA[(9)]	20,601	660	1,610	19,180	616	23,858	26,156
Finance costs (audited)	9,810	314	11,035	23,417	751	27,638	7,470
Net interest expense[(10)]	5,669	182	8,331	18,970	608	8,116	5,178
Total debt[(11)]	112,529	3,607	160,554	117,952	3,781	134,399	81,748
Net debt[(12)]	99,581	3,192	153,721	112,858	3,617	126,830	59,861
Adjusted EBITDA/finance costs[(11)]	2.10	2.10	0.15	0.82	0.82	0.86	3.50
Adjusted EBITDA/net interest expense[(9)/(10)]	3.63	3.62	0.19	1.01	1.01	2.94	5.05
Net debt/Adjusted Annual EBITDA[(13)]	2.61	2.61	—	5.88	5.88	5.32	2.29

Notes:

(8) EBITDA is defined as profit or loss for the period adjusted for income tax, net financing costs, depreciation and impairment and results from associates, as indicated in the table below. EBITDA should not be considered as a substitute for operating profit, net profit, cash flow or other statement of operations or cash flow data computed in accordance with IFRS or as a measure of the Group's results of operations or liquidity. Funds depicted by this measure may not be available for management's discretionary use (due to covenant restrictions, debt service payments and other commitments). Not all companies calculate EBITDA identically and therefore this presentation of EBITDA may not be comparable to similarly titled measures of other companies.

(9) Adjusted EBITDA is defined as EBITDA adjusted for the impairment of property, plant and equipment and goodwill (including reversals of such impairments), gains or losses on disposal of subsidiaries or plant, property and equipment, negative goodwill arising on acquisitions and net gains or losses from financial instruments (such as foreign exchange contracts, cross currency interest rate swaps and put options), as indicated in the table below. Adjusted EBITDA should not be considered as a substitute for operating profit, net profit, cash flow or other statement of operations or cash flow data computed in accordance with IFRS or as a measure of the Group's results of operations or liquidity. Funds depicted by this measure may not be available for management's discretionary use (due to covenant restrictions, debt service payments and other commitments). Not all companies calculate adjusted EBITDA identically and therefore presentation of adjusted EBITDA may not be comparable to similarly titled measures of other companies.

(10) Net interest expense is defined as interest expenses less interest income.

(11) Total debt is defined as short-term and long-term bank loans and other loans, long-term commercial paper, ECP Programme and the 2014 Notes.

(12) Net debt is defined as total debt less cash and cash equivalents.

(13) This ratio is the Group's net debt divided by the Group's adjusted EBITDA for a 12-month period. The 30 June 2010 ratio is calculated by adding adjusted EBITDA for the six months period ended 30 June 2010 to adjusted EBITDA for the year ended 31 December 2009, less adjusted EBITDA for the six months ended 30 June 2009.

	For the six months ended 30 June			For the year ended 31 December			
	2010		2009	2009		2008	2007
	(unaudited)			(audited, except otherwise indicated)			
	(in millions, except certain ratios)						
	(RUB)	(US$)	(RUB)	(RUB)	(US$)	(RUB)	(RUB)
Profit/Loss for the period	5,015	161	(7,318)	3,463	111	(32,767)	16,184
Income tax (expense)/benefit	1,762	56	955	3,198	103	(3,236)	7,805
Share of net profit from associates	(526)	(17)	(151)	(559)	(18)	(676)	(936)
Net finance costs	9,625	308	9,435	17,279	553	22,582	1,377
Depreciation	4,393	141	4,370	8,535	275	8,897	8,611
Amortisation of Grant	—	—	—	—	—	—	(507)
EBITDA (unaudited)	**20,269**	**649**	**7,291**	**31,916**	**1,024**	**(5,200)**	**32,534**
Net (gains) losses from foreign exchange forward contracts	255	8	(5,493)	(10,686)	(343)	25,077	(5,149)
Negative goodwill on acquisition of non-controlling interest in subsidiaries	—	—	—	—	—	—	(2,132)
Impairment (reversal) of property, plant and equipment	(42)	(1)	42	151	5	520	(158)
Impairment of goodwill arising from the acquisition of OAO NNGK	—	—	—	—	—	1,531	—
Gain on deconsolidation and disposal of subsidiaries	(1,427)	(46)	—	(2,438)	(78)	—	—
Loss on disposal of property, plant and equipment	1,296	42	290	1,026	33	890	1,061
Net loss from cross currency interest rate swap contracts and put options	250	8	(70)	(789)	(25)	1,040	—
Adjusted EBITDA (unaudited)	**20,601**	**660**	**1,610**	**19,180**	**616**	**23,858**	**26,156**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Group's financial condition and results of operations covers the six month periods ended 30 June 2010 and 2009 and the years ended 31 December 2009, 2008 and 2007. The financial information presented in this discussion has been extracted or derived from the Group Financial Statements. This section should be read together with the Group Financial Statements and the notes thereto, as well as the other financial information included elsewhere in this Prospectus.

The following discussion contains forward-looking statements. The Group has based these forward-looking statements on its current projections and expectations about future events. The actual results of the Group may differ materially from those anticipated in these forward-looking statements as a result of many important factors, including those set out under "Risk Factors" and elsewhere in this Prospectus.

The Interim Financial Statements for the periods indicated below include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the unaudited interim period. The interim results are not necessarily indicative of the results that may be expected for a full year.

Overview

The Group's results over the 2007-2009 period and the first half of 2010 were significantly affected by both net gains and losses generated by currency fluctuations and the impact of the global economic crisis on the diamond market. Reflecting these factors, the Group generated a net profit of RUB16.2 billion in 2007, a net loss of RUB32.8 billion in 2008, a net profit of RUB3.5 billion in 2009, and a net profit of RUB5.0 billion in the first half of 2010.

Certain Factors Affecting the Group's Results of Operations

The Group's results of operations are affected by various factors, including those described below. Because the Group's primary exploration and production activities are conducted in Russia, certain of these factors are attributable to the special characteristics of the Russian economy and legal environment.

Rough Diamond Market Conditions

The Group derives its revenues principally from the sale of rough diamonds. Its business is accordingly highly dependent on rough diamond market conditions. Rough diamond sales represented 88.5 per cent. of the Group's total revenues in the first half of 2010 and 82.8 per cent. of the Group's total revenues in 2009.

Revenues from rough diamond sales depend on a number of factors, including price, carat volumes sold, exchange rates and product mix. Average prices for rough diamonds are heavily influenced by the balance of supply and demand. The available supply of rough diamonds depends primarily on world diamond production and the inventory levels maintained by diamond producers and trading companies. Demand for polished diamonds is influenced primarily by economic conditions in the primary markets for diamonds, and to a lesser extent, by the success of marketing campaigns designed to stimulate demand.

After a period of favourable market conditions in 2007 and the first three quarters of 2008, demand for polished diamonds fell sharply in the fourth quarter of 2008 and throughout the first half of 2009 as consumers reduced spending on luxury goods in response to the global economic crisis. At the same time, the tightening of credit markets resulting from the crisis reduced the capacity of diamond cutters and polishers to purchase rough diamonds. Together, these factors led to sharply lower demand for rough diamonds and a significant drop in rough diamond prices.

To help reduce excess supply in the market and combat further declines in rough diamond prices, the Group suspended substantially all market sales of rough diamonds from November 2008 through July 2009. During this period, the Group sold rough diamonds only to the Russian state depository Gokhran, which increased its purchases of diamonds to support the Group, to a limited number of purchasers willing to purchase rough diamonds at pre-crisis price levels and to LLC Interdiam ("**Interdiam**"), which purchased rough diamonds in December 2008 that were repurchased by the Group in September 2009 as further described below. See "— Sales — Interdiam Sales". Other major diamond producers also reduced their supply of diamonds to the market during this period, and most significantly reduced production.

In response to the reduction of the supply of rough diamonds, diamond prices began to improve in the second half of 2009, as consumer demand, led by China and India, gradually began to recover, a trend that has continued and accelerated through the first half of 2010. In the first half of 2010, the Group's revenues were significantly higher than in the same period of 2009, and included no sales to Gokhran, to which it had made nearly all of its rough diamond sales in the first half of 2009.

The Group's decision to maintain higher production levels than many of its competitors during the economic crisis allowed it to expand its share of global production and become the world's largest producer of rough diamonds in 2009, based on carat volume. The Group believes this places it in an attractive position from which to address the markets as they recover. The Group's rough diamond sales in the first half of 2010 exceeded production levels, as the Group took advantage of rising demand and prices to reduce rough diamond inventories built up during the global economic crisis. The Group also believes its decision to maintain higher production levels during the economic crisis leaves it less exposed than many competitors to the ramp up delays that are typical when restarting operations that have been suspended.

The Group believes that the long-term outlook for rough diamond pricing is favourable due to structural imbalances in supply and demand. On the supply side, despite growth in exploration expenditures industry-wide prior to the global economic crisis, there have been no major discoveries of diamond pipes worldwide since the discovery of the Ekati and Diavik deposits in Canada in the 1990s. Finding economically viable diamond pipes continues to be difficult, and it takes a number of years to begin production once an economically viable diamond pipe is discovered. As existing reserves and inventories are depleted, the absence of major discoveries makes significant expansion of rough diamond production in the near term unlikely. At the same time, the Group believes that conditions for continued growth in demand are favourable, with significant growth expected from the developing economies of China, India and the Middle East together with recovery of demand in the United States, Japan and Europe expected to track a recovery in GDP growth. If demand continues to grow at a faster rate than the diamond supply, the resulting imbalance should have a favourable impact on rough diamond prices.

Exchange Rates

The Group's results of operations are significantly affected by movements in exchange rates and inflation, and in particular by appreciation or depreciation of the Rouble against the US Dollar. The principal impacts of movements in these exchange rates are as follows:

- Because most of the Group's sales are denominated in US Dollars, while most of its costs are denominated in Roubles, appreciation of the Rouble against the US Dollar tends to have a negative impact on the Group's operating margins because the Group receives fewer Roubles for each US Dollar of revenue earned. Depreciation of the Rouble has the opposite effect.
- Because the Group has significant US Dollar borrowings, appreciation in the value of the Rouble typically generates foreign exchange gains, while depreciation has the opposite effect.
- Appreciation or depreciation of the Rouble against the US Dollar relative to the strike prices under the Group's foreign exchange hedging arrangements entered into in 2006 can generate significant gains or losses under these agreements.

The following table summarizes the Group's net exchange gains (losses), and net gains (losses) from its foreign exchange forward contracts for the periods indicated.

	For the six months ended 30 June		**For the year ended 31 December**		
	2010	**2009**	**2009**	**2008**	**2007**
	(in RUB millions)				
Net exchange gains (losses)	(3,937)	(1,076)	1,748	(14,452)	4,146
Net gain (loss) from foreign exchange forward contracts	(255)	5,943	10,686	(25,077)	5,149
Subtotal	(4,192)	4,867	12,434	(39,529)	9,295

Seasonality of the Group's Business

The Group has seasonal working capital requirements that result from the remote location of, and extreme climatic conditions at, the Group's mining operations in Yakutia. ALROSA's areas of operations can be reached by water only during a relatively short navigation period (May to September). During that time, ALROSA amasses stocks of consumables and production materials for production and consumption by its production divisions to last until the next navigation period. Thus, the Group has seasonal working capital requirements, as most of a year's supplies must be purchased in the second quarter and transported to their destination prior to the end of September.

Further, in accordance with the Labour Code and the collective bargaining agreement between ALROSA and its trade union, most employees in Yakutia are entitled to 57 paid vacation days per year, for which they may request to be paid in advance. Also, once every two years, ALROSA is required to reimburse employees and their family members for vacation travel expenses. For single parents, such reimbursement is available every year. Most of ALROSA's employees accumulate such benefits during the winter, spring and fall and take vacations in the summer. As a result, the Group's cash requirements generally increase during the summer as ALROSA makes salary advances and pays travel expenses. To avoid inadequate staffing, vacation requests are approved in accordance with a master schedule with no more than 18 per cent. of the total number of employees on vacation at any given time.

Additional factors contributing to the seasonality of the Group's operations include a decrease in ore processing capacity in the summer as a result of routine maintenance of certain ore treatment plants. The temporary reduction in production is typically offset by an increase in the volume of ore processed at the Nyurba and Anabar ore treatment plants during the same period. Due to its northern location, Almazy Anabara conducts ore processing between the months of June and October. See "Business — Diamond Mining Operations — Russian Mining Operations — Almazy Anabara — Anabar Alluvial Mines".

Taxation

The Group is subject to numerous taxes at the federal, regional and local levels and is one of the largest sources of tax revenue in the regions where it operates. The Group contributes the majority of Yakutia's total annual tax revenues. Russian tax laws are and have been subject to varying interpretations and frequent changes. For example, prior to 2009, operations in Russia were subject to an income tax rate of 24 per cent.; effective 1 January 2009, the income tax rate was reduced to 20 per cent. Given the relative size of the Group's activities in Russia, its tax burden is largely determined by the taxes payable in Russia.

In addition to income tax, the Group is subject to VAT, mineral resources extraction taxes, unified social tax and property tax. The high tax rates to which the Group is subject and the often-changing tax regime have a significant impact on operating environment and results of operations. See "Risk Factors — Risks Related to the Legal and Regulatory Environment in Russia — The Russian tax system imposes substantial burdens on ALROSA and is subject to frequent change and significant uncertainty".

Interest Rates

The Group has significant short-term and long-term debt obligations with both fixed and variable interest rates. Fluctuations in interest rates can have a significant impact on the Group's operating results. See Note 3 to the 2009/2008 Group Financial Statements.

Sales

The Group sells rough diamonds (including gem, near-gem and industrial diamonds) on the export market and on the domestic market. Prior to 2009, a significant portion of the Group's exports were through sales to De Beers. These sales have ceased since 1 January 2009 in accordance with undertakings made by De Beers to the European Commission. For a detailed description of the Group's diamond sales channels, see "Business — Marketing and Sales of Diamonds". In 2008, the Group's sales included RUB10,495 million of sales of rough diamonds to Interdiam that were subsequently repurchased from Interdiam in 2009, as described below. See "— Interdiam Sales". In the first half of 2009, substantially all of the Group's sales were to Gokhran.

The following table sets forth the Group's diamond sales (net of VAT and export duties) for the periods under review:

DIAMOND SALE REVENUE (unaudited)	For the six months ended 30 June		For the year ended 31 December		
	2010	2009	2009	2008	2007
	(in RUB millions)				
Domestic sales on open market	12,072	10,373	26,252	34,895	26,911
Domestic sales through long-term agreements(1)	*6,051*	*18*	*2,888*	*6,286*	*7,916*
Domestic spot sales, one-time sales, other	*6,000*	*102*	*1,412*	*21,778(9)*	*15,269*
Domestic sales to Gokhran(2)	21	10,253	21,952	6,831	3,726
Domestic auction sales(3)	48	—	10	246	608
Rough diamond domestic sales	**12,120**	**10,373**	**26,262**	**35,141**	**27,519**
Polished diamond domestic sales	**54**	**63**	**169**	**152**	**196**
TOTAL DOMESTIC SALES	**12,174**	**10,436**	**26,432**	**35,293**	**27,715**
Export on open market	35,407	538	28,015	30,295	36,239
Export through De Beers(5)	—	—	—	*7,655*	*11,422*
Export through long-term agreements (excl. De Beers)(6)	*22,574*	*57*	*21,830*	*467*	*449*
Export through spot sales, one-time sales, other	*12,833*	*481*	*6,185*	*22,173*	*24,348*
Export through Almaziuvelirexport(7)	1,132	—	1,684	1,641	2,221
Export auction sales(3)	2,599	9	2,121	3,214	4,955
Export sales of rough diamonds(4)	**39,138**	**547**	**31,820**	**35,150**	**43,415**
Export sale of polished diamonds	**2,032**	**400**	**1,605**	**3,729**	**4,062**
TOTAL EXPORT SALES	**41,170**	**947**	**33,425**	**38,879**	**47,477**
TOTAL RESALE OF DIAMONDS(8)	**5,717**	**453**	**6,483(10)**	**4,072**	**4,578**
TOTAL DIAMOND SALES	**59,061**	**11,836**	**66,339**	**78,244**	**79,770**
Including sales of industrial diamonds	68	5	54	61	40

Notes:

(1) Includes the long-term framework agreements with 5 domestic customers entered into between the second half of 2009 and the first half of 2010, which amounted to RUB5,753 million, or 9.74 per cent. of the Group's total diamond sales revenue in the first half of 2010 and RUB2,465 million, or 3.7 per cent. of the Group's total diamond sales revenue in 2009.

(2) Includes "unique" diamonds, as determined by the Ministry of Finance.

(3) Represents sales of diamonds weighing 10.8 carats or more, which must be sold by auction.

(4) Includes export sales outside and within the CIS.

(5) Starting 1 January 2009, ALROSA ceased all sales to De Beers. See "Business-Legal and Regulatory Proceedings — EU Commission's Decision on the De Beers Trade Agreement".

(6) Also includes the long-term framework agreements with 19 export customers entered into between the second half of 2009 and the first half of 2010, which amounted to RUB22,389 million, or 37.9 per cent. of the Group's total diamond sales revenue in the first half of 2010 and RUB21,716 million, or 32.7 per cent. of the Group's total diamond sales revenue in 2009.

(7) Represents sales outside of Russia of "representative control parcels" sold by Almaziuvelirexport as agent, less a maximum of 3 per cent. commission.

(8) Represents sales of rough diamonds, produced primarily in Angola, purchased by the Group for subsequent resale in the international market. In the first half of 2010 and in 2009, includes revenues of RUB5,745 million and RUB5,187 million, respectively, from the resale of diamonds repurchased in 2009 from Interdiam. See "— Interdiam Sales".

(9) Includes revenues of RUB10,495 million from sales of rough diamonds to Interdiam in December 2008 that were subsequently repurchased in September 2009. See "— Interdiam Sales".

(10) Includes RUB5,108 million of sales to Gokhran

Interdiam Sales

The Group's revenues in 2008 reflected sales agreements with Interdiam, a Russian wholesaler and retailer of rough and polished diamonds, in the aggregate amount of RUB11.2 billion (approximately US$392 million). Due to 90-day payment terms, RUB10.5 billion was allocated to sales revenue in 2008 and RUB718 million to imputed interest, primarily in 2009. Interdiam was controlled by Almazzolotokomplekt, a large supplier of machines and technical supplies to ALROSA. Interdiam was ALROSA's largest single customer in 2008. Interdiam made purchases of diamonds in other years before and after 2008, but they did not exceed US$5 to 20 million in any year. The decline of traditional sales outlets during the 2008 financial crisis made the Group willing to experiment with alternative sales channels like Interdiam.

On December 24 and 25, 2008, ALROSA entered into 16 different diamond sales agreements (the "**Sales Agreements**") with Interdiam in the above total sales amount. Each Sales Agreement provided for delivery within 10 days of signature and payment in full 90 days after signature (unlike ALROSA's customary sales contracts which provided for payment in full at or before delivery). At the same time as they entered into the Sales Agreements, ALROSA and Interdiam also entered into a series of 16 bailment agreements corresponding to the respective Sales Agreements, pursuant to which Interdiam, as bailor, deposited the purchased diamonds with ALROSA, as bailee, for safekeeping. Under the Sales Agreements and the bailment agreements, Interdiam had the legal right to take physical possession of the diamonds concerned at any time, but did not do so.

At the time they signed the Sales Agreements, ALROSA understood that Interdiam intended to resell the diamonds, in both rough and polished form, in the Russian domestic wholesale and retail markets. Due to the difficult market conditions prevailing during much of 2009, Interdiam did not resell any of the diamonds, and ALROSA agreed to five successive extensions of the deadline for payment of the purchase price under the Sales Agreements, the last one to September 16, 2009. The Sales Agreements did not provide for interest on unpaid amounts, but only a penalty for late payment (after any agreed extension).

In September 2009, ALROSA agreed to repurchase all of the diamonds concerned from Interdiam at Interdiam's original purchase prices under the respective Sales Agreements, and ALROSA and Interdiam entered into 16 repurchase agreements (the "**Repurchase Agreements**") to this effect. ALROSA and Interdiam further agreed to fully set-off Interdiam's obligations under the Sales Agreements against ALROSA's obligations under the Repurchase Agreements, with no payment of cash and no further liability on either side, except reciprocal cash payments of approximately RUB2.0 billion (about US$64 million) by each party to the other to cover liability for Russian value added tax on the transactions. In addition, ALROSA was earlier required to pay to the State approximately RUB2.0 billion in Russian value added tax on the original Sales Agreements, for which ALROSA has been able to claim a subsequent credit against other VAT liability.

Upon repurchase, the diamonds concerned were again included in ALROSA's inventory of saleable diamonds. ALROSA has subsequently resold about RUB5.2 billion (approximately US$166 million) of such diamonds in 2009 and a further approximately RUB5.7 billion (approximately US$183 million) in the first half of 2010; in each case, the amount of such sales is included in revenues for the period concerned.

Results of Operations

Six months ended 30 June 2010 compared to the six months ended 30 June 2009

Revenues

The following table sets forth the Group's revenues for the periods indicated for each of the categories of revenues indicated below, net of VAT and export duties:

	For the six months ended 30 June				
	2010		2009		Change
	(in RUB millions)	(per cent. of revenues)	(in RUB millions)	(per cent. of revenues)	(per cent.)
Revenue from diamond sales:					
Export sales	41,171	63.9	947	5.4	4,247.5
Domestic sales[(1)]	12,174	18.9	10,436	59.5	16.7
Revenue from diamonds for resale[(2)]	5,717	8.9	453	2.6	1,162.0
Total revenue from diamond sales	**59,062**	**91.7**	**11,836**	**67.5**	**399.0**
Non diamond revenues:					
Transport	1,692	2.6	1,882	10.7	(10.1)
Social infrastructure	1,084	1.7	983	5.6	10.3
Construction	785	1.2	501	2.9	56.7
Trading	393	0.6	393	2.2	0
Gas and gas condensate	—	—	65	0.4	(100.0)
Other[(3)]	1,376	2.1	1,883	10.7	(26.9)
Total non diamond revenue	**5,330**	**8.3**	**5,707**	**32.5**	**(6.6)**
TOTAL REVENUES	**64,392**	**100**	**17,543**	**100**	**267.1**

Notes:

(1) Includes sales within Russia, including Yakutia, and sales to Gokhran.

(2) Represents sales by ALROSA's subsidiaries Sunland Trading and ARCOS Hong Kong as well as RUB5,717 million in revenues in the first half of 2010 from resales to third parties of rough diamonds originally sold to Interdiam in December 2008 and repurchased by the Group in September 2009.

(3) Includes revenue derived from production of electricity and building materials as well as from provision of financial services and social services.

Diamond Sales

References to changes in prices and carats sold relate to gem, near-gem and industrial diamonds only, and do not include sales of polished diamonds, except where specifically indicated.

In the first half of 2009, in response to falling market demand for rough diamonds and declining prices, the Group halted virtually all sales of rough diamonds to parties other than Gokhran. Reflecting this decision, total export sales in the first half of 2009 amounted to only RUB947 million, and substantially all of the RUB10,436 million of domestic sales during the period were composed of sales to Gokhran. As a result, total revenue from diamond sales accounted for only RUB11,836 million in the first half of 2009, or 67.5 per cent. of total revenues, compared to 91.7 per cent. of revenues in the first half of 2010.

Market demand and prices began to recover in the second half of 2009, and the Group returned to the market, generating strong revenues from diamond sales in the second half of 2009. In the first half of 2010, this trend continued, and given the low levels of sales in the first half of 2009, the Group recorded sharply higher revenues from export and domestic sales of rough diamonds in the first half of 2010 compared to the same period in the prior year. In the first half of 2010, the Group sold no diamonds to Gokhran, compared to substantially all of its sales in the first half of 2009. The increased revenues were driven primarily by higher volume.

Reflecting similar factors, the Group's polished diamond sales increased by 350.5 per cent. in the first half of 2010.

- *Export Sales*

Reflecting the factors described above:

- total export sales, excluding revenue from diamonds for resale and net of VAT and export duties, increased from RUB947 million in the first half of 2009 to RUB41,171 million in the first half of 2010;
- export sales of rough diamonds increased from RUB547 million in the first half of 2009 to RUB39,139 million in the first half of 2010; and
- export sales of polished diamonds increased from RUB400 million in the first half of 2009 to RUB2,032 million in the first half of 2010.

- *Domestic Sales*

Reflecting the factors described above:

- total domestic diamond sales increased from RUB10,436 million in the first half of 2009 to RUB12,174 million in the first half of 2010, an increase of 16.7 per cent., primarily reflecting sales of rough diamonds;
- domestic rough diamond sales increased from RUB10,373 million in the first half of 2009 to RUB 12,120 million in the first half of 2010. The increase reflected a strong market recovery in the first half of 2010 compared to the corresponding period in 2009 as well as higher volumes due to the resumption of open market sales; and
- domestic polished diamond demand was relatively stable at RUB63 million in the first half of 2009 and RUB54 million in the first half of 2010.

Resale of Diamonds

Revenues from resale of diamonds increased from RUB453 million in the first half of 2009 to RUB5,717 million in the first half of 2010. All of the diamonds resold in the first half of 2010 consisted of diamonds repurchased from Interdiam in September 2009. The Group does not expect to generate significant revenues from resale of diamonds in the second half of 2010.

Non-Diamond Revenue

Non-diamond revenue comprises revenues from transportation services, social infrastructure, construction services, trading, gas and gas condensate sales, and other revenues. Non-diamond revenue decreased by 6.6 per cent. to RUB5,330 million in the first half of 2010. The decrease was driven primarily by a 10.1 per cent. decrease in revenues from transportation services, partially offset by higher revenue from construction and social infrastructure services.

Cost of Sales

The following table sets forth the Group's cost of sales for the periods indicated:

	For the six months ended 30 June				
	2010		2009		Change
	(in RUB millions)	(per cent. of revenues)	(in RUB millions)	(per cent. of revenues)	(per cent.)
Wages, salaries and other staff costs	10,105	15.7	8,507	48.5	18.8
Depreciation	4,393	6.8	4,370	24.9	0.5
Fuel and energy	4,089	6.4	4,248	24.2	(3.7)
Cost of diamonds for resale	5,562	8.6	648	3.7	758.3
Extraction tax	3,477	5.4	3,480	19.8	(0.1)
Materials	2,612	4.1	1,875	10.7	39.3
Services	1,879	2.9	1,397	8.0	34.5
Transport	914	1.4	744	4.2	22.8
Other	77	0.1	172	1.0	(55.2)
Movement in inventory of diamonds, ores and concentrates	4,904	7.6	(13,870)	(79.1)	135.4
Total cost of sales	**38,012**	**59.0**	**11,571**	**66.0**	**228.5**

The Group's total cost of sales increased by 228.5 per cent. in the first half of 2010 compared to the same period in the prior year. As a percentage of revenues, cost of sales decreased to 59.0 per cent. in the first half of 2010 from 66 per cent. in the first half of 2009, reflecting the significant increase in revenues as well as the higher proportion of diamond sales, which have higher margins than the Group's non-diamond activities, in the mix of products sold.

- *Wages, Salaries and Other Staff Costs.* Wages and salaries increased by 18.8 per cent. in the first half of 2010. This increase was primarily due to increased pension contributions in 2010. See "Management and Employees — Employees". As a percentage of revenues, these costs decreased to 15.7 per cent. in the first half of 2010 from 48.5 per cent. in the first half of 2009, reflecting the larger revenue base over which to spread the costs.

- *Depreciation.* Depreciation charges increased by 0.5 per cent. in the first half of 2010, reflecting a reduction in the Group's fixed assets resulting from the disposal of GTG and UGC in October 2009. As a percentage of revenues, these costs decreased from 24.9 per cent. to 6.8 per cent.

- *Fuel and Energy.* Fuel and energy costs decreased by 3.7 per cent. in the first half of 2010. As a percentage of revenues, these costs decreased from 24.2 per cent. to 6.4 per cent.

- *Cost of Diamonds for Resale.* The cost of diamonds for resale increased from RUB648 million in the first half of 2009 to RUB 5,562 million in the first half of 2010, driven primarily by an increase in resales of diamonds as the market recovered in the first half of 2010. All of the diamonds for resale in the first half of 2010 were sourced from repurchases from Interdiam in September 2009. See "— Overview — Sales — Interdiam Sales".

- *Extraction Tax.* Extraction tax remained relatively stable for the six months ended 30 June 2010 due to relatively level production volumes. As a percentage of revenues, the extraction tax decreased from 19.8 per cent. to 5.4 per cent, reflecting the spreading of these costs over a larger revenue base.

- *Materials.* The cost of materials, such as spare parts, metals, explosives and chemicals, increased by 39.3 per cent. in the first half of 2010. This increase in the cost of materials primarily resulted from price increases for materials in line with inflation and increased volume. As a percentage of revenues, material costs decreased from 10.7 per cent. to 4.1 per cent.

- *Services.* Costs related to services increased by 34.5 per cent. in the first half of 2010. This increase was primarily due to higher volumes of services purchased and price increases for third-party services. As a percentage of total revenues, services costs decreased from 8.0 per cent. to 2.9 per cent.

- *Transport.* The Group's transport expenditures increased by 22.8 per cent. in the first half of 2010. This increase was primarily due to increased use of third-party transportation services by the Group. As a percentage of revenues, transport costs decreased from 4.2 per cent. to 1.4 per cent.

- *Other*. Other costs include insurance expenditure and other costs, such as expenditures related to software upgrades and work safety improvements. Other costs decreased by 55.2 per cent. in the first half of 2010.
- *Movement in inventory of diamonds, ores and concentrates.* Movement in inventory of diamonds, ores and concentrates resulted in a RUB4,904 million debit in the first half of 2010 compared to a RUB13,870 million credit in the first half of 2009. Inventory increased in the first half of 2009 as the Group reduced market sales of rough diamonds, then decreased as the Group sold diamonds to the recovering market in 2010.

Segment Gross Profit

In accordance with IFRS 8, the Group has identified seven reportable segments: diamonds, transportation, social infrastructure, construction activity, trading, electricity production and other activities. See Note 29 to the 2009/2008 Group Financial Statements and in Note 26 to the Interim Financial Statements.

The improvement in the Group's gross profit as a percentage of sales in the first half of 2010 compared to the same period in 2009 was driven primarily by an increase in the gross profit margin of the Group's diamond segment, and to a lesser extent by a reduction in the net loss generated by the Group's transportation and social infrastructure activities, which more than offset the impact of a decline in the Group's gross profit margin from electricity sales.

Royalty Payments

Royalty payments were RUB1,755 million in each of the first half of 2009 and the first half of 2010.

General and Administrative Expenses

The following table sets forth the Group's general and administrative expenses for the periods indicated:

	For the six months ended 30 June		
	2010	**2009**	**Change**
	(in RUB millions)		**(in per cent.)**
Services and other administrative expenses	1,216	1,234	(1.5)
Wages, salaries and other costs	887	969	(8.5)
(Reversal of impairment)/impairment of accounts receivable	3	(59)	105.1
Total general and administrative expenses	**2,106**	**2,144**	**(1.8)**

General and administrative expenses decreased by 1.8 per cent. in the first half of 2010 and as a percentage of revenues from 12.2 per cent. in the first half of 2009 to 3.3 per cent. in the first half of 2010. The decrease resulted primarily from an 8.5 per cent. decrease in wages, salaries and other costs resulting from cost-cutting efforts undertaken in response to the global economic crisis.

Selling and Marketing Expenses

The Group's selling and marketing expenses increased by 26.9 per cent. in the first half of 2010. This increase resulted mainly from the higher volume of sales and corresponding increases in activities by the marketing departments of ALROSA and its trading subsidiaries. As a percentage of revenues, these expenses decreased from 2.9 per cent. in the first half of 2009 to 1.0 per cent. in the first half of 2010.

Net gain (loss) from foreign exchange forward contracts

The Group reported net loss from foreign exchange forward contracts of RUB255 million in the first half of 2010 compared to a net gain of RUB5,943 million in the first half of 2009 due to depreciation of the Rouble against the US Dollar in the first half of 2010.

Other Operating Income

The following table sets forth the Group's other operating income for the periods indicated:

	For the six months ended 30 June		
	2010	**2009**	**Change**
	(in RUB millions)		**(in per cent.)**
Gain on deconsolidation of NNGK Sakhaneftegaz and Lenaneftegaz	1,427	—	—
Net gain from cross currency interest rate swap contracts	—	70	(100)
Other	222	318	(30.2)
Total other operating income	**1,649**	**388**	**325.0**

Other operating income increased by 325.0 per cent. in the first half of 2010 primarily as a result of a realized gain of RUB1,427 million related to the deconsolidation of NNGK Sakhaneftegaz and Lenaneftegaz. See "Business—Non-Diamond Mining Operations—Russian Non-Diamond Mining Operations".

Other Operating Expenses

The following table sets forth the Group's other operating expenses for the periods indicated:

	For the six months ended 30 June		
	2010	2009	Change
	(in RUB millions)		(in per cent.)
Taxes other than income tax, extraction tax and unified social tax	1,803	1,693	6.5
Social costs	1,318	1,061	24.2
Exploration expenses	2,379	1,209	96.8
Loss on disposal of property, plant and equipment	1,296	290	346.9
Loss from change of fair value of put options granted by the Group to the buyers of GTG and UGC	152	—	—
Impairment (reversal of impairment) of property, plant and equipment	(42)	42	(200)
Net loss from currency interest rate swap contracts	98	—	—
Other	392	683	(42.6)
Total other operating expenses	**7,396**	**4,978**	**48.6**

The Group's other operating expenses increased by 48.6 per cent. in the first half of 2010. The principal drivers of the increase were an increase in exploration expenses, and higher social costs.

Net Finance Costs

The following table sets forth the Group's net finance costs for the periods indicated

	For the six months ended 30 June		
	2010	2009	Change
	(in RUB millions)		(in per cent.)
Net interest expense	(5,669)	(8,331)	(32.0)
Unwinding of discount of provision for land recultivation	(19)	(28)	(32.1)
Net exchange gains (loss)	(3,937)	(1,076)	265.9
Net finance costs	**(9,625)**	**(9,435)**	**2.0**

The Group's net finance costs were 2.0 per cent. higher in the first half of 2010 than in the first half of 2009. The increase resulted from an increase in net exchange losses that more than offset a 32 per cent. decline in net interest expense. The decline in net interest expense reflects refinanced borrowings at lower interest rates.

Income Tax

The following table sets forth the Group's income tax for the periods indicated:

	For the six months ended 30 June		
	2010	2009	Change
	(in RUB millions)		(in per cent.)
Current tax expense	2,212	95	2,228.4
Deferred tax expense (benefit)	(348)	1,092	(131.9)
Adjustments recognised in the period for current tax of prior periods	(102)	(232)	56.0
Total income tax	**1,762**	**955**	**84.5**

Total income tax expense was RUB1,762 million in the first half of 2010, compared to a total income tax expense of RUB955 million in the first half of 2009. The effective tax rate on the Group's pre-tax income was 15 per cent. in the first half of 2009 and 26 per cent. in the first half of 2010.

Current tax expense increased from RUB95 million to RUB2,212 million driven primarily by a profit before income tax of RUB6,777 million in the first half of 2010, compared to a loss before income tax of RUB6,363 million in the first half of 2009.

The company reported a deferred tax benefit of RUB348 million in the first half of 2010, compared to a deferred tax expense of RUB1,092 million in the first half of 2009. Deferred tax results from differences between IFRS and Russian statutory tax accounting, which 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 was recorded at the rate of 20 per cent. in the first half of 2010 and 2009. The change in deferred tax in the first half of 2010 compared to in the first half of 2009 resulted primarily from:

- an increase in deductible temporary differences for derivative financial instruments due to an increase in the fair value of the derivative financial instruments liability as at 30 June 2010; and
- an increase in deductible temporary differences for diamond inventory balances in the first half of 2010 compared to the first half of 2009.

Year ended 31 December 2009 compared to the year ended 31 December 2008

Revenues

The following table sets forth the Group's revenues for the periods indicated for each of the categories of revenues indicated below, net of VAT and export duties:

	For the year ended 31 December				
	2009		2008		Change
	(in RUB millions)	(in per cent. of revenues)	(in RUB millions)	(in per cent. of revenues)	(in per cent.)
Revenue from diamond sales:					
Export sales	33,425	42.9	38,880	42.7	(14.0)
Domestic sales(1)(4)	26,432	33.9	35,292	38.8	(25.1)
Revenue from diamonds for resale(2)	6,483	8.3	4,072	4.5	59.2
Total revenue from diamond sales	**66,340**	**85.1**	**78,244**	**85.9**	**(15.2)**
Non diamond revenues:					
Transport	4,142	5.3	4,404	4.8	(6.0)
Social infrastructure	2,043	2.6	1,842	2.0	10.9
Construction	1,620	2.1	1,096	1.2	47.8
Trading	710	0.9	757	0.8	(6.2)
Gas and gas condensate	85	0.1	701	0.8	(87.9)
Other(3)	3,009	3.9	4,038	4.4	(25.5)
Total non diamond revenue	**11,609**	**14.9**	**12,838**	**14.1**	**(9.6)**
TOTAL REVENUES	**77,949**	**100**	**91,082**	**100**	**(14.4)**

Notes:

(1) Includes sales within Russia, including Yakutia, and sales to Gokhran.

(2) Represents sales by ALROSA's subsidiaries Sunland Trading and ARCOS Hong Kong as well as RUB5,187 million in revenues in 2009 from resales to third parties of rough diamonds originally sold to Interdiam in December 2008 and repurchased by the Group in September 2009. See Note 10 to the 2009/2008 Group Financial Statements and "— Overview — Sales — Interdiam Sales".

(3) Includes revenue derived from production of electricity and building materials as well as from provision of financial services and social services.

(4) Includes RUB10,495 million of revenues in 2008 relating to sales to Interdiam of rough diamonds that were subsequently repurchased by the Group in 2009 for the same amount. See "— Overview — Sales — Interdiam Sales".

Diamond Sales

References to changes in prices and carats sold relate to gem, near-gem and industrial diamonds only, and do not include sales of polished diamonds, except where specifically indicated.

Sales of diamonds represented 85.1 per cent. of the Group's total revenues in 2009 and 85.9 per cent. of the Group's total revenues in 2008. Total diamond sales revenues decreased by 15.2 per cent. in 2009, reflecting significantly lower volumes as well as lower average selling prices. The lower volumes principally reflect the Group's decision to suspend diamond sales to the market from November 2008 through July 2009 in response to lower demand and lower prices resulting from the global economic crisis. During this period, the Group sold rough diamonds only to Gokhran, to a limited number of purchasers willing to purchase rough diamonds at pre-crisis levels and to Interdiam as described under "— Overview — Sales — Interdiam Sales". Rough diamond sales resumed in the second half of 2009 as demand and prices began to show signs of recovery.

Revenues from rough diamond sales (excluding revenue from diamonds for resale) decreased by 17.4 per cent. in 2009, reflecting lower volumes and lower average sales prices. These decreases were due primarily to the suspension of market sales of rough diamonds described above. See "— Certain Factors Affecting the Group's Results of Operations — Rough Diamond Market Conditions" and "— Certain Factors Affecting the Group's Results of Operations — Exchange Rates".

The Group's polished diamond sales decreased by 54.3 per cent. in 2009. This decrease was primarily due to a sharp decline in consumer demand for diamonds, which placed downward pressure on volumes sold and average selling prices. Substantially all of the Group's sales of polished diamonds took place in the second half of 2009 after the Group resumed market sales.

- *Export Sales*

Reflecting the factors described above:

- Total export sales, excluding revenue from diamonds for resale and net of VAT and export duties, decreased by 14.0 per cent. in 2009.
- Export sales of rough diamonds decreased by 9.5 per cent. in 2009. This decrease was primarily due to the decision to suspend sales to the market from November 2008 through July 2009, which led to lower volumes, and, to a lesser extent, lower average selling prices.
- The Group's polished diamond export sales decreased by 57.0 per cent. in 2009 reflecting the suspension of market sales during the first half of 2009 in light of the downturn in consumer demand and process.

- *Domestic Sales*

Reflecting the factors described above:

- Total domestic diamond sales decreased by 25.1 per cent. in 2009.
- Domestic sales of rough diamonds decreased by 25.7 per cent. in 2009. This decrease was primarily due to the decision to suspend sales to parties other than Gokhran from November 2008 through July 2009, which led to lower volumes, and to a lesser extent, erosion in average selling prices. Domestic revenues in 2008 also included RUB10,495 million of revenues from sales in December 2008 of rough diamonds to Interdiam that were repurchased by the Group for the same amount in September 2009. See "— Overview — Sales — Interdiam Sales".
- The Group's polished diamond domestic sales increased by 12.6 per cent. in 2009 to RUB170 million.

Resale of Diamonds

Revenues from resale of diamonds increased by 59.2 per cent. to RUB6,483 million in 2009 primarily reflecting the impact of resales to third parties in 2009 of RUB5,187 million of diamonds repurchased from Interdiam in September 2009 (RUB5,108 million of the resales in 2009 were made to Gokhran). These sales more than offset lower resales of diamonds sourced from other third parties.

Non-Diamond Revenue

Non-diamond revenue comprises revenues from transportation services, social infrastructure, construction services, trading, gas and gas condensate sales, and other revenues. Non-diamond revenue decreased by 9.6 per cent. to RUB11,609 million in 2009. The decrease was driven primarily by lower gas and gas condensate sales, lower transportation sales and lower "other" sales, which include sales of electricity, building materials, financial services and social services. These declines were partially offset by higher revenues from social infrastructure and construction.

Cost of Sales

The following table sets forth the Group's cost of sales for the periods indicated:

	For the year ended 31 December				
	2009		2008		Change
	(in RUB millions)	(per cent. of revenues)	(in RUB millions)	(per cent. of revenues)	(per cent.)
Wages, salaries and other staff costs	16,061	20.6	18,737	20.6	(14.3)
Depreciation	8,535	10.9	8,897	9.8	(4.1)
Fuel and energy	7,149	9.2	9,075	10.0	(21.2)
Cost of diamonds for resale	6,658	8.5	3,415	3.7	95.0
Extraction tax	6,618	8.5	5,924	6.5	11.7
Materials	3,870	5.0	5,766	6.3	(32.9)
Services	2,743	3.5	3,720	4.1	(26.3)
Transport	1,416	1.8	1,696	1.9	(16.5)
Other	282	0.4	158	0.2	78.5
Movement in inventory of diamonds, ores and concentrates	(9,643)	(12.4)	(4,833)	(5.3)	99.5
Total cost of sales	**43,689**	**56**	**52,555**	**57.7**	**(16.9)**

The Group's total cost of sales decreased by 16.9 per cent. in 2009**.** As a percentage of revenues, cost of sales decreased to 56 per cent. in 2009 from 57.7 per cent. in 2008.

- *Wages, Salaries and Other Staff Costs.* Wages and salaries decreased by 14.3 per cent. in 2009. This decrease was primarily as a result of temporary cost-cutting measures introduced in response to the global economic crisis, which included wage and salary freezes, suspension of various year-end and performance-based bonuses, introduction of voluntary unpaid vacation time and reductions in workers' hours. See "Management and Employees — Employees". As a percentage of revenues, these costs remained flat at 20.6 per cent.

- *Depreciation.* Depreciation charges decreased by 4.1 per cent. in 2009. This decrease resulted primarily from a decrease in the Group's fixed assets in 2009 as compared to 2008, reflecting the disposal of GTG and UGC in October 2009.

- *Fuel and Energy.* Fuel and energy costs decreased by 21.2 per cent. in 2009. This decrease was primarily due to a decrease in the consumption of fuel and energy as a result of the decreased diamond mining operations. As a percentage of revenues, these costs decreased from 10 per cent. to 9.2 per cent.

- *Cost of Diamonds for Resale.* The cost of diamonds for resale increased by 95 per cent. in 2009. This increase was primarily due to the repurchase from Interdiam in September 2009 of diamonds originally sold to December 2008. See "— Overview — Sales — Interdiam Sales". As a percentage of revenues, these costs increased from 3.7 per cent. in 2008 to 8.5 per cent. in 2009.

- *Extraction Tax.* Extraction tax increased by 11.7 per cent. in 2009. This increase was primarily due to an increase in the Rouble equivalent of average US Dollar prices as a result of depreciation of the Rouble, partially offset by a decrease in extraction tax base. As a percentage of revenues, the extraction tax increased from 6.5 per cent. in 2008 to 8.5 per cent. in 2009.

- *Materials.* The cost of materials, such as spare parts, metals, explosives and chemicals, decreased by 32.9 per cent. in 2009. This decrease in the cost of materials primarily resulted from decreased non-core activities of the subsidiaries. As a percentage of revenues, material costs decreased from 6.3 per cent. in 2008 to 5.0 per cent. in 2009.

- *Services.* Costs related to services decreased by 26.3 per cent. in 2009. This decrease was primarily attributable to the reduction of non-essential capital and project development expenditure in line with cost optimization and profitability improvement measures implemented in response to the global economic crisis. As a percentage of revenues, services costs decreased from 4.1 per cent. in 2008 to 3.5 per cent. in 2009.

- *Transport.* The Group's transport expenditures decreased by 16.5 per cent. in 2009. This decrease was primarily due to a decrease in fees and charges, associated with the use of third-party airports, landing fields or other air navigation facilities. As a percentage of revenues, transport costs decreased from 1.9 per cent. in 2008 to 1.8 per cent. in 2009.

- *Other.* Other costs include insurance expenditure and other costs, such as expenditures related to software upgrades and work safety improvements as well as costs associated with allowances for inventory write-downs. Other costs increased by 78.5 per cent. in 2009. The increase resulted mainly from allowances for inventory write-downs.

- *Movement in inventory of diamonds, ores and concentrates.* Movement in inventory of diamonds, ores and concentrates resulted in a RUB9,643 million credit in 2009 compared to a RUB4,833 million credit in 2008. The credit for movement in inventory of diamonds, ores and concentrates for both periods reflects the deferral of costs that will be expensed at the time of the sale of the diamonds held in inventory. The change of movement in inventory of diamonds, ores and concentrates was mainly due to an increase of diamond, ores and concentrates inventories resulting primarily from the Group's decision to maintain production levels despite halting sales to the market during the November 2008 to July 2009 period. As a percentage of revenues, the credit in respect of movement in inventory of diamonds, ores and concentrates was 12.4 per cent. in 2009 compared to 5.3 per cent. in 2008.

Gross Profit

The Group's consolidated gross profit, which represents the Group's net sales less cost of sales, decreased by 11.1 per cent, or RUB4,267 million, to RUB34,260 million in 2009 from RUB38,527 million in 2008. In 2009, the Group's consolidated gross margin was 44 per cent. of revenues compared to 42.3 per cent. of revenues in 2008. This change primarily reflected improvement in the gross margin as a percentage of revenues generated by the

Group's electricity, social infrastructure, trading and other activities segments, partially offset by lower gross margin as a percentage of revenues from the diamonds, transportation, and construction segments.

Royalty Payments

Royalty payments decreased by 12.1 per cent. in 2009. The decrease in royalty expense was primarily due to the expiration of the Temporary Agreement and corresponding cessation of royalty payments in October 2008. See "Business — Termination of the Lease Agreement".

General and Administrative Expenses

The following table sets forth the Group's general and administrative expenses for the periods indicated:

	For the year ended 31 December		
	2009	2008	Change
	(in RUB millions)		(in per cent.)
Services and other administrative expenses	2,435	3,580	(32.0)
Wages, salaries and other costs	1,965	2,714	(27.6)
Impairment of accounts receivable	3,916	85	4,507.1
Total general and administrative expenses	**8,316**	**6,379**	**30.4**

General and administrative expenses increased by 30.4 per cent. in 2009 and as a percentage of revenues from 7 per cent. in 2008 to 10.7 per cent. in 2009. The increase resulted primarily from RUB3,763 million of impairment provisions recorded in respect of a loan issued to Escom-ALROSA Ltd. See "Description of Existing Material Agreements". The impairment charge was partially offset by (i) a 32.0 per cent. decrease in services and other administrative expenses due to cost-cutting measures; and (ii) a 27.6 per cent. decrease in wages, salaries and other costs due to the suspension of bonus payments and workforce reductions.

Selling and Marketing Expenses

The Group's selling and marketing expenses decreased by 33.3 per cent. in 2009. This decrease resulted mainly from a reduction in marketing expenses during the first half of the year, when market sales of rough diamonds were suspended**.** As a percentage of revenues, these expenses decreased from 1.9 per cent. in 2008 to 1.5 per cent. in 2009.

Other Operating Income

The following table sets forth the Group's other operating income for the periods indicated:

	For the year ended 31 December		
	2009	2008	Change
	(in RUB millions)		(in per cent.)
Net income from cross currency interest rate swap contracts	789	—	—
Other	341	573	(40.5)
Total other operating income	**1,130**	**573**	**97.2**

Other operating income increased by 97.2 per cent. in 2009 primarily as a result of a RUB789 million net gain resulting from a change in the fair value of cross currency interest rate swap contracts recognised in 2009, which included a realized gain of RUB448 million related to instruments settled during the reporting period and an unrealized gain of RUB341 million related to instruments still held at the end of the reporting period.

Other Operating Expenses

The following table sets forth the Group's other operating expenses for the periods indicated:

	For the year ended 31 December		
	2009	2008	Change
	(in RUB millions)		(in per cent.)
Taxes other than income tax, extraction tax and unified social tax	3,664	2,669	37.3
Social costs	2,075	3,306	(37.2)
Exploration expenses	2,844	4,520	(37.1)
Loss on disposal of property, plant and equipment	1,026	890	15.3
Impairment of property, plant and equipment	151	520	(71.0)
Impairment of goodwill arising from the acquisition of Sakhaneftegaz	—	1,531	—
Net loss from currency interest rate swap contracts	—	1,040	—
Other	2,375	1,516	56.7
Total other operating expenses	**12,135**	**15,992**	**(24.1)**

The Group's other operating expenses decreased by 24.1 per cent. in 2009, reflecting the items described below.

Taxes Other Than Income Tax, Extraction Tax and Unified Social Tax

The following table sets forth the Group's taxes other than income tax, extraction tax and unified social tax, for the periods indicated:

	For the year ended 31 December		
	2009	2008	Change
	(in RUB millions)		(in per cent.)
Property tax	2,938	2,271	29.4
Other taxes and accruals	726	398	82.4
Taxes other than income tax, extraction tax and unified social tax	**3,664**	**2,669**	**37.3**

Taxes other than income tax, extraction tax and unified social tax increased by 37.3 per cent. in 2009 primarily as a result of (i) a 29.4 per cent. increase in property tax mainly due to increased average fixed asset balances in accordance with Russian Standards of Accounting, which resulted from the contribution of the property, plant and equipment, which were subject to the Lease Agreement, by the Russian Federation, Yakutia and the Ulusy to the share capital of ALROSA as payment for issuance of new shares of ALROSA to the Russian Federation, Yakutia and the Ulusy; and (ii) a 82.4 per cent. increase in other taxes and accruals mainly due to an increase in income tax expense on the intercompany dividends.

Social Costs

The following table sets forth the Group's social costs for the periods indicated:

	For the year ended 31 December		
	2009	2008	Change
	(in RUB millions)		(in per cent.)
Maintenance of local infrastructure	1,095	1,620	(32.4)
Charity	227	774	(70.7)
Charitable donations to hospitals	351	227	54.6
Education	93	165	(43.6)
Other	309	520	(40.6)
Total social costs	**2,075**	**3,306**	**(37.2)**

Social costs decreased by 37.2 per cent. in 2009, driven principally by lower expenditures on maintenance of local infrastructure and lower charitable contributions.

Exploration Expenses

The Group's exploration expenses decreased by 37.1 per cent. in 2009. This decrease resulted primarily from a reduction in exploration activities as part of a comprehensive programme designed to reduce cost and optimise operations of the Group during the global economic crisis**.** See "Business — Strategy — Lowering costs and seeking production efficiencies".

Loss on Disposal of Property, Plant and Equipment

The Group recorded a loss on disposal of property, plant and equipment of RUB1,026 million in 2009 and a loss of RUB890 million in 2008. The loss on disposal primarily relates to write offs of assets and expenses associated with the transfer of social assets to local authorities below cost or free of charge.

Impairment of Property, Plant and Equipment

The impairment of property, plant and equipment relates to items currently on the balance sheet of ALROSA, including roads, sports facilities and cinemas that ALROSA plans to transfer to local administrations free of charge in the foreseeable future. The Group recorded an impairment of property, plant and equipment of RUB151 million and RUB520 million in 2009 and 2008, respectively.

Other Operating Expense

Other expenses include various expenses, such as uncompensated VAT, penalties and other miscellaneous expenses of an operating nature. Other operating expenses increased by 56.7 per cent. in 2009, due primarily to losses from unscheduled downtime in production operations.

Net Finance Costs

The following table sets forth the Group's net finance costs for the periods indicated:

	For the year ended 31 December		
	2009	2008	Change
	(in RUB millions)		(in per cent.)
Net interest expense	(18,970)	(8,116)	133.7
Unwinding of discount of provision for land recultivation	(57)	(14)	307.1
Net exchange gains (loss)	1,748	(14,452)	(112.1)
Net finance costs	**(17,279)**	**(22,582)**	**(23.5)**

The Group's net finance costs decreased by 23.5 per cent. in 2009, driven primarily by the depreciation of the Rouble in 2008, which generated a net exchange loss of RUB14,452 million in 2008 compared to a net exchange gain of RUB1,748 million in 2009. Net interest expense increased by 133.7 per cent., driven by increased borrowing costs and higher outstanding borrowings, which more than offset an increase in interest income in 2009 related to accretion of the discounted value of receivables from Interdiam. See "— Overview — Sales — Interdiam Sales".

Income Tax

The following table sets forth the Group's income tax for the periods indicated:

	For the year ended 31 December		
	2009	2008	Change
	(in RUB millions)		(in per cent.)
Current tax expense	353	3,119	(88.7)
Deferred tax expense (benefit)	3,020	(6,373)	(147.4)
Effect of reduction in tax rate	—	18	100
Adjustments recognised in the period for current tax of prior periods	(175)	—	—
Total income tax	**3,198**	**(3,236)**	**(198.8)**

Total income tax expense was RUB3,198 million in 2009, compared to a total income tax benefit of RUB3,236 million in 2008. The effective tax rate on the Group's pre-tax income was 48.0 per cent. in 2009, mainly due to the significant expenses and losses that were not deductible for income tax purposes, such as social expenses, non-deductible wages, salaries and other staff costs.

Current tax expense decreased by 88.7 per cent. in 2009, largely as a result of lower sales and lower gross profit.

The company reported a deferred tax expense of RUB3,020 million in 2009, compared to a deferred tax benefit of RUB6,373 million in 2008. Deferred tax results from differences between IFRS and Russian statutory tax accounting, which 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 was recorded at the rate of 20 per cent. in 2009 and 20 per cent. in 2008. The change in deferred tax in 2009 compared to 2008 resulted primarily from:

- a decrease in deductible temporary differences for derivative financial instruments in the amount of RUB2,455 million due to a decrease in the fair value of the derivative financial instruments liability as at 31 December 2009 compared to 31 December 2008;
- an increase in taxable temporary differences for the property, plant and equipment in the amount of RUB457 million;
- an increase in taxable temporary differences for ores, concentrates and diamonds inventory balances in the amount of RUB1,877 million; and
- an increase in deductible temporary differences for the asset for tax losses carried forward in the amount of RUB1,240 million.

Year ended 31 December 2008 compared to the year ended 31 December 2007

Revenues

The following table sets forth the Group's revenues for the periods indicated for each of the categories of revenues indicated below, net of VAT and export duties:

	For the year ended 31 December				
	2008		2007		Change
	(in RUB millions)	(in per cent. of revenues)	(in RUB millions)	(in per cent. of revenues)	(in per cent.)
Revenue from diamond sales:					
Export sales	38,880	42.7	47,477	52.3	(18.1)
Domestic sales[(1)]	35,292	38.7	27,716	30.5	27.3
Revenue from diamonds for resale	4,072	4.5	4,578	5.0	(11.1)
Total revenue from diamond sales	**78,244**	**85.9**	**79,771**	**87.9**	**(1.9)**
Other revenue:					
Transport	4,404	4.8	3,878	4.3	13.6
Social infrastructure	1,842	2.0	1,790	2.0	2.9
Gas and gas condensate	701	0.8	1,148	1.3	(38.9)
Construction	1,096	1.2	803	0.9	36.5
Trading	757	0.8	513	0.6	47.6
Other	4,038	4.4	2,831	3.1	42.6
Total other revenue	**12,838**	**14.1**	**10,963**	**12.1**	**17.1**
TOTAL REVENUES	**91,082**	**100**	**90,734**	**100.0**	**0.4**

(1) Includes RUB10,495 million of revenues in 2008 relating to sales to Interdiam of rough diamonds that were subsequently repurchased by the Group in 2009 for the same amount. See Note 10 to the 2009/2008 Group Financial Statements and "— Overview — Sales — Interdiam Sales".

Diamond Sales

Sales of diamonds represented 85.9 per cent. of the Group's total revenues in 2008 and 87.9 per cent. of the Group's total revenues in 2007. Total diamond sales revenues decreased by 1.9 per cent. in 2008.

Revenues from rough diamond sales (excluding revenue from diamonds for resale) decreased by 0.9 per cent. in 2008. The decrease resulted from lower volumes, partially offset by higher average selling prices in US Dollars, which were partially offset by the appreciation of the Rouble. The decrease in volumes resulted both from the onset of the global economic crisis in the fourth quarter of 2008, which led the Group to suspend market sales of diamonds in December 2008, as well as the impact of the phasing out of sales to De Beers. The increase in average selling prices in US Dollars stemmed primarily from rising prices in the first three quarters of the year, which more than offset the impact of a sharp decline in prices in the fourth quarter of 2008. See "— Certain Factors Affecting the Group's Results of Operations — Rough Diamond Market Conditions" and "— Certain Factors Affecting the Group's Results of Operations — Exchange Rates".

The Group's polished diamond sales decreased by 8.9 per cent. in 2008. This decrease was primarily due to lower sales volumes resulting from the onset of the global economic crisis in the fourth quarter of 2008, which was partially offset by higher average selling prices in US Dollars during the first three quarters of 2008.

- *Export Sales*

Total export sales, excluding revenue from diamonds for resale and net of VAT and export duties, decreased by 18.1 per cent. in 2008.

Export sales of rough diamonds decreased by 19.0 per cent in 2008, reflecting lower volumes, partially offset by higher average selling prices in US Dollars, which were partially offset by the appreciation of the Rouble.

The Group's polished diamond export sales decreased by 8.2 per cent. in 2008.

- *Domestic Sales*

Total domestic diamond sales increased by 27.3 per cent. in 2008. See "— Certain Factors Affecting the Group's Results of Operations — Rough Diamond Market Conditions" and "— Certain Factors Affecting the Group's Results of Operations — Exchange Rates".

Domestic sales of rough diamonds increased by 27.7 per cent. in 2008. This increase was primarily due to higher sales volumes and higher average selling prices. The increase in sales volumes resulted primarily from RUB10,495 million of revenues from sales in December 2008 of rough diamonds to Interdiam that were subsequently repurchased from Interdiam in September 2009. See "— Overview — Sales — Interdiam Sales".

The Group's polished diamond domestic sales decreased by 23.0 per cent. in 2008**.** This decrease was primarily due to lower sales volume.

- *Resale of Diamonds*

Revenues from diamonds for resale decreased by 11.1 per cent. in 2008 primarily reflecting lower sales volumes partially offset by higher average selling prices.

Non-diamond Revenue

Non-diamond revenue comprises revenues from transportation services, social infrastructure, construction works and trading sales. Non-diamond revenue increased by 17.1 per cent. in 2008, driven primarily by higher "other" revenues, driven principally by the consolidation of Lenaneftegaz within the Group, and higher transportation revenues driven by growth in the number of passengers and the volume of transported goods, together with higher transportation tariffs.

Cost of Sales

The following table sets forth the Group's cost of sales for the periods indicated:

	For the year ended 31 December				
	2008		2007		Change
	(in RUB millions)	(in per cent. of revenues)	(in RUB millions)	(in per cent. of revenues)	(in per cent.)
Wages, salaries and other staff costs	18,737	20.6	16,135	17.8	16.1
Fuel and energy	9,075	10.0	8,402	9.3	8.0
Depreciation	8,897	9.8	8,611	9.5	3.3
Extraction tax	5,924	6.5	6,509	7.2	(9.0)
Materials	5,766	6.3	4,882	5.4	18.1
Services	3,720	4.1	2,764	3.0	34.6
Cost of diamonds for resale	3,415	3.7	3,904	4.3	(12.5)
Transport	1,696	1.9	1,397	1.5	21.4
Other	158	0.2	140	0.2	12.9
Movement in inventory of diamonds, ores and concentrates	(4,833)	(5.3)	(1,303)	(1.4)	270.9
Total cost of sales	**52,555**	**57.7**	**51,441**	**56.7**	**2.2**

The Group's total cost of sales increased by 2.2 per cent. in 2008. The increase was driven primarily by higher wages and increased materials, fuel and services costs. These increases were partially offset by a larger inventory credit and lower extraction tax.

As a percentage of revenues, cost of sales increased to 57.7 per cent. in 2008 from 56.7 per cent. in 2007.

- *Wages, Salaries and Other Staff Costs.* Wages and salaries increased by 16.1 per cent. in 2008. This increase was primarily due to a cost-of-living salary adjustment, which took place in September 2007. In addition, wages, salaries and other staff costs increased as a result of the consolidation of Sakhaneftegaz. See "Management and Employees — Employees". As a percentage of revenues, these costs increased from 17.8 per cent. in 2007 to 20.6 per cent. in 2008.

- *Fuel and Energy.* Fuel and energy costs increased by 8.0 per cent. in 2008. This increase was primarily due to an increase in electricity rates as well as diesel fuel and gas prices, accentuated by an increase in the consumption of fuel and energy as a result of the continued transition from open-pit to underground mining. As a percentage of revenues, fuel and energy costs increased from 9.3 per cent. in 2007 to 10.0 per cent. in 2008.

- *Depreciation.* Depreciation charges increased by 3.3 per cent. in 2008. This increase was primarily due to an increase in fixed assets at the Group's production subsidiaries in 2008 as compared to 2007.

- *Extraction Tax.* Extraction tax decreased by 9.0 per cent. in 2008. The decrease was primarily due to lower volumes extracted and a decline in the Rouble value of average US Dollar selling prices used to value the extracted inventory. As a percentage of revenues, the extraction tax decreased from 7.2 per cent. in 2007 to 6.5 per cent. in 2008.

- *Materials.* The cost of materials, such as spare parts, equipment, metals, explosives and chemicals, increased by 18.1 per cent. in 2008. The increase primarily reflects higher prices for materials. As a percentage of revenues, material costs increased from 5.4 per cent. in 2007 to 6.3 per cent. in 2008.

- *Services.* Costs related to services performed by third parties increased by 34.6 per cent. in 2008. This increase was primarily due to the consolidation of Sakhaneftegaz in the first half of 2008. As a percentage of revenues, these costs increased from 3 per cent. in 2007 to 4.1 per cent. in 2008.

- *Cost of Diamonds for Resale.* The cost of diamonds for resale decreased by 12.5 per cent. in 2008. The decrease was primarily due to a reduction in volumes of diamonds for resale in 2008. As a percentage of revenues, these costs decreased from 4.3 per cent. in 2007 to 3.7 per cent. in 2008.

- *Transport.* The Group's transport expenditures increased by 21.4 per cent. in 2008. The increase resulted mainly from an increased fees and charges, associated with the use of third-party airports, landing fields or other air navigation facilities. As a percentage of revenues, transport costs increased from 1.5 per cent. in 2007 to 1.9 per cent. in 2008.

- *Other.* Other costs include insurance expenditure and other costs, such as expenditures related to software upgrades and work safety improvements. Other costs increased by RUB18 million in 2008.

- *Movement in inventory of diamonds, ores and concentrates.* Movement in inventory of diamonds, ores and concentrates resulted in a RUB4,833 million credit in 2008 compared to RUB1,303 million credit in 2007. The credit for movement in inventory of diamonds, ores and concentrates for both periods reflects the deferral of costs that will be expensed at the time of the sale of the diamonds held in inventory. The change of movement in inventory of diamonds, ores and concentrates was mainly due to an increase of diamond inventories at ALROSA and ALROSA's subsidiaries ALROSA-Nyurba, Severalmaz and Sunland Trading due to higher costs per carat, and increases in ores and concentrates inventories at ALROSA and its subsidiary Almazy Anabara, reflecting seasonal increases in connection with alluvial mines operated by Almazy Anabara operated during the summer period. As a percentage of revenues, the credit in respect of movement in inventory of diamonds, ores and concentrates was 5.3 per cent. in 2008 compared to 1.4 per cent. in 2007.

Royalty Payments

Under the Temporary Agreement, ALROSA was subject to royalty payments in respect of the right to use land and logging sites, disposal and burial of waste and contaminated materials and the use of mineral resources and water for industrial purposes. For a discussion of the consideration paid for the leased assets under the Temporary Agreement, see "Business — Termination of the Lease Agreement".

In 2008, royalty payments decreased by 17.2 per cent. The decrease in the royalty expense in 2008 is the result of the decrease in the amount of fixed payments to Yakutia by ALROSA-Nyurba in accordance with the amendment to the lease agreement of May 2007 and by ALROSA in accordance with the Temporary Agreement.

General and Administrative Expenses

The following table sets forth the Group's general and administrative expenses for the periods indicated:

	For the year ended 31 December		
	2008	2007	Change
	(in RUB millions)		(in per cent.)
Services and other administrative expenses	3,580	2,936	21.9
Wages, salaries and other staff costs	2,714	1,741	55.9
Bad debt expenses	85	589	(85.6)
Total general and administrative expenses	**6,379**	**5,266**	**21.1**

General and administrative expenses increased by 21.1 per cent. in 2008 and from 5.8 per cent. of revenues in 2007 to 7.0 per cent. of revenues in 2008. This increase resulted primarily from an increase in wages, salaries and other staff costs primarily due to a cost-of-living salary adjustment, which took place in September 2007 and accrual of bonuses to managerial employees of ALROSA for work in 2007. This increase was also accompanied by an increase in services and other administrative expenses resulting mainly from increased expenses related to scientific studies and higher consulting and legal services. The increase in general and administrative expenses was partially offset by a decrease in bad debt expenses in 2008 as compared to 2007. Bad debt expense for the year ended 31 December 2008 consisted primarily of provisions for doubtful accounts of local administrative bodies and municipal companies.

Selling and Marketing Expenses

The Group's selling and marketing expenses increased by 2.1 per cent. in 2008. As a percentage of revenues, these expenses remained flat at 1.9 per cent.

Other Operating Income

The following table sets forth other operating income for the periods indicated:

	For the year ended 31 December		
	2008	2007	Change
	(in RUB millions)		(in per cent.)
Negative goodwill on acquisition of non-controlling interest in subsidiaries	—	2,132	100.0
Gain on disposal of available-for-sale investments	—	676	100.0
Amortisation of Grant	—	507	100.0
Gain on disposal of OAO "Yakutskgeofizika"	—	104	100.0
Other	573	493	16.2
Total other operating income	**573**	**3,912**	**(85.4)**

Other operating income decreased by 85.4 per cent. in 2008, primarily as a result of a large credit for negative goodwill in 2007. Other operating income in 2008 related to the 'other' portion of operating income, which reflects income from ALROSA's numerous subsidiaries and income from some of ALROSA's divisions unrelated to the Group's core activities, such as sales of inventory by ALROSA's supply division, sales of fuel by ALROSA's transportation division, as well as non-recurring income such as late payment charges from debtors. The negative goodwill recorded in 2007 relates to the repurchase by IG ALROSA of its own shares from minority shareholders in 2007. Gain on disposal of available-for-sale investments in 2007 reflects gains on the sale of a 6.5 per cent. interest in OJSC Sobinbank ("**Sobinbank**") in April 2007 for a total consideration of RUB968 million. As a result of the termination of the Lease Agreement, there were no Grant amortisation expenses in 2008.

Other Operating Expenses

The following table sets forth the Group's other operating expenses for the periods indicated:

	For the year ended 31 December		
	2008	2007	Change
	(in RUB millions)		(in per cent.)
Exploration expenses	4,520	4,150	8.9
Social costs	3,306	3,672	(10.0)
Taxes other than income tax, extraction tax and unified social tax	2,669	1,832	45.7
Impairment of goodwill arising from the acquisition of Sakhaneftegaz	1,531	—	—
Net loss from cross currency interest rate swap contracts	1,040	—	—
Loss on disposal of property, plant and equipment	890	1,061	(16.1)
Impairment (reversal of impairment) of property, plant and equipment	520	(158)	(429.1)
Other	1,516	1,563	(3.0)
Total other operating expenses	**15,992**	**12,120**	**31.9**

The Group's other operating expenses increased by 31.9 per cent. in 2008, reflecting the changes described below.

Exploration Expenses

The Group's exploration expenses increased by 8.9 per cent. in 2008. This increase reflects the implementation of the Group's exploration strategy, including higher expenditures for exploration.

Social Costs

The following table sets forth the Group's social costs for the periods indicated:

	For the year ended 31 December		
	2008	2007	Change
	(in RUB millions)		(in per cent.)
Maintenance of local infrastructure	1,620	1,804	(10.2)
Charity	774	746	3.8
Hospital expenses	227	391	(41.9)
Education	165	179	(7.8)
Other	520	552	(5.8)
Total social costs	**3,306**	**3,672**	**(10.0)**

Social costs decreased by 10.0 per cent. in 2008, due mainly to lower maintenance expenses.

Taxes other than Income Tax, Extraction Tax and Unified Social Tax

The following table sets forth the Group's taxes, other than income tax and extraction tax, for the periods indicated:

	For the year ended 31 December		
	2008	2007	Change
	(in RUB millions)		(in per cent.)
Property tax	2,271	1,544	47.1
Other taxes and accruals	398	288	38.2
Taxes other than income tax, extraction tax and unified social tax	**2,669**	**1,832**	**45.7**

Taxes other than income tax, extraction tax and unified social tax increased by 45.7 per cent. in 2008 primarily as a result of (i) a 47.1 per cent. increase in property tax mainly due to increased average fixed asset balances in accordance with Russian Standards of Accounting in 2008, reflecting new fixed assets previously held under a mineral resource lease; and (ii) a 38.2 per cent. increase in other taxes and accruals mainly due to increased transport tax, land tax and environmental tax.

Impairment of Goodwill arising from the Acquisition of Sakhaneftegaz

In 2008, the Group recorded a RUB1,531 million impairment charge on goodwill arising from the acquisition of a 50.4 per cent. interest in Sakhaneftegaz. For a discussion of the acquisition of Sakhaneftegaz, see "Business — Non-

Diamond Mining Operations—Russian Non-Diamond Mining Operations—Other Russian Non-Diamond Mining Assets—Oil and Gas assets".

Net Loss from Cross Currency Interest Rate Swap Contracts

The Group recorded a RUB1,040 million net loss in 2008 resulting from changes in the fair value of cross currency interest rate swap contracts, which included a realized gain of RUB56 million related to instruments settled during the reporting period and an unrealized loss of RUB1,096 million related to instruments still held at the end of the reporting period.

Loss on Disposal of Property, Plant and Equipment

The Group recorded a loss on disposal of property, plant and equipment of RUB890 million in 2008 and a loss of RUB1,061 million in 2007. The loss on disposal primarily relates to write offs of assets and expenses associated with the transfer of social assets to local authorities below cost or free of charge.

(Reversal of) Impairment of Property, Plant and Equipment

The impairment of property, plant and equipment relates to items currently on the balance sheet of ALROSA, including roads, sports facilities and cinemas that ALROSA plans to transfer to local administrations free of charge in the foreseeable future. The Group recorded an impairment of property, plant and equipment of RUB520 million in 2008 compared to an aggregate reversal of impairment of property, plant and equipment of RUB158 million in 2007. The reversal in 2007 resulted from a decision not to transfer a movie theatre under construction to local authorities.

Other Operating Expense

Other expenses include various expenses, such as uncompensated VAT, penalties and other miscellaneous expenses of an operating nature. Other operating expenses decreased by 3.0 per cent., or RUB47 million, to RUB1,516 million in 2008 from RUB1,563 million in 2007.

Net Finance Costs

	For the year ended 31 December		
	2008	**2007**	**Change**
	(in RUB millions)		**(in per cent.)**
Net interest expense	(8,116)	(5,178)	56.7
Unwinding of discount of provision for restoration liability	—	(283)	(100)
Unwinding of discount of provision for land recultivation	(14)	(62)	(77.4)
Net exchange gains (loss)	(14,452)	4,146	(448.6)
Net finance costs	**(22,582)**	**(1,377)**	**1,539.9**

The Group's net finance costs increased by more than 15 times in 2008, driven primarily by the depreciation of the Rouble, which generated a net exchange loss of RUB14,452 million compared to a net exchange gain of RUB4,146 million in 2007. Net interest expense increased by 56.7 per cent. driven by higher borrowings and increased interest rates.

Income Tax

The following table sets forth the Group's income tax for the periods indicated:

	For the year ended 31 December		
	2008	**2007**	**Change**
	(in RUB millions)		**(per cent.)**
Current tax expense	3,119	6,422	(51.4)
Deferred tax expense (benefit)	(6,373)	1,383	(560.8)
Effect of reduction in tax rate	18	—	—
Total income tax	**(3,236)**	**7,805**	**(141.5)**

The Group recorded a total income tax benefit of RUB3,236 million in 2008 compared to total income expense of RUB7,805 million in 2007.

The current tax expense decreased by 51.4 per cent. in 2008 largely as a result of lower operating profit.

The company reported a deferred tax benefit of RUB6,373 million in 2008, compared to a deferred tax expense of RUB1,383 million in 2007. Deferred tax results from differences between IFRS and Russian statutory tax accounting, which 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 was recorded at the rate of 20 per cent. as of 31 December 2008 and 24 per cent. as of 31 December 2007. The change in deferred tax in 2008 compared to 2007 resulted primarily from:

- the recognition of deferred tax benefit in the amount of RUB6,613 million due to a significant decrease in the fair value of derivative financial instruments as a result of unfavourable movements in the US$/RUB exchange rates;
- an increase in deductible temporary differences for provision of pension obligations, write-down of inventories, and impairment of accounts receivable in the amount of RUB587 million, and;
- an increase in taxable temporary differences for ore, concentrates and diamonds inventory balances in the amount of RUB598 million.

Liquidity and Capital Resources

Overview

Impact of the Global Economic Crisis on the Group's Liquidity

In the second half of 2008 and the first half of 2009, the Group experienced increased liquidity needs resulting from a combination of factors, including the following:

- The market downturn and suspension of substantially all diamond sales to parties other than Gokhran in response to the global economic crisis significantly reduced the Group's revenues and EBITDA during the affected period.
- At the same time, the decision to maintain production and continue to build inventories in spite of the lower demand together with higher levels of receivables led to higher working capital requirements in the affected periods. As a result, the Group recorded a net cash outflow from operating activities of RUB9,974 million in the first half of 2009.
- Capital expenditure requirements for building the Group's underground mines were significant, and could not be easily suspended or reduced because the projects were already underway. Despite the economic downturn, the Group incurred capital expenditure of RUB15,394 million in 2009, driven principally by its underground mine projects.
- The suspension of sales and the economic downturn led to a sharp drop in the Group's EBITDA, while the significant borrowings and related interest expense requirements incurred prior to the crisis to fund the Group's capital expenditures and its diversification strategy limited the Group's capacity to borrow additional funds and resulted in financial covenant breaches under certain of the Group's outstanding borrowings, requiring the Group to seek and pay for waivers from its lenders.
- Certain non-core investments identified as potential sources of funds, including the Group's oil and gas assets, took time to monetize.
- Downgrades in the Group's credit rating increased its cost of capital, further adding to its interest expense.
- During the same period, currency fluctuations required the Group to pay significant amounts due under its foreign exchange forward contracts.

The Group met its increased liquidity needs primarily through increased borrowings. Reflecting the increased borrowings and the impact of exchange rate fluctuations on the Group's outstanding indebtedness, the Group's total debt increased from RUB81.7 billion at 31 December 2007 to RUB160.5 billion at 30 June 2009, before declining to RUB118.0 billion at 31 December 2009. At 31 December 2009, over 80 per cent. of the Group's borrowings were classified as short-term debt.

Steps taken to improve the Group's Liquidity Profile

One of key priorities of ALROSA is to continue to refinance its short-term debt, lengthen its debt maturity profile and improve quality of its portfolio of borrowings. As of 31 December 2009, ALROSA had total debt of RUB118 billion with over 80 per cent. classified as short-term debt. ALROSA's increased leverage and shorter duration debt maturity profile was primarily attributable to the Group's decision to halt virtually all sales of rough diamonds to parties other than Gokhran (except for sales to a limited number of purchasers willing to purchase rough diamonds at pre-crisis prices and the December 2008 sales on credit to Interdiam) from November 2008 through July 2009 in response to the global economic crisis while maintaining its pre-crisis production levels as described above.

ALROSA has undertaken and continues to implement a number of steps to improve its working capital position and cash requirements and to and reduce its leverage. These include, among other things, refinancing of existing short-term debt to improve its debt maturity profile, refinancing at lower interest rates, reducing inventories and curtailing non-essential capital and project development capital expenditure in the short term. For example, in March 2010, ALROSA entered into a two-year unsecured credit facility agreement with TransCreditBank, under which ALROSA borrowed an aggregate of US$200 million, the proceeds of which were used to repay short-term debt. In April 2010, ALROSA entered into a two-year unsecured credit facility agreement with VTB Bank, under which ALROSA borrowed an aggregate of US$500 million, the proceeds of which were also used to repay short-term debt. Additionally, in June 2010, ALROSA successfully issued four series of Rouble-denominated five-year bonds, Series 20-23, in the amount of RUB26 million at 8.25 and 8.95 per cent. *per annum* with three year put options on Series 21 and 22.

As a result of these activities, the Group's total debt outstanding was reduced from RUB160.5 billion outstanding at 30 June 2009 to RUB118 billion as at 31 December 2009, and by an additional RUB5 billion to RUB113 billion as at 30 June 2010. The short-term debt proportion decreased by RUB50 billion from RUB94 billion as at 31 December 2009, or 80 per cent. of the total debt obligations, to RUB44 billion as at 30 June 2010, or 39 per cent. of the total debt obligations. The average effective interest rate of ALROSA decreased from 12.4 per cent. as at 31 December 2009 to 8.25 per cent. as at 30 June 2010.

ALROSA continues to seek to improve the structure of its borrowings principally by lengthening the overall maturity profile of its debt, improving the quality of its borrowings and reducing its overall debt without sacrificing operational flexibility. ALROSA plans to use the proceeds of the Offering described herein to refinance certain debt as part of the ongoing efforts to improve its debt profile. See "Use of Proceeds". Following the Offering, ALROSA expects the short-term debt to decrease significantly as a percentage of its total debt obligations due to the use of the proceeds of the Notes to refinance short term debt.

Overview of Basic Funding Requirements and Strategy

In the ordinary course of business, the Group's principal funding requirements are for capital expenditure, repayment or refinancing of existing debt and dividend and distribution payments. The Group has historically met these requirements by using cash generated from operations and through borrowings, mostly in the bank lending and European commercial paper markets. The Group believes these sources of funds, together with the Group's cash and cash equivalents on hand, will continue to be adequate to meet the Group's anticipated capital requirements for the next 12 months.

The Group's near-term cash needs include repayment or refinancing of RUB43,699 million (US$1,401 million) of short-term debt (including the current portion of long-term debt) outstanding at 30 June 2010 and capital expenditure, including in connection with the construction of its underground mines. The Group expects to meet these cash needs using new borrowings, cash flow from operations, and cash and cash equivalents on hand. The Group will use the proceeds of the offering described in this Prospectus to refinance a portion of its current short-term indebtedness.

In addition to these requirements, the Group may potentially be required to fund obligations under the put option agreements it has signed with the purchasers of the oil and gas assets it sold in October 2009. See "Risk Factors — Risks Related to the Group's Business — Risks Related to Oil and Gas Put Options".

Sources of Funds

The Group's principal sources of funds are cash on hand, operating cash flow and borrowings.

- *Cash on hand.* The Group had cash and cash equivalents of RUB12,948 million (US$ 415 million) as at 30 June 2010, of which RUB159 million was restricted cash as it represented mandatory reserve deposits held with the CBR by MAK Bank, a subsidiary of the Group, which are not available for use in the Group's day-to-day activities.
- *Cash flow from operations.* The Group's operating activities have generally generated positive cash flows (RUB26,010 million in the first half of 2010 and RUB13,986 million, RUB5,127 million and

RUB25,271 million in the years ended 31 December 2009, 2008 and 2007, respectively), although the Group's operations used net cash flow from operations in the first half of 2009. See "— Cash Flows".

- *Borrowings.*
  - *Bank loan market.* The Group's principal source of borrowings has historically been the bank loan market. At 30 June 2010, the Group had RUB55,600 million of bank loans outstanding.
  - *Eurobonds.* The Group also accesses the Eurobond market from time to time, as evidenced by the Offering described in this Prospectus and the Group's past Eurobond offerings. At 30 June 2010, the Group had RUB15,576 million of Eurobonds outstanding.
  - *Rouble-denominated bonds.* In 2010, ALROSA also issued four series of Rouble-denominated five-year bonds in the amount of RUB26,000 million at 8.25 and 8.95 per cent. *per annum.*
  - *European Commercial Paper.* The Group also has a US$700 million ECP Programme in place, under which US$10,848 million was in issue at 30 June 2010.
- *Disposals.* The Group also generates cash flow from time to time by disposing of businesses and investments. In 2009, the Group generated RUB18,615 million from the disposal of its oil and gas subsidiaries. See "Risk Factors — Risks Related to the Group's Business — Risks Related to Oil and Gas Put Options" above.

Uses of Funds

Acquisitions

Tyumen Oil and Gas Assets. With a view to diversifying its mineral extraction activities, ALROSA acquired certain Tyumen oil and gas assets in December 2005 and April 2006. In 2007, the Group used cash of RUB8,217 million to pay amounts due to Morgan Stanley under reciprocal put/call agreements entered into in connection with the 2006 acquisition of Rolant Investments Ltd., the entity through which it acquired certain of the Tyumen oil and gas assets. In October 2009, the Group disposed of GTG and UGC in a sale to affiliates of VTB. See "Risk Factors — Risks Related to the Group's Business — Risks Related to Oil and Gas Put Options".

Other Oil and Gas Assets. In 2006, the Group used cash of RUB493 million to acquire 50.4 per cent. of the voting shares of Sakhaneftegaz. Following the acquisition, the minority shareholders of Sakhaneftegaz obtained a court decision prohibiting the Group from participating in the election of directors of Sakhaneftegaz. As a result, the Group was unable to exercise control or significant influence over Sakhaneftegaz, and did not consolidate it in its 2008/2007 Group Financial Statements or in its audited consolidated financials statements as of and for the years ended 31 December 2006 and 2005, accounting for it instead as an available for sale investment at cost. In March 2008, the Group resolved the conflict with the minority investors, appointed new management and began consolidating Sakhaneftegaz in its consolidated financial statements. Due to significant overdue accounts payable in an aggregate amount of RUB3,648 million to companies of the YUKOS Group, most of which are now controlled by OJSC Rosneft, the management of Sakhaneftegaz has requested that a court begin bankruptcy proceedings. Following the consolidation of Sakhaneftegaz in March 2008, its payables became included in the Group Financial Statements. In February 2010, ALROSA lost control over financial and operating activity of NNGK Sakhaneftegaz and Lenaneftegaz due to bankruptcy proceedings.

Acquisition of Minority Interest in Almazy Anabara. In 2007, the Group used RUB2,303 million to acquire minority interests in Almazy Anabara. See Note 5 to the 2008/2007 Group Financial Statements.

Acquisition of an Interim Minority Interest in KIT Finance. In December 2008, in the context of the Russian Government's response to the global economic crisis, the Group acquired, on an interim basis and for a nominal investment of RUB45, a 45 per cent. participation interest in KIT Finance Holding Company LLC ("**KIT Finance**"), which held shares of KIT Finance Bank and certain other assets. Although it was anticipated that the Group's share in KIT Finance would be transferred to Russian Railways in 2009, the transfer for a nominal consideration of RUB45 did not occur until April 2010. This investment was recorded as an available for sale asset in the Group's 31 December 2009 balance sheet. The Group was an important customer of KIT Finance Bank, and placed RUB11,285 million long-term deposits at KIT Finance Bank in 2008. These amounts were withdrawn in 2009.

Dividends and Distributions

The following table summarizes the Group's payment of dividends and distributions for the periods indicated.

	As of and for the six months ended 30 June		As of and for the year ended 31 December		
	2010	2009	2009	2008	2007
	(in RUB millions)				
Dividends	84	1,642	1,916	959	2,293
Distribution of Retained Earnings in favour of the Russian Federation	—	—	—	8,233	—

The Company's annual shareholders meeting approved dividends of RUB250 million in 2010 in respect of the 2009 fiscal year, RUB2,240 million in 2008 in respect of the 2007 fiscal year and RUB2,240 million in 2007 in respect of the 2006 fiscal year. No dividends were paid in respect of the 2008 fiscal year.

In the first half of 2008, the Group used cash of RUB8,233 million to purchase a portion of the property, plant and equipment subject to the Lease Agreement from VTB. VTB acquired these assets from the Russian Government in exchange for shares representing 10.6 per cent. of ALROSA's outstanding shares as part of the series of transactions described under "Business — Termination of the Lease Agreement". Because this transaction had no effect on recognised amounts of property, plant and equipment, which were subject to the Lease Agreement, this payment was accounted for as a distribution of retained earnings in favour of the Russian Government.

Capital Expenditure

Capital expenditure were as follows for the periods indicated:

	For the six months ended 30 June		For the year ended 31 December		
Capital expenditure (unaudited)	**2010**	**2009**	**2009**	**2008**	**2007**
	(in RUB millions)				
Mining operations	3,037	4,409	10,582	22,033	19,129
Maintenance	254	390	475	217	452
Expansion	2,783	4,019	10,107	21,816	18,677
Including underground mines	2,031	3,823	7,699	7,597	7,402
Mir	*570*	*1,974*	*4,124*	*3,031*	*4,049*
Aikhal	*845*	*1,120*	*2,020*	*2,692*	*1,653*
Udachny	*616*	*729*	*1,555*	*1,874*	*1,700*
Non-mining operations	2,122	3,024	4,484	8,373	8,285
Social infrastructure	262	162	328	1,187	1,472
Total	**5,421**	**7,595**	**15,394**	**31,593**	**28,886**
Geological exploration	1,551	1,404	2,308	3,662	3,446
Research and development expenditures(1)	252	289	536	858	704
Total	**1,803**	**1,693**	**2,844**	**4,520**	**4,150**

Note:

(1) Amount represents expenditures on research and development and on scientific-technical services incurred by ALROSA's division YakutNiproAlmaz.

The Group's business requires significant ongoing capital expenditure. The Group's principal capital expenditure are for the development of new mines, the continuous replacement of fully depreciated fixed assets, and other capital expenditure in connection with the mining operations of ALROSA's Mirny, Aikhal, Udachny and Nyurba divisions and the extension of ALROSA's Angolan operations. See "Business — Diamond Mining Operations". Capital expenditure in non-mining operations primarily include investments in construction of a gas pipeline linking Mirny and Aikhal, construction of the third electricity-generating unit of Viluyskaya GES-3, construction of Chicapa-1 and other expenditures by ALROSA's mining support divisions. See "Business — Supporting Operations — Supply of Energy, Fuel and Water".

The Group also incurs capital expenditures for the social infrastructure of communities in Yakutia, including the construction of houses, schools, cultural centres and medical units.

The Group's capital expenditures, including expenditure for mining and non-mining operations and social costs, amounted to RUB5,421 million in the first half of 2010 compared to RUB7,595 million in the first half of 2009. The principal capital expenditure in the first half of 2010 was for the construction of underground mines. In 2009, the Group's capital expenditure was RUB15,394 million compared to RUB31,593 million in 2008. The Group's principal capital expenditure in 2009 was for the construction of underground mines**.** In 2008, the Group's capital expenditure was RUB31,593 million compared to RUB28,886 million in 2007. The Group's principal capital expenditure in 2008 was for the construction of underground mines and the acquisition of licences for the development of iron ore deposits in Yakutia.

Although final decisions have not yet been made concerning capital expenditures for 2011, the Group currently expects that its capital expenditures in 2011 will be higher than its capital expenditures in 2010, reflecting increased capital expenditures for the construction of underground mines. Implementation of capital projects is subject to a variety of uncertainties, including, but not limited to, delays in completion, cost overruns and defects in design or construction. See "Risk Factors — Risks Related to the Group's Business — ALROSA may be unable to implement some of the projects envisioned by its strategy".

Cash Flows

The following table summarises the Group's statement of cash flows for the periods under review:

	As of and for the six months ended 30 June		As of and for the year ended 31 December		
	2010	**2009**	**2009**	**2008**	**2007**
	(in RUB millions)				
Net cash provided by (used in) operating activities	26,010	(9,974)	13,986	5,127	25,271
Net cash provided by (used in) investing activities	(3,886)	(4,056)	19,557	(36,261)	(31,051)
Net cash provided by (used in) financing activities	(14,463)	13,365	(36,446)	15,954	23,458
Net increase (decrease) in cash and cash equivalents	**7,661**	**(665)**	**(2,903)**	**(15,180)**	**17,678**
Total cash and cash equivalents at the end of period	**12,948**	**6,833**	**5,094**	**7,569**	**21,887**

Net Cash (used in) provided by Operating Activities

Net cash generated by operating activities resulted in RUB26,010 million inflow in the first half of 2010 and RUB9,974 million outflow in the first half of 2009. The cash inflow for six months to June 2010 can be attributed to (i) an improved operating cash flow before changing in working capital of RUB17,723 million (first half of 2009 cash outflow RUB2,501 million), primarily as a result of a profit in the period of RUB6,777 million (compared to a loss in the first half of 2009 of RUB6,363 million), and (ii) lower working capital requirement due to a decrease in inventories in the first half of 2010 of RUB11,061 million (2009 increase RUB11,696 million).

Net cash generated by operating activities amounted to RUB13,986 million in 2009, RUB5,127 million in 2008 and RUB25,271 million in 2007. The increase in 2009 relative to 2008 resulted primarily from requirements due principally to a decrease in receivables due to the non-cash repurchase of rough diamonds from Interdiam, resulting in a reversal of the receivable of RUB12,513 million and recording the unsold portion of diamonds in the inventory of RUB5,616 million. Net cash inflows from operating activities were also favorably affected by lower income tax payments in 2009. The decrease in 2008 relative to 2007 resulted primarily from increased working capital requirements due to an increase in receivables related to revenue of RUB10,495 million received from sales of rough diamonds to Interdiam in 2008 (which were subsequently reacquired in 2009) and higher inventories caused by reduced demand for diamonds beginning in the fourth quarter of 2008 offset by lower cash sales.

Net Cash provided by or used in Investing Activities

The Group used net cash in investing activities of RUB3,886 million in the first half of 2010, compared to RUB4,056 million in the same period in 2009. The principal use of cash from investing activities in the first half of 2010 was purchase of property, plant and equipment in the amount of RUB4,903 million, compared to RUB5,285 million in the first half of 2009.

The Group's investing activities generated net cash of RUB19,557 million in 2009, used net cash of RUB36,261 million in 2008, and used net cash of RUB31,051 million in 2007.

- The net cash flow generated in 2009 resulted from the sale of the Group's Tyumen oil and gas assets in 2009 and the receipt in 2009 of cash from long-term deposits at KIT Finance Bank, together with lower expenditure for property planning and equipment reflecting commissioning of the Mir underground mine in 2009.
- The net cash flow used in 2008 resulted primarily from capital expenditure and the transfer of cash to long-term deposits at KIT Finance Bank.
- The net cash flow used in 2007 related primarily to capital expenditures, payments under the Rolant call option and cash used to repurchase minority interests in Almazy Anabara and Viluyskaya GES-3.

Net Cash provided by or used in Financing Activities

Net cash provided by financing activities amounted to an outflow of RUB14,463 million in the first half of 2010 compared to an inflow of RUB13,365 million in the first half of 2009. The Group's net cash provided by financing activities in the first half of 2010 reflects:

- RUB113,064 million repayment of outstanding loans, which was partially offset by RUB103,662 million received in new borrowings;
- RUB4,977 million in interest payments; and
- RUB84 million in dividends.

Net cash provided by financing activities amounted to an outflow of RUB36,466 million in 2009 compared to an inflow of RUB15,954 million in 2008. The Group's net cash outflow provided by financing activities in 2009 primarily reflects:

- RUB100,286 million repayment of outstanding loans, which was partially offset by RUB86,268 million in new borrowings;
- RUB20,408 million in interest payments; and
- RUB2,020 million in dividend payments and purchases of treasury shares.

Net cash provided by financing activities in the year ended 31 December 2008 generated an inflow of RUB15,954 million compared to an inflow of RUB23,458 million in 2007. The Group's net cash provided by financing activities in 2008 primarily reflects:

- RUB159,244 million in new borrowings, which was partially offset by RUB124,867 million for repayment of outstanding loans;
- RUB9,010 million in interest payments;
- RUB8,233 million of retained earnings distributed to the Russian Government as described above; and
- RUB1,010 million in dividend payments and purchases of treasury shares.

Outstanding Debt Obligations

The following table summarizes the Group's short-term and long-term borrowings, including bonds and commercial paper outstanding, as of the dates indicated:

	As of 30 June	As of 31 December		
	2010	2009	2008	2007
	(in RUB millions)			
Short-term bank borrowings:				
US$ Floating	—	—	2,644	3,682
US$ Fixed	27,677	15,939	14,231	23,012
RUB Floating	—	—	2,605	543
RUB Fixed	89	5	15,528	3,509
Subtotal	27,766	15,944	35,008	30,746
European commercial paper	10,848	11,237	1,366	3,510
Commercial paper	302	616	1,138	791
Other fixed rate loans	1,822	1,528	2,067	2,172
Current portion of long-term debt	2,961	65,046	14,489	12,233
Total short-term debt obligations	**43,699**	**94,371**	**54,068**	**49,452**
Long-term bank borrowings (excluding current portion):				
US$ Floating	2,735	436	807	468
US$ Fixed	22,603	4,041	16,517	17,037
RUB Floating	—	1,556	1556	—
RUB Fixed	61	307	44,484	303
Subtotal	24,889	6,340	63,364	17,808
RUB denominated non-convertible bonds	26,000	—	—	—
Eurobonds	15,576	15,099	1,481	12,266
Finance lease obligations	510	507	779	812
Commercial paper	297	359	466	545
Other	1,548	1,276	1,041	865
Total long-term debt (excluding current portion)	**68,830**	**23,581**	**80,331**	**32,296**
Total debt	**112,529**	**117,952**	**134,399**	**81,748**

The Group's total short-term and long-term borrowings amounted to RUB112,529 million at 30 June 2010. The Group's short-term debt (including the current portion of long-term debt) was RUB43,699 million and the Group's long-term debt (excluding the current portion) was RUB68,830 million at that date. As of 30 June 2010 and 31 December 2009, there were no debt obligations of the Group secured by pledges of its assets and receivables. The Group's debt obligations secured by pledges of its assets and receivables in respect of diamond production were RUB226 million as of 31 December 2008 and RUB1,028 million as of 31 December 2007. The Group's principal financing agreements are described under "Description of Existing Material Agreements" elsewhere in this Prospectus.

The percentage of the Group's total debt represented by short-term debt was 39 per cent. as of 30 June 2010 as compared to 80.0 per cent. as of 31 December 2009, 40.2 per cent. as of 31 December 2008 and 60.5 per cent. as of 31 December 2007. The decrease in short-term borrowings in the first half of 2010 compared to 31 December 2009 was mainly due to repayment of fixed and floating rate bank loans of which RUB65,046 million was classified as short-term in 2009 and issuance of RUB-denominated non-convertible bonds, repayable in 2015 and classified as long-term debt. The increase in short-term borrowings in 2009 compared to the year ended 31 December 2008 was mainly due to the current portion of the Group's Rouble long-term bank borrowings that matured in 2009 and an increase in Euro commercial paper borrowings in 2009. The increase in short-term borrowings at 31 December 2008 compared to the prior year-end resulted primarily from the reclassification of a long-term RUB3,966 million loan as short-term following a covenant breach for which a waiver was not received until 2009.

By refinancing existing short-term debt with the proceeds of the Offering, the Group expects to significantly decrease the proportion of its short-term indebtedness. See "Use of Proceeds".

The following table sets forth the repayment schedule for the aggregate principal amount of ALROSA's borrowings outstanding as of 30 June 2010:

	As of 30 June 2010
	(in RUB millions)
Due for repayment:	
Within one year	43,699
Between one and two years	26,024
Between two and three years	779
Between three and four years	451
After four years	41,576
Total	**112,529**

Put Options relating to Tyumen Oil and Gas Operations

In October 2009, the Group sold a 90 per cent. interest in GTG and UGC to companies affiliated with VTB Bank for a total cash consideration of RUB18,615 million (US$597 million). Simultaneously, the Group entered into put option agreements with the buyers and the bank. See "Risk Factors — Risks Related to the Group's Business — Risks Related to Oil and Gas Put Options".

Potential Expenditure relating to Olympic Games Sponsorship

In order to increase international brand awareness, Alrosa has had preliminary discussions with Olympic Committee representatives about becoming an official sponsor of the London Summer Games in 2012, the Sochi Winter Games in 2014 and the Rio de Janeiro Summer Games in 2016. No decisions or agreements have yet been made on either side. If Alrosa were ultimately to become an official sponsor, it would have to pay US$100 million or more and would enjoy the marketing and promotional opportunities available to Olympic sponsors.

Fixed Charge Coverage Ratio

The Terms and Conditions of the Notes offered hereby, the 2014 Notes and certain other outstanding agreements include limitations on the Group's ability to incur additional indebtedness. Reflecting in part the effect of the global economic crisis on the Group's adjusted consolidated cash flow, and the level of its fixed charges, the Group's fixed charge coverage ratio as of 30 June 2010, calculated on a pro forma basis in accordance with the terms and conditions of the Notes and the 2014 Notes, including to give effect to the incurrence of the indebtedness under the Notes and the refinancing of outstanding indebtedness with the proceeds thereof, was less than 2.75 to 1. To the extent that the Group's fixed charge coverage ratio is less than 3.5 to 1 on a pro forma basis, the Guarantor and its subsidiaries will be permitted to incur only "Permitted Indebtedness" as defined in the Terms and Conditions. The incurrence of indebtedness represented by the Notes is Permitted Indebtedness because the proceeds thereof will be used to repay outstanding senior debt and constitutes Permitted Refinancing Indebtedness. See Condition 5(e) of the Terms and Conditions of the Notes.

Critical 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 preparation of the financial statements 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 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, the amount receivable is written off against the 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 judgments and estimates to certain variables including volumes of production, prices of diamonds, operating costs, capital investments, diamond reserve estimates and macroeconomic factors such as inflation and discount rates. In addition, judgment is applied in determining the cash generating units assessed for impairment.

Tax Legislation

Russian tax, currency and customs legislation is subject to varying interpretations. See Note 26 to the 2009/2008 Group Financial Statements.

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 judgement 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 licences will be extended past their current expiration dates at insignificant additional costs. Because of the extensions, the assets are depreciated over their useful lives beyond the end of the current licence term.

In the year ended 31 December 2009, if the estimated useful lives of property, plant and equipment had been 10 per cent. longer/shorter with all other variables held constant, depreciation charges for the year would have been RUB706 million (year ended 31 December 2008 — RUB670 million) lower/higher.

Classification of Production Licences

Management treats cost of production licences as an integral part of the acquisition cost of tangible mining properties, i.e. land where the respective area of interest is located; accordingly, production licences are included in property, plant and equipment in the 2009/2008 Group Financial Statements. As at 31 December 2009, the net book value of production licences included in property, plant and equipment is RUB9,067 million (as at 31 December 2008: RUB15,705 million). See Note 8 to the 2009/2008 Group Financial Statements.

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 on 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 in part on current market conditions. See Note 15 to the 2009/2008 Group Financial Statements.

Recent Accounting Pronouncements

Recent accounting pronouncements are described in the notes to the Group Financial Statements.

Qualitative and Quantitative Disclosures about Market Risks

For a description of the Group's exposure to interest rates, foreign exchange and other market risks, see Note 3 to the 2009/2008 Group Financial Statements.

BUSINESS

The Group is the largest diamond mining company in the world by diamond production, based on carat volume. In 2009, the Group produced approximately 30 per cent. of the world's rough diamond output, measured as a multiple of average market prices for the year, and approximately 28 per cent. by carat volume. The Group's principal mining operations are located in Yakutia, in northeastern Siberia, where it operates open-pit, underground and alluvial mines located near the cities of Aikhal, Anabar, Mirny, Nyurba and Udachny. The Group produces rough diamonds (88.5 per cent. of revenues in the first half of 2010; 82.8 per cent. of revenues in 2009), which are cut and used primarily in jewellery, and industrial diamonds. In the first half of 2010 and in 2009, ALROSA and its subsidiaries produced rough diamonds valued at US$1,174 million and US$2,268 million, respectively, based on average market prices at period end. The Group had total sales of rough diamonds of RUB56,976 million (US$1,826 million) in the first half of 2010 and RUB64,565 million (US$2,069 million) in 2009.

Revenue from diamonds for resale amounted to RUB5,717 million (US$183 million) in the first half of 2010 and RUB6,483 million (US$208 million) in 2009, and accounted for 9.7 per cent. and 9.8 per cent. of the Group's total diamond sales revenue in the first half of 2010 and in 2009, respectively. As of 30 June 2010, ALROSA also held a 32.8 per cent. interest in Catoca Mining, a diamond mining company in Angola. The Group is also engaged in diamond exploration throughout northeastern Russia and Angola.

Exports accounted for 68.7 per cent. and 49.3 per cent., respectively, of the Group's sales of rough diamonds in the first half of 2010 and in 2009. The remainder were sold to domestic diamond purchasers, primarily Russian cutting and polishing companies that process the diamonds for use in jewellery, and, in 2009, to Gokhran. The Group also cuts and polishes some of its rough diamonds, primarily through ALROSA's division Brillianty ALROSA. The Group's sales of polished diamonds were RUB2,086 million (US$66.8 million) in the first half of 2010 and RUB1,775 million (US$56.8 million) in 2009. The Group sold RUB68 million (US$2.2 million) and RUB54 million (US$1.7 million), respectively, of industrial diamonds in the first half of 2010 and in 2009.

To reduce the Group's costs and ensure operational support, the Group engages in a number of businesses that provide materials and services to the Group's mining operations, including construction and freight transportation services, agriculture and food supplies and passenger air transport. The Group has also developed oil and natural gas extraction and hydroelectric plants to supply a portion of its energy needs. In addition, the Group continues to maintain certain non-productive "social" assets, which ALROSA inherited from its predecessor entities for the benefit of its Russian employees. The Group has been transferring and intends to continue transferring the obligation to maintain these assets to the Government of Yakutia.

Formation and Development

ALROSA is organised and operates under the laws of the Russian Federation. ALROSA was established pursuant to Decree No. 158S and was registered as a closed joint stock company in Yakutia on 13 August 1992 under the name "Almazy Rossii-Sakha", which was changed in 1998 to "ALROSA" Company Limited. ALROSA commenced operations as an independent entity on 1 January 1993.

ALROSA's state registration number is 102 140 096 7092. ALROSA's address is 6 Lenin Street, Mirny 678170, Republic of Sakha (Yakutia), Russia and its telephone numbers are +7 411 363 01 80 (Mirny) and +7 495 230 6693 (Moscow).

ALROSA's principal shareholders are the Russian Government, which held 50.9 per cent. of ALROSA's outstanding voting securities, and the Government of Yakutia and the Ulusy, which held a 40 per cent. in each case as of 30 June 2010.

Strengths

ALROSA believes that the Group benefits from the following strengths:

The world's largest producer of rough diamonds by carat volume

In 2009, ALROSA became the world's largest producer of rough diamonds, measured by carat volume. ALROSA also produces substantially all of the rough diamonds produced in Russia, accounting for approximately 97 per cent. of the country's rough diamond output in 2009. See "Risk Factors — Risks Related to the Group's Business — Estimates of ALROSA's reserves and other information are subject to uncertainties".

ALROSA has significant diamond reserves

ALROSA has increased the reserves of its predecessor entities through a combination of successful exploration and investment. Based upon its internal analyses and certifications of the Federal Subsoil Use Agency of the Russian

Ministry of Natural Resources and the Russian Ministry of Finance (See Appendix A to this Prospectus), ALROSA believes that it has sufficient diamond reserves to continue to extract over the next 24 years an average annual volume of diamonds at least as great as that extracted in 2009, with an average quality of extracted diamonds continuing at the current level. See "Risk Factors — Risks Related to the Group's Business — Estimates of ALROSA's reserves and other information are subject to uncertainties".

The Group's mines have consistently produced high-quality gems

Other than the Group's smaller alluvial operations, the Group's mines have consistently produced gem and near-gem diamonds with average per carat values ranging for example from US$100 to US$120 at its International underground mine, which produces some of ALROSA's highest quality gems. ALROSA believes that the quality of its diamonds is relatively high compared to the quality of diamonds of other producers.

The Group has a limited number of competitors

In general, the global diamond mining industry is characterised by a limited number of competitors and high entry barriers for potential new players, which ALROSA believes results primarily from a combination of the limited number of diamond deposits suitable for commercial mining and the large capital requirements for exploration and excavation. Within Russia, ALROSA holds exclusive prospecting licences in numerous locations and in 2009, produced approximately 97 per cent. of the rough diamonds produced in Russia.

The Group has strong technical mining expertise

The Group's predecessor entities have been engaged in diamond mining since 1957. In particular, the Group has developed extensive mining expertise related to the permafrost environment of northeastern Russia, where winter temperatures can reach -50° Celsius. ALROSA's YakutNiproAlmaz division engages in research and development, including development of new techniques in underground mining and ore processing. ALROSA believes that its experience helps the Group to increase efficiency and output and makes it an attractive partner for the joint development of mines outside of Russia.

The Group has strong support from the Russian Government

The Russian Government is a controlling shareholder of ALROSA, holding 50.9 per cent of its share capital as of 30 June 2010. Mr. Aleksey Leonidovich Kudrin, the current Russian Minister of Finance, has been Chairman of ALROSA's Supervisory Board since 2002. The Group plays a central role in Yakutia where it is the region's largest employer and taxpayer, and is an important player in the overall Russian economy.

As a state-owned strategic company, ALROSA enjoys the strong support of its controlling shareholder. The government support was demonstrated during the global economic crisis when ALROSA suspended rough diamond sales to the market from November 2008 through July 2009 and sold over US$1 billion of diamonds to Gokhran. Government support also helped ALROSA secure financing from the state-owned banks, which accounted for approximately 41 per cent. of ALROSA's debt as of 30 September 2010. These measures allowed ALROSA to maintain its pre-crisis levels of production and continue its transition to underground mining while its major international competitors were forced to curtail their production significantly. See "Risk Factors —Risks Related to the Group's Business — ALROSA is subject to the control of its existing shareholders, whose interests may differ from the interests of Noteholders."

Maintaining production during the global economic crisis has positioned the Group to benefit from recovery in the diamond markets

Unlike many of its competitors, the Group maintained production during the global economic crisis. The Group believes this gives it an advantageous position from which to benefit from and pursue market share gains during the post-crisis recovery in rough diamond demand through sales of diamond inventories and maintaining production levels that at levels higher than would have been possible had the Group halted production during the crisis.

Strategy

The key elements of ALROSA's strategy include:

Pursuing a transition to underground mining and completing construction of new mines to enhance production

ALROSA is currently constructing a number of new mines to replace mines that have closed in the last few years and to enhance its long-term production capacity. Towards this end, ALROSA is in the process of shifting to underground mining in order to continue extracting diamonds from the deposits related to matured open-pit mines.

The Group is constructing the Aikhal underground mine, construction of which resumed in 2006 and which began limited production in 2006. ALROSA expects to finalise the construction of the Aikhal underground mine in 2013. In addition, ALROSA is currently constructing an underground mine at the Udachny mine, where open-pit mining is expected to cease in 2013. ALROSA expects the Udachny underground mine to be put into operation in 2014. ALROSA is also increasing the capacity of the International underground mine. The Group expects to start the construction of the Botyobinskaya open-pit mine in 2013-2015.

Lowering costs and seeking production efficiencies

The Group is engaged in a number of cost reduction projects in all areas of its operations, including costs related to the transition to underground mining and upgrading various production assets, administrative costs, social costs and costs of supplies. In addition, it intends to continue to focus on reducing its energy costs through the construction of a hydroelectric power station on the Viluy River in western Yakutia and the introduction of energy-saving equipment. ALROSA also intends to continue to modernise and automate its processing plants and to implement more efficient technologies developed by its research institute. As a result, ALROSA expects that its processing plants will rely, to a greater extent, on their own resources rather than on outside contractors. ALROSA anticipates that the use of new technologies, such as the dry enrichment technology, which significantly reduces transportation expenses, will reduce its costs and permit it to engage in industrial mining of deposits whose development was considered non-economical in the past. ALROSA also expects to reduce administrative costs. In addition, ALROSA plans to reduce supply costs by purchasing supplies directly, rather than through intermediaries.

In response to the global economic crisis, ALROSA implemented a number of additional anti-crisis measures aimed at reducing the Group's operating expenses. Such additional cost reduction measures include (i) suspending unprofitable operations (including suspending mining operations at the Zarnitsa open-pit mine in 2010 with limited production expected to resume in 2011) and divesting non-core assets; (ii) permanently suspending investment in various development and exploration projects in Angola, Namibia and Congo; (iii) further reducing operating expenses through restructurings, productivity improvements and optimisation of asset utilisation; (iv) reducing discretionary, sustaining and expansionary capital expenditures with a primary focus on key business projects, including the Aikhal underground mine (expected to be completed in 2013) and the Udachny underground mine (expected to be completed in 2014); and (v) reducing costs relating to employee compensation without mass lay-offs or significant reduction in employee wages (including wage freezes, suspension of various year-end and performance-based bonuses, offering unpaid vacation time and reduced work hours) as well as imposing further strict controls over administrative and overhead expenses.

Improving liquidity profile

One of the key priorities of ALROSA is to continue to refinance its short-term debt, lengthen its debt maturity profile and improve the quality of its portfolio of borrowings. As a result of this Offering, the net proceeds of which will be used entirely to refinance short-term debt, the Group expects to significantly reduce the percentage of its total debt that is short-term debt.

Divesting non-core assets

ALROSA will focus on its core mining operations and continue to explore opportunities to divest non-core assets. In 2009, ALROSA sold part of its oil and gas business, namely a 90 per cent. interest in each GTG and UGC, for a total cash consideration of US$620 million. ALROSA is currently in the process of selling the totality of its participation in two additional oil and gas companies, Irelyakhneft and Sibintek. ALROSA is also exploring opportunities to reduce its stake in other businesses. In addition, ALROSA has been transferring and is continuing to transfer to Yakutia and its Ulusy responsibility for the various social assets, which ALROSA inherited from its predecessor entities, including residential houses, schools and hospitals.

Developing strategic iron ore deposits in Yakutia

In keeping with its focus on mining operations, the Group is conducting feasibility studies in connection with a potential investment to develop its subsidiary Timir's iron ore reserves at four locations in Yakutia. ALROSA is currently considering various sources of financing the substantial capital expenditures that will be required to complete this project.

Protecting operating cash flow through long-term framework agreements with clients

Since the termination of its partnership with De Beers at the end of 2008, ALROSA has begun executing a new sales and marketing strategy that aims at improving the stability of operating cash flow through direct long-term rough diamond sales agreements with major international and domestic diamond buyers. Between the second half of 2009 and the first half of 2010, ALROSA entered into 24 long-term agreements for supply of rough diamonds, comprising 19 agreements with major foreign diamond traders and producers based in Belgium, Israel and India and five agreements with Russian diamond producers and re-sellers. The proportion of the Group's total diamond sales revenue accounted for by these long-term framework agreements increased from 36.5 per cent. of revenues in 2009 to 47.6 per cent. of revenues in the first half of 2010. ALROSA plans to continue to increase the percentage of its revenue generated by long-term framework agreements. ALROSA is also seeking to enhance the geographic diversification of the Group's customer base by further strengthening its export sales in emerging Asian markets.

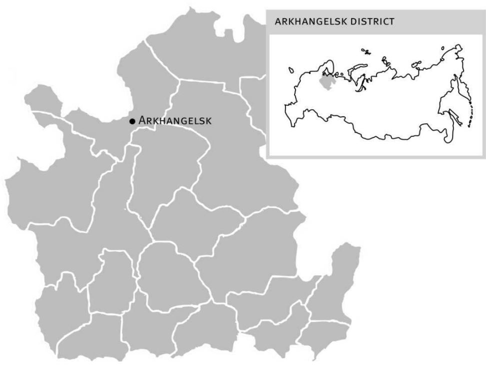
Continuing to enhance transparency and corporate governance standards

ALROSA intends to continue to improve its transparency and corporate governance profile. Its shareholders are currently exploring the possibility of converting ALROSA into an open joint stock company, which would give the Company greater financing flexibility, including through potential sales of common stock.

Diamond Mining Operations

General Description of the Group's Diamond Mining Business

The following map indicates the location of ALROSA's principal operations within Yakutia, including its representative office in Yakutsk, the Arkhangelsk region and Angola:



The Group's primary Russian diamond mining operations are located near the municipalities of Aikhal, Anabar, Mirny, Nyurba and Udachny in the northeastern region of Russia. Each of these regions is operated as a division of ALROSA, with exception of the Anabar division, the assets of which were transferred to the Udachny division in 2008 and leased to Almazy Anabara, a wholly-owned subsidiary of ALROSA. ALROSA-Nyurba holds the prospecting licence under which the Nyurba division operates its mines. Ore production, processing and transportation at the Nyurba mines is performed by ALROSA's Nyurba division pursuant to a services agreement with ALROSA-Nyurba, in which ALROSA held an 87.5 per cent. interest as of 30 June 2010. As of the same date, ALROSA also held a 95.03 per cent. interest in Severalmaz, a diamond mining company operating in the Arkhangelsk region of northwestern Russia. In addition, as of 30 June 2010, ALROSA held a 32.8 per cent. interest in Catoca Mining, a joint venture with Empresa Nacional de Diamantes de Angola—ENDIAMA E.P. ("**ENDIAMA**"), a diamond mining company in Angola and others.

The following table sets forth information for each of these operations for the periods indicated:

	Primary Russian Mining Operations								Joint Venture
	Udachny	Mirny	Aikhal	Anabar[3]	Nyurba	Almazy Anabara	Severalmaz	Total	Catoca
Overburden stripped ('000 m):									
First half of 2010	230.0	1,130.0	5,991.0	—	4,304.0	2,511.0	818.0	**14,984.5**	4,121.0
2009	881.0	1,535.0	10,425.0	—	7,500.0	1,540.1	3,066.0	**24,947.1**	8,591.0
2008	4,250.0	2,916.0	16,725.0	—	8,000.0	3,986.0	6,222.0	**42,099.0**	11,022.5
2007	1,470.0	3,238.0	16700.0	904.0	7,717.0	3,734.0	4,374.0	**38,137.0**	7,780.0
Ore hauled ('000 tonnes):									
First half of 2010	5,085.0	1,548.0	6,761.0	—	1,226.0	5,023.0	462.0	**20,105.0**	2,806.0[1]
2009	9,802.5	2,584.1	8,039.0	—	1,643.0	3,605.6	1,100.0	**26,774.2**	4,800.0[1]
2008	10,470.0	5,912.0	13,200.0	—	2,760.0	5,670.0	1,116.0	**39,128.0**	4,935.6[1]
2007	9,408.0	5,614.0	13,250.0	1,972.0	2,280.0	5,699.2	1,048.0	**39,271.2**	4,649.6[1]
Ore processed ('000 tonnes):									
First half of 2010	3,390.0	1,633.0	5,839.0	—	1,068.0	702.0	441.0	**13,073.0**	5,506.1
2009	7,192.0	2,522.0	9,389.0	—	1,670.0	3,816.4	1,076.0	**25,665.4**	9,839.2
2008	10,350.0	5,115.0	12,567.4	—	2,350.0	5,456.0	1,111.0	**36,949.4**	10,100.1
2007	9,300.0	5,630.0	12,720.0	2,024.0	2,375.0	2,543.0	1,022.0	**35,614.0**	9,502.0
Value of diamonds extracted ('000 US$)[2]:									
First half of 2010	411.5	333.2	146.1	—	237.1	36.1	10.4	**1,174.4**	267.6
2009	797.7	607.7	256.0	—	431.5	152.1	23.2	**2,268.2**	438.7
2008	858.2	570.7	394.1	—	538.5	160.3	20.5	**2,542.3**	494.3
2007	811.0	555.5	379.1	52.5	559.6	102.1	21.3	**2,481.1**	451.0

Notes:

(1) Measured in thousand cubic metres.

(2) Value is determined on the basis of the Price List, maintained by the Ministry of Finance.

(3) In 2008, the Anabar division transferred its assets to the Udachny division, which leased them to Almazy Anabara.

The following table sets forth diamonds produced in Russia for the periods indicated. ALROSA accounts for the vast majority of the diamonds produced in Russia.

Period	Production	Value of diamonds extracted[1]
	('000 carats)	('000 US$)
Six months ended 30 June 2010[2]	17,334	1,143
Six months ended 31 December 2009	16,410	1,140
Six months ended 30 June 2009	18,349	1,200
Six months ended 31 December 2008	19,331	1,315
Six months ended 30 June 2008	17,593	1,193
Six months ended 31 December 2007	20,368	1,423
Six months ended 30 June 2007	17,923	1,202

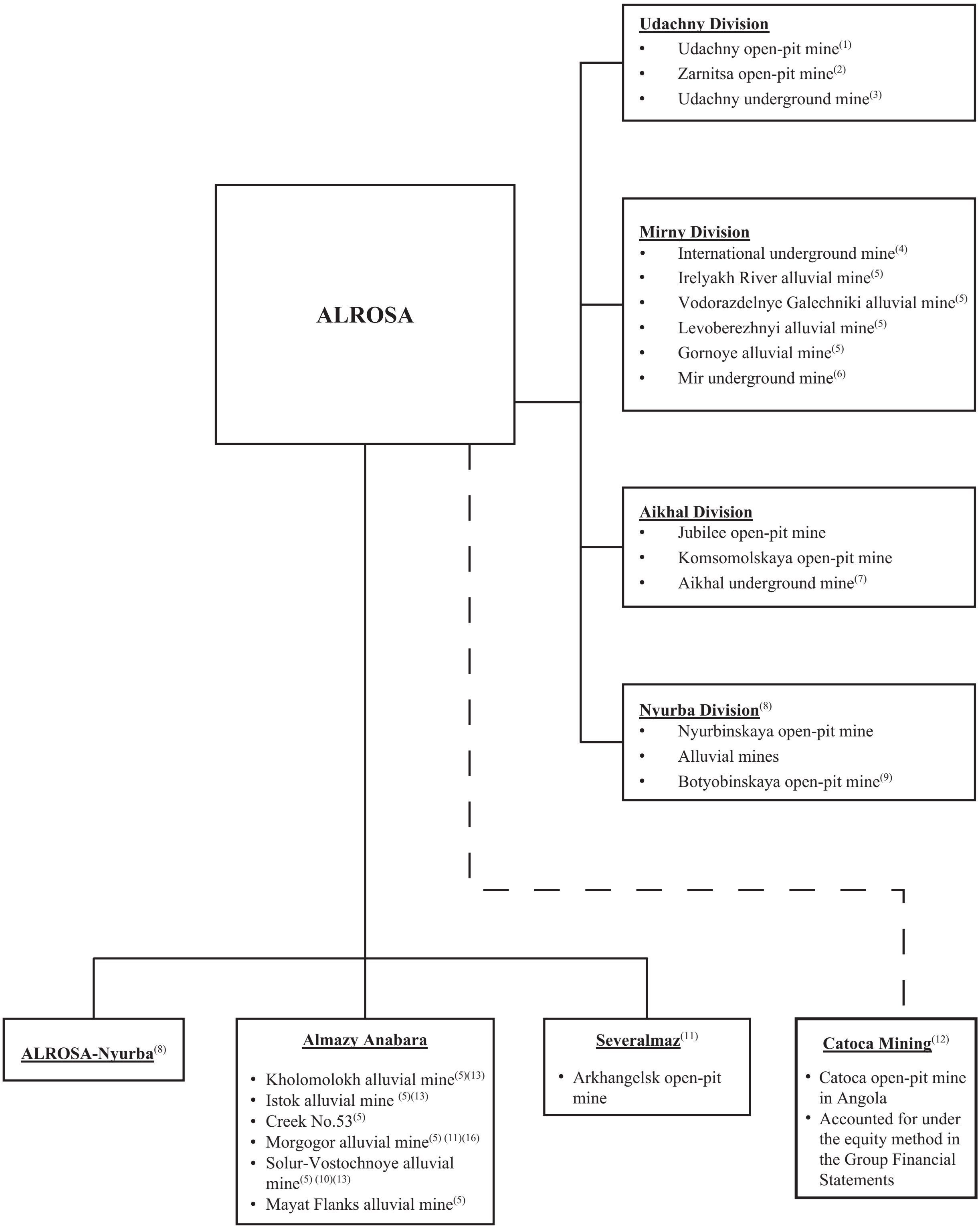
Source: Ministry of Finance of the Russian Federation

Notes:

(1) Value is determined on the basis of the Price List, maintained by the Ministry of Finance.

(2) Latest publication date of Russian diamond production by the Ministry of Finance.

The following table lists the primary mines operated by each of ALROSA's divisions and through ALROSA's subsidiaries ALROSA-Nyurba, Almazy Anabara and Severalmaz and ALROSA's participation in Catoca Mining. See "Risk Factors — Risks Related to the Group's Business — Estimates of ALROSA's reserves and other information are subject to uncertainties". The chart does not show ALROSA's interest in the company that operates the Luo open pit mine in Angola because ALROSA decided to withdraw from this project in December 2009.



Notes:

(1) Open-pit mining is expected to cease as of 31 December 2013. Underground mining is scheduled to commence in 2014.

(2) In 2010, the mining operations at the Zarnitsa field were temporarily suspended. Starting from 2011, limited production at the Zarnitsa open-pit mine will resume only to the extent necessary to verify its mining efficiency ratios. Upon the results of such verification, a decision will be made whether to continue the operations or to schedule the Zarnitsa open-pit mine for temporary abandonment.

(3) The Udachny underground mine is currently under construction. The first phase of the underground mine is scheduled to be commissioned in 2014 with the production capacity of 1.5 million tonnes per year. The second phase of the underground mine is scheduled to be commissioned in 2016, which will bring the mine to its design capacity of 4.0 million tonnes per year.

(4) The second phase of the International underground mine is expected to be completed in 2015. The third phase is expected to be completed by 2018.

(5) Alluvial mining is seasonal.

(6) The mine was put into operation in 2009. Open-pit mining ceased in 2001.

(7) The mine is under construction and is expected to be finalized in 2012. Open-pit mining ceased in 1997.

(8) ALROSA-Nyurba holds the prospecting licence, under which the Nyurba division operates its mines. All work at the Nyurba operations is performed by the Nyurba division of ALROSA pursuant to a services agreement with ALROSA-Nyurba.

(9) Stone drivage program has been submitted to the Main State Expert Examination Department. The construction of the Botuobinsky open-pit mine will be commenced in 2013-2015.

(10) The deposit is currently under development, no production is expected to commence in the near term.

(11) As of 30 June 2010, ALROSA held a 95.03 per cent. interest in Severalmaz. ALROSA is currently exploring the opportunity of divesting up to 45 per cent. of its interest in Severalmaz to a strategic investor.

(12) As of 30 June 2010, ALROSA held a 32.8 per cent. interest in Catoca Mining.

(13) In 2008, all assets of the Anabar division were transferred to the Udachny division, which presently leases these assets to Almazy Anabara.

The Group's mines vary as to mining conditions, yield and quality of diamonds produced. The International underground mine produces some of ALROSA's highest quality diamonds with average per-carat values ranging between US$100 and US$120. By comparison, the Anabar alluvial mines produce smaller and lower-quality diamonds with per-carat values of up to US$84. Diamond quality within a particular diamond pipe generally tends to be consistent throughout.

General Description of the Basic Techniques Used by the Group in Diamond Mining Operations

The following discussion describes the basic techniques used in diamond mining operations to extract and process ore. For a description of the geological conditions found in diamond fields, see "Calculation of Reserves — ALROSA's Calculation of Reserves".

Accessing Ore

The primary difference between open-pit, underground and alluvial mining involves the means of accessing the diamond-bearing ore, as described below.

- *Open-pit mining*: In open-pit mining, access to the ore is achieved by stripping the overlying waste rock, or overburden, to expose the ore. Extraction of the ore body involves the same activity as stripping the overburden. Rock is drilled and blasted and lines are established to demarcate the ore from the waste material. Extraction is generally accomplished using a circular mining system, with excavation starting from the centre of the pit and working outward in concentric circles so that the depth of the pit remains level as it gets deeper. Ore is removed by digging equipment and loaded into dump trucks for transportation to a processing facility. The Group's open-pit mines are designed to operate continually on a three-shift system.
- *Underground mining*: For its underground mines, ALROSA constructs vertical shafts that run parallel to the diamond pipe, and the ore body is accessed at various levels via secondary horizontal shafts running from the primary vertical shaft to the diamond pipe. In underground mining, the ore is broken down, off-loaded and hauled to the surface via the vertical shaft. It is then hauled to a processing facility via dump truck. As with the open-pit mines, ALROSA's underground operations are designed to operate continually on a three-shift system.
- *Alluvial mining*: In alluvial deposits, diamonds are contained within sedimentary gravel that generally lies in or on the banks of streams and rivers. The mining of alluvial gravel initially involves the mechanised removal of overburden (usually sand and rocks) to expose the layer of diamond-bearing gravel, which is then excavated for processing. There are several excavation techniques; however, the Group's alluvial operations generally utilise dredges, which are floating barges that skim gravel from the bottom of the river or streambed. The diamond gravel is either transported to a processing facility or is processed directly on the dredge. Because all natural water resources within Yakutia freeze in the winter, the Group's alluvial operations are seasonal.

Generally, diamond pipes may be mined using an open-pit method or an underground method. Open-pit mining is generally safer and less expensive than underground mining because there is no need for the installation of mechanical lifts or ventilation systems. In addition, open-pit mines typically generate higher volumes of ore than underground mines as underground production is limited by the mine's capacity to transport ore to the surface through its vertical shaft. However, open-pit mines generate much more overburden, as the mine walls must incline outward from the pit centre to avoid collapse. To maintain the incline, the surface diameter of the open pit must expand as the pit becomes deeper. Thus, an increasing amount of overburden must be removed from open pits, causing a decline in efficiency over the life of the mine. Accordingly, once an open pit attains a certain depth, it becomes more efficient to mine the deeper levels of its diamond pipe via an underground mine, if feasible.

As some of ALROSA's open-pit mines have matured and reached or are close to reaching their target depths, ALROSA is in the process of shifting to underground mining in order to continue extracting diamonds from the deposits related to these open-pit mines. ALROSA now conducts underground mining at the International mine, the Mir mine and at the Aikhal mine. In addition, ALROSA is currently constructing an underground mine at the Udachny mine, where open-pit mining is expected to cease in 2013.

Underground mines typically have lower ore production volumes than open-pit mines because the volume of ore that can be extracted is limited by the necessity of using access shafts to transport ore to the surface. In addition, underground mining is generally more capital-intensive than open-pit mining and will lead to increased operating expenses to maintain the more complex extraction infrastructure of underground mines. As a result, once ALROSA replaces open-pit mining with underground mining, the historical operating and financial results of the replaced open-pit mines will not necessarily be indicative of the operating and financial results that may be achieved in the future with underground mining. However, ALROSA believes that these capital expenditures and operating expenses will be offset, to a certain extent, by its continued use of existing mining infrastructure and ore treatment plants. Production declines relating to the transition from open-pit to underground mining can be compensated for by production from new mines and ALROSA believes that the change in the extraction method from open-pit to underground mining will result in the average diamond content of ore being higher than that of ore that ALROSA currently extracts from open-pit mines. See "Risk Factors — Risks Related to the Group's Business — As the Group's open-pit mines mature, the Group must increasingly rely on underground mining, which is more capital intensive and subjects the Group to additional risks".

Ore Stocks

In general, ALROSA maintains production stockpiles of ore from its open-pit, underground and certain alluvial operations near their related ore treatment facilities. These production stockpiles are typically maintained in an amount equal to three to four months' processing capacity to avoid any temporary shortages of ore for processing. In addition, the maintenance of production stockpiles allows the blending of different grades of ore, which helps increase overall diamond recovery.

Most of ALROSA's alluvial operations process diamond-bearing gravel immediately and production stockpiles are not maintained. However, certain of ALROSA's alluvial operations are located in areas where, for a portion of the year, seasonal weather conditions make ore processing impracticable, and consequently, during such periods, these operations accumulate production stockpiles.

Ore Processing

ALROSA uses the same general processing techniques to process the ore derived from open-pit, underground and alluvial mining. Processing begins with milling, the process of breaking up ore to expose the diamonds contained therein. Russian diamond recovery practice differs in certain respects from that used elsewhere in the world, primarily due to the fact that Russian mining operations are located within a permafrost region. ALROSA uses an autogeneous, or "self milling", process whereby ore is broken down in a large tumbler, rather than by crushing. ALROSA believes that this process results in less damage to the diamonds contained in the ore. Use of these autogeneous mills also allows the permafrost ore to warm as it spins in the enclosed mill, which makes subsequent processing more efficient.

Once milled, the soft ore, which will not yield diamonds, is removed through a process known as screen sizing. Screen sizing sifts this soft ore to remove the finer dirt particles. The resulting condensed ore then goes through various additional processes to identify and separate the diamonds. Pieces of ore are first separated by size, with larger pieces processed through an x-ray sorting process. As part of this process, the pieces of ore are transported on a conveyor belt through a sorting machine that subjects the ore to x-rays. These sorters work on the principle that x-rays are absorbed by rock and dirt, but are deflected by diamonds. An optical sensor in the sorting machine identifies the diamonds by these deflected x-rays, which enables the sorter to mechanically separate the diamonds from the ore. Small and medium-sized pieces of ore are processed using jigs. In this process, ore is placed in a water tank and a vertical agitation of the water, known as jigging, separates the ore into lighter minerals on the top of the tank and diamonds and other denser minerals (the concentrate) on the bottom. Discharge of the waste and collection of the diamond-bearing concentrate by a skimming apparatus is continuous. ALROSA's plants also utilise a gravitational separation process using spirals. As part of this process, ore is suspended in a water tank into which spiral-shaped metal tubes are inserted. As these spirals rotate, the motion carries lighter particles up, through and outside the spirals, while diamonds and other dense minerals accumulate on the inside of the spirals and can be continuously split off.

In addition, Ore Treatment Plant No. 12, which processes ore from the Udachny and Zarnitsa mines, uses a froth flotation process to recover particles as fine as 0.5 millimetres. This process involves the discharge of a water-borne stream of finely ground ore into a tank of water mixed with an oily reagent. Air is injected into the bottom of the tank to form bubbles that rise to the surface. The diamonds adhere to the bubbles and are collected from the froth discharged from the top of the tank. Waste material is drawn off from the bottom of the tank.

In the final stage of processing, the diamonds undergo an acid wash and other treatments, as necessary, to remove any residual waste materials adhering to the diamonds.

Russian Mining Operations

Udachny division

The Udachny division operates the Udachny open-pit mine and the Zarnitsa open-pit mine. In addition, it is constructing the Udachny underground mine to continue mining operations after open-pit mining is expected to cease in 2013. Over the last 19 years, the Udachny division has been the leading producer of diamonds in Russia, processing approximately 7.2 million tonnes of ore, 10.4 million tonnes of ore and 9.3 million tonnes of ore and producing diamonds valued at US$798 million, US$858 million and US$811 million, based on average market prices, in 2009, 2008 and 2007, respectively. The Udachny division produced approximately 35.2 per cent., 33.8 per cent. and 32.7 per cent. of the Group's total diamond production, by value, in 2009, 2008 and 2007, respectively.

Udachny Mines

Information about the mines operated by the Udachny division is set forth in the following table:

	Udachny Mine	Zarnitsa Mine
Year in which mining commenced	1968	1999
Explored depth of diamond pipe (metres)[1]	1,400	700
Mined depth (metres)[1]	607	90
Target depth (metres) [1]	640	200
Ore treatment plant processing mined ore	No. 12	No. 12

Note:

(1) As of 31 December 2009.

- *Udachny open-pit mine*: The Udachny division is principally engaged in mining the Udachny diamond pipe, which was discovered in 1955 following exploration in the basin of the Daldyn River. This deposit is located in the permafrost zone 12 kilometres south of the Arctic Circle. The Udachny deposit consists of two vertically dipping conjugate ore bodies of oval shape, which diverge at a depth of 300 metres. In 2009, 2008 and 2007, approximately 7.4 million tonnes of ore, 6.0 million tonnes of ore and 5.4 million tonnes of ore, respectively, were extracted from the Udachny open-pit mine. ALROSA currently plans to keep this open-pit mine operational until 2013, although it is expected that productivity will decrease until that year. The Udachny underground mine is currently under construction. The first phase of the underground mine is scheduled to be commissioned in 2014 with production capacity of 1.5 million tonnes per year. The second phase of the underground mine is scheduled to be commissioned in 2016, which will bring the mine to its design capacity of 4.0 million tonnes per year. Total production volume of the underground mine will be substantially lower than current levels of production by the open-pit method. ALROSA completed feasibility studies relating to underground mining at this site and began construction of the underground mine in late 2004.
- *Zarnitsa open-pit mine*: The Zarnitsa open-pit mine relates to the Zarnitsa kimberlite field, which was the first kimberlite field discovered in Siberia. Although discovered first, development of this relatively small field would have been uneconomical if a treatment plant were built specifically for the Zarnitsa field. However, the new Zarnitsa mine is able to utilise the nearby Udachny ore-processing facilities. This deposit is located approximately 15 kilometres east of Udachny. In 2009, 2008 and 2007, approximately 2.4 million tonnes of ore, 4.5 million tonnes of ore and 2.0 million tonnes of ore, respectively, were extracted from this mine. Ore is mined constantly at the Zarnitsa mine, with occasional interruptions due to weather conditions, and is stored for periodic transportation to Ore Treatment Plant No. 12 in Udachny for processing. The Zarnitsa open-pit mine

has design capacity for the extraction of up to 3.0 million tonnes of ore per year. In 2010, the mining operations at the Zarnitsa field have been temporarily suspended as the extraction process became economically unviable due to a sharp fall in diamond market prices as a result of the global economic crisis. Starting from 2011, limited production at the Zarnitsa open-pit mine will resume only to the extent necessary to verify its mining efficiency ratios. Upon the results of such verification, a decision will be made whether to continue the operations or to schedule the Zarnitsa open-pit mine for temporary abandonment.

As of 30 June 2010, the Udachny earthmoving fleet consisted of 54 vehicles, including an H-135C DEMAG-Komatsu hydraulic shovel with a 8.5 cubic metre bucket, three EKG-10 and two EKG-15 excavators, one L-1100 Le Tourneau loading machines, one 570C Dresser-Komatsu loading machine, and 44 136-tonne Caterpillar and two 45-tonne BelAZ-7548 dump trucks, which are used to clear and transport bedrock.

Udachny Ore Processing

Ore extracted from the Udachny and Zarnitsa open-pit mines is processed at Ore Treatment Plant No. 12, which is the second largest of ALROSA's ore treatment facilities after Ore Treatment Plant No. 14. This plant, which commenced operations in 1976, is equipped with seven autogeneous mills. In 2002, it began operating at its full design capacity of 12.0 million tonnes of ore per year. Ore Treatment Plant No. 12 processed 7.2 million tonnes of one in 2009, 10.4 million tonnes of ore in 2008 and 9.3 million tonnes of ore in 2007. In addition to the separation processes employed by ALROSA's ore treatment plants, Ore Treatment Plant No. 12 also employs a flotation process to recover the smaller diamonds (as small as 0.5 millimetres) that are commonly found in the Udachny ore. The plant underwent a comprehensive refurbishment between 1986 and 1990. In addition, ALROSA adopted a reconstruction and modernisation programme to decrease the design capacity of the plant to 5.0 million tonnes of ore per year taking into account the substantial reduction of expected levels of production at the Udachny open-pit mine and the target capacity of the Udachny and Zarnitsa underground mines. ALROSA plans to commence the programme in 2014 and complete it in 2016.

Mirny division

The Mirny division was established in 1957 to operate the Mir open-pit mine, ALROSA's first mine, which was closed in 2001. In addition, it formerly operated the Dachnaya open-pit mine, which was closed in 2005. It now operates the International underground mine, where open-pit mining ceased in 1981, and several alluvial mines. In addition, the Mirny division operates the Mir underground mine, which was commissioned in 2009. In 2009, 2008 and 2007, the Mirny division processed 2.5 million tonnes of ore, 5.1 million tonnes of ore and 5.6 million tonnes of ore, respectively, and produced diamonds valued at approximately US$608 million, US$571 million and US$556 million, respectively, based on average market prices. The Mirny division produced approximately 26.8 per cent., 22.5 per cent. and 22.4 per cent. of the Group's total diamond production, by value, in 2009, 2008 and 2007, respectively.

Mirny Mines

Information about the mines operated by the Mirny division is set forth in the following table:

	International Mine	Alluvial Mines	Mir Mine
Year in which mining commenced	2002(1)	1957	2009
Explored depth of diamond pipe (metres)(2)	1,220	—	1,240
Mined depth (metres)(2)	1,066(3)	—	1,058
Target depth (metres)(2)	1,220	—	961
Ore treatment plant processing mined ore	No. 3	No. 3	No. 3

Notes:

(1) Represents date of commencement of full capacity production. The International underground mine had limited commercial production starting in 1999.

(2) As of 31 December 2009.

(3) This figure represents the depth of the underground mine's vertical skip shaft. Horizontal shafts are being built off the vertical shaft to access the ore body. The depth of the open pit was 215 metres as of 31 December 2009.

- *International underground mine*: The International mine was ALROSA's first underground mine. It relates to the International diamond pipe, a subvertical oval ore body discovered in 1955. The International diamond pipe is located in an area of compact permafrost rock near the city of Mirny. The upper part of the International diamond pipe was excavated using the open-pit method to a depth of 285 metres. Below this level, the cross-section of the diamond pipe varies slightly and a water-bearing level prevents deeper open-pit mining. As a result, the open-pit operations were terminated in 1981. Access to the underground deposit is gained by means of two vertical shafts. The cage shaft, which is 10 metres in diameter and 1,066 metres deep as of 31 December 2009, is used to lower and raise personnel, cargo and equipment and to provide the mine with fresh air. The skip shaft, which is 10 metres in diameter and 1,028 metres deep as of 31 December 2009, is used to haul rock, raise personnel in emergencies, deliver fill mixture and extract air from the mine. In 2002, the first phase of the International underground mine became fully operational. In 2009, 2008 and 2007, approximately 490 thousand tonnes of ore, 500 thousand tonnes of ore and 488 thousand tonnes of ore, respectively, were extracted from this mine. In 2005, ALROSA commenced the second phase of the International underground mine aiming at increasing the design capacity of the mine, and this second phase is expected to be completed in 2015. The third phase is expected to be completed by 2018. As of 30 June 2010, the total aggregate estimated cost for the completion of the second and third phases was expected to amount to RUB2,444 million (US$78 million) and RUB5,648 million (US$181 million), respectively.

- *Alluvial mining*: In addition to underground mining, the Mirny division conducts alluvial mining on the Irelyakh River, and on the Vodorazdelnye Galetchniki, Levoberezhnaya and Gornoye alluvial deposits. These operations involve three floating dredges that collect diamond-bearing gravel from the surface of riverbeds. Because the rivers freeze during the winter season, the dredges operate on the rivers only from April to November. In 2009, 2008 and 2007, the Mirny division produced 2.0 million tonnes of diamond-bearing gravel, 5.3 million tonnes of diamond-bearing gravel and 5.1 million tonnes of diamond-bearing gravel, respectively, from these alluvial mines.

- *Mir underground mine*: The Mir underground mine relates to the Mir diamond pipe, which is located on the left bank of the Irelyakh River near the town of Mirny. The Mir diamond pipe has confirmed diamond deposits to a depth of 1,265 metres. The Mir diamond pipe was mined as an open pit from 1958 to 2001. Construction of the underground mine commenced in 1999 and production commenced in August 2009. The Mir underground mine has design capacity for the extraction of 1.0 million tonnes of ore per year, which ALROSA expects to achieve in 2012, such production volume being substantially less than the 4.5 million tonnes per year produced by the Mir open-pit mine. In 2009, approximately 58.1 thousand tonnes of ore were extracted from this mine. Continued mining of the Mir diamond pipe is expected to be difficult because of the presence of underground water and heavy mineralisation throughout the deposit. However, ALROSA expects that the additional expenses will be offset by high quality diamonds extracted from the Mir mine.

As of 30 June 2010, the Mirny earthmoving fleet consisted of 80 vehicles, including one EKG-6.3US excavator, four Caterpillar hydraulic shovels, one PC-570 Dresser-Komatsu loading machine, one 988F and one 980G Caterpillar loading machine, three HSW-534 Dressta loading machines, five AM-105 and three AM-75 Sandvik Mining & Construction underground combines, seven Atlas Copco and four Sandvik Mining & Construction loader-trammers, 40 BelAZ dump trucks and ten Volvo dump trucks, which are used to clear and transport bedrock.

Mirny Ore Processing

Ore extracted from the International and Mir underground mines is processed at Ore Treatment Plant No. 3. In addition, the Mirny division processes ore from the alluvial mines at three dredges.

- *Ore Treatment Plant No. 3*: This plant is the largest within the Mirny division, and has been operational since 1966. Plant No. 3 is located near the Mir diamond pipe deposit and was originally established for the Mir open-pit mine. Currently, the plant processes ore extracted from the International underground mine, the Mir underground mine and from Mirny's alluvial operations. Ore Treatment Plant No. 3 has a design capacity of up to 2.0 million tonnes of ore per year. Ore Treatment Plant No. 3 processed approximately 1.3 million tonnes of ore in 2009, 1.7 million tonnes of ore in 2008 and 1.8 million tonnes of ore in 2007. ALROSA adopted a reconstruction and modernisation programme to decrease the design capacity of the plant to 1.88 million tonnes of ore per year in line with the design capacity of the Mir and International underground mines. ALROSA plans to commence and complete the programme in 2012.

- *Dredges Nos. 201, 202 and 203*: Dredges Nos. 201, 202 and 203 commenced operations in 1960, 1961 and 2003, respectively. The dredges process gravel from the Irelyakh River, Vodorazdelnye Galechniki, Levoberezhnyi and Gornoye alluvial mines. Their operations generally last from May to October due to the local weather conditions. Dredge No. 201 has a design capacity of 650,000 m^3, Dredge No. 202 has a design capacity of 750,000 m^3 and Dredge No. 203 has a design capacity of 750,000 m^3. These dredges collectively processed approximately 1.2 million tonnes of ore in 2009, 3.4 million tonnes of ore in 2008 and 3.8 million tonnes of ore in 2007. Starting in 2009, the operations of Dredge No. 202 were placed on care and maintenance due to the low recovery rate of alluvial reserves it processed. In the fourth quarter of 2010, ALROSA also plans to implement a modernisation programme at Dredge No. 201 to increase efficiency of the extraction process.

Aikhal division

The Aikhal division operates the Jubilee and the Komsomolskaya open-pit mines. In addition, it is constructing the Aikhal underground mine, where open-pit mining ceased in 1997. In 2009, 2008 and 2007, the Aikhal division processed approximately 9.4 million tonnes of ore, 12.6 million tonnes of ore and 12.7 million tonnes of ore, respectively, and produced diamonds valued at approximately US$256 million, US$394 million and US$379 million, respectively, based on average market prices. The Aikhal division produced approximately 11.3 per cent., 15.5 per cent. and 15.3 per cent. of the Group's total diamond production, by value, in each of 2009, 2008 and 2007, respectively.

Aikhal Mines

Information about the mines operated by the Aikhal division is set forth in the following table:

	Jubilee Mine	Komsomolskaya Mine
Year in which mining commenced	1989	2002
Explored depth of diamond pipe (metres)[(1)]	1,100	462
Mined depth (metres)[(1)]	324	257
Target depth (metres)[(1)]	720	462
Ore treatment plant processing mined ore	No. 14	No. 8, No. 14

Notes:

(1) As of 31 December 2009.

- *Jubilee open-pit mine*: The Jubilee open-pit mine relates to the large Jubilee diamondiferous ore deposit, discovered in 1975, approximately 15 kilometres northwest of the city of Aikhal. It is one of the largest diamond pipes in Russia. The Jubilee diamond pipe consists of three vertical ore bodies (western, central and eastern), composed of various types of ore. The diamond pipe is located in an area of compact permafrost rock. In 2009, 2008 and 2007, approximately 6.4 million tonnes of ore, 10.0 million tonnes of ore and 10.1 million tonnes of ore, respectively, were extracted from the Jubilee open-pit mine. The Jubilee deposit is unusual in that the quality of diamonds has increased with the depth of the mine.

- *Komsomolskaya open-pit mine*: In 2002, ALROSA began mining operations at the Komsomolskaya diamondiferous ore deposit. The deposit is located approximately eight kilometres northwest of the city of Aikhal. The target depth of the mine is 460 metres. The Komsomolskaya open-pit mine began production in 2002, producing 1.1 million tonnes of ore in 2009, 1.4 million tonnes of ore in 2008 and 1.5 million tonnes of ore in 2007.

- *Aikhal underground mine*: The Aikhal mine relates to the Aikhal diamond pipe, which was discovered in 1960. The Aikhal diamond pipe is located in the permafrost zone, 450 kilometres north of Mirny. Geologically, it is an explosion diamond pipe extending in a northeastern direction. In December 1997, the open pit reached its target depth of 350 metres, and the decision was made to begin underground mining. ALROSA began construction of the Aikhal underground mine in 1998. Construction of this mine was suspended in May 2005 and resumed in the second quarter of 2006. ALROSA expects to complete the construction of the Aikhal underground mine in 2013. ALROSA anticipates that the underground portion of the mine will reach a target depth of approximately 330 metres below the existing floor of the open pit. As of 30 June 2010, ALROSA anticipated that the total cost to complete construction of the underground mine will be RUB4,814 million (US$154 million). The Aikhal division commenced limited production of ore from the Aikhal underground mine in 2006. The output of the mine was 95,000 tonnes in 2009 and 147,000 tonnes in 2008.

As of 30 June 2010, the Aikhal earthmoving fleet consisted of 128 vehicles, including six Caterpillar hydraulic shovels, two EKG-5A, two EKG-8I, two EKG-10, one EKG-12.5 and seven EKG-15 excavators, two L-1100 Le-Tourneau loading machines, one 570-C Dresser-Komatsu loading machine, four Caterpillar loading machines and one L-34 Stalowa Wola loading machine; five Atlas Copco loader-trammers, three Atlas Copco underground dump trucks, one TAMROK underground dump truck; 11 Holpak dump trucks, 26 Unit Rig dump trucks and 54 BelAZ dump trucks, which are used to clear and transport bedrock.

Aikhal Ore Processing

Ore from the Aikhal division is processed at Ore Treatment Plant No. 8 and Ore Treatment Plant No. 14.

- *Ore Treatment Plant No. 8*: Ore Treatment Plant No. 8 was built in 1966. It processes ore from the Aikhal underground mine. Since 2002, it has also processed ore from the Komsomolskaya open-pit mine. It has a design capacity of 1.6 million tonnes of ore per year. Ore Treatment Plant No. 8 processed 1.3 million tonnes of ore in 2009, 1.6 million tonnes of ore in 2008 and 1.5 million tonnes of ore in 2007. The plant underwent a reconstruction and modernisation in 2006.
- *Ore Treatment Plant No. 14*: Ore Treatment Plant No. 14 is the largest of ALROSA's ore treatment facilities, and one of the three largest such facilities in the world, in terms of capacity. Built in 1996, Ore Treatment Plant No. 14 has modern wet x-ray sorters, which assist ALROSA in recovering large, high-quality gemstones. It processes ore primarily from the Jubilee diamond pipe. Ore Treatment Plant No. 14 has a design capacity of 10 million tonnes of ore per year, which it has exceeded since 2001. It processed 8.1 million tonnes of ore in 2009, 11.0 million tonnes of ore in 2008 and 11.2 million tonnes of ore in 2007.

Nyurba division

The Nyurba division operates the Nyurbinskaya open-pit mine, for which construction was finalised in 2003 and which commenced limited production in 2002, and several alluvial mines. The Nyurba division is expected to begin the construction of a second open-pit mine, the Botyobinskaya mine, in 2013-2015. Diamondiferous formations exist adjacent to the Nyurbinskaya and Botyobinskaya diamond pipes. The Nyurba division processed 1.7 million tonnes of ore in 2009 and 2.4 million tonnes of ore in both 2008 and 2007, and produced diamonds valued at approximately US$432 million, US$539 million and US$560 million, based on average market prices, in 2009, 2008 and 2007, respectively. The Nyurba division produced approximately 19.0 per cent., 21.2 per cent. and 22.6 per cent. of the Group's total diamond production, by value, in 2009, 2008 and 2007, respectively. The current mining plan provides for the development of the Nyurbinskaya diamond pipe followed by the Botyobinskaya diamond pipe.

The prospecting licence under which the Nyurba division operates is held by ALROSA's majority-owned subsidiary, ALROSA-Nyurba, in which, as of 30 June 2010, ALROSA owned an 87.5 per cent. interest., the Ministry of Property Relations of Yakutia owned a 10.0 per cent. interest and other legal entities and individuals held the remaining interest. All work at the Nyurba mines is performed by ALROSA's Nyurba division pursuant to a services agreement with ALROSA-Nyurba.

Nyurba Mines

Information about the mines operated by the Nyurba division is set forth in the following table:

	Nyurbinskaya Mine	**Alluvial Mines**
Year in which mining commenced	2002(1)	2002
Explored depth of diamond pipe (metres)(2)	570	—
Mined depth (metres)(2)	187	—
Target depth (metres)(2)	450	—
Ore treatment plant processing mined ore	No. 15, No. 16	No. 15, No. 16

Notes:

(1) Represents limited production during the construction of the mine.

(2) As of 31 December 2009.

(3) Represents target depth for open-pit mining.

- *Nyurbinskaya open-pit mine*: The Nyurbinskaya mine relates to the Nyurbinskaya diamond pipe located in the Sredne-Markhinsky kimberlite field. This deposit is located in the permafrost zone 175 kilometres south of the Arctic Circle. Once the target depth of 450 metres for the open-pit mine is reached, ALROSA plans to develop this deposit using underground mining. The Nyurba division commenced limited production from the Nyurbinskaya open-pit mine in 2002. The Nyurbinskaya mine became operational in August 2003. In 2009, 2008 and 2007, approximately 1.5 million tonnes of ore were extracted from the Nyurbinskaya open-pit mine each year.
- *Alluvial mining*: In addition to open-pit mining, the Nyurba division conducts alluvial mining. These alluvial operations produced 0.1 million tonnes of diamond-bearing gravel in 2009, 1.2 million tonnes of diamond-bearing gravel in 2008 and 0.8 million tonnes of diamond-bearing gravel in 2007.
- *Botyobinskaya open-pit mine*: The Botyobinskaya mine relates to the Botyobinskaya diamond pipe, which was discovered in the Sredne-Markhinsky kimberlite field in 1994. Construction of the Botyobinskaya open-pit

mine is expected to commence in 2013-2015. The Botyobinskaya mine will be put into operation to compensate for the depletion of the Nyurbinskaya deposits. ALROSA believes that parallel mining of the deeper levels of the Nyurbinskaya diamond pipe and of the reserves of the Botyobinskaya diamond pipe will make it possible to maintain the aggregate ore yield of the entire facility largely unchanged over time.

As of 30 June 2010, the Nyurba earthmoving fleet consisted of 42 vehicles, including four Caterpillar hydraulic excavators, five Caterpillar loading machines, one L-950 Le-Tourneau loading machine; five 42-tonne BelAZ and 24 91-tonne Caterpillar dump trucks, which are used to clear and transport bedrock, two Intersoll-Rand drilling machines and one SKF Infiniti drill rig.

Nyurba Ore Processing

Ore and gravel from the Nyurba division is processed at Ore Treatment Plant No. 15 and Ore Treatment Plant No. 16. The capacity of both plants allows the processing of more ore than the existing mines currently produce, permitting the plants to increase processing in the event that new mines are put into operation.

- *Ore Treatment Plant No. 15*: Ore Treatment Plant No. 15 commenced operations in July 1999. The plant initially processed ore extracted by ALROSA's geologists in connection with the exploration of the Nyurbinskaya mine. Once the reserves were proven, the plant began processing gravel from the alluvial operations of the Nyurba division in 2002. The design capacity of Ore Treatment Plant No. 15 is 0.4 million tonnes per year. Ore Treatment Plant No. 15 processed approximately 0.5 million tonnes of ore from the Nyurbinskaya mine in each of 2009, 2008 and 2007. Given the close proximity of Ore Treatment Plan No. 15 to Ore Treatment Plant No. 16, ALROSA adopted a modernisation programme aimed at optimisation of the existing operations at the two plants by transferring the final stage of ore processing to Ore Treatment Plant No. 16. ALROSA commenced the programme in 2008 and completed it in 2010. On 31 March 2009, ALROSA placed operations at Ore Treatment Plant No. 15 on care and maintenance until 31 December 2009, following the Group's decision to temporarily halt market sales of rough diamonds from November 2008 through July 2009. Ore Treatment Plant No. 15 is a seasonal plant because milling takes place outside the main building. Its season of operation runs from June to October. ALROSA believes that it could convert this plant into a continuous operating facility by constructing a building around the milling equipment, if additional capacity is required.
- *Ore Treatment Plant No. 16*: Ore Treatment Plant No. 16 became operational in August 2003, with production beginning later that year. Ore Treatment Plant No. 16 has the highest level of automation of any of ALROSA's ore treatment facilities. The plant processes ore from the Nyurbinskaya mines and it is expected that, starting from 2015, it will process ore from the Botyobinskaya mine. It has a design capacity of 1.5 million tonnes of ore per year. Ore Treatment Plant No. 16 processed approximately 1.5 million tonnes of ore in each of 2009 and 2008 and 1.8 million tonnes of ore in 2007, and it processed approximately 0.2 million tonnes of gravel in 2009, 0.3 million tonnes of gravel in 2008 and 0.2 million tonnes of gravel in 2007. In 2008, ALROSA initiated a modernisation programme to optimize existing operations of the plant and increase its throughput. The programme was completed in 2010.

Almazy Anabara

Almazy Anabara, a wholly owned subsidiary of ALROSA, carries out alluvial diamond mining within the Anabar district. Due to Almazy Anabara's location in the far north of Yakutia, ore processing takes place between June and October. Historically, alluvial diamond mining was carried out by the Anabar division, established in 1984. In 2008, all assets of the Anabar division were transferred to the Udachny division, which presently leases these assets to Almazy Anabara. In 2009, 2008 and 2007, Almazy Anabara (and its predecessor entity, the Anabar division) processed 3.8 million tonnes of diamond-bearing gravel, 5.5 million tonnes of diamond-bearing gravel and 2.5 million tonnes of diamond-bearing gravel, respectively, and produced diamonds valued at US$152 million, US$160 million and US$102 million, based on average market prices, respectively, through seasonal production. Almazy Anabara accounted for approximately 6.7 per cent., 6.3 per cent. and 4.1 per cent. of the Group's total diamond production, by value, in 2009, 2008 and 2007, respectively. In 2007, the Anabar division processed 6.2 million tonnes of diamond-bearing gravel, produced diamonds valued at US$53 million, based on average market prices and accounted for 2.1 per cent. of the Group's total diamond production, by value.

Anabar Alluvial Mines

Almazy Anabara mines three alluvial deposits on the river Ebelyakh and alluvial deposits on the smaller rivers Kholomolokh, Istok and Mayat Flanks. Operations on the Yrass-Yuriakh River were completed in 2003. Almazy Anabara began mining alluvial deposits on the Morgogor River, where production commenced in 2007. These operations involve an ore treatment plant and five flushing units, which are used for the preparation and/or processing of ferrous gravel. These units operate during a 100-day season, and have the capacity to process approximately 150,000 cubic metres of sand. The Anabar mines generally produce smaller diamonds, some of which are as small as 0.5 millimetres. As a result, the Anabar diamonds generally have per-carat values of only up to US$50. However, the operating expenses of alluvial mines are relatively low compared with open-pit and underground mines.

As of 30 June 2010, the earthmoving fleet of Almazy Anabara consisted of 99 vehicles, including five Hyundai excavators, three Komatsu excavators, five Caterpillar hydraulic excavators, 19 front-loading machines, 14 Komatsu bulldozer earthmovers, 26 Promtraktor bulldozer earthmovers and 27 30-tonne BelAZ dump trucks.

Anabar Gravel Processing

Prior to 2008, the gravel extracted from the Anabar alluvial mines was processed at Ore Treatment Plant No. 13. Construction of this plant began in 1997. During 2001, a preparing unit was built at this plant, which was designed to condense extracted gravel by removing the non-diamond-bearing gravel, thereby reducing the cost of transporting gravel from the placer deposit. The design capacity of Ore Treatment Plant No. 13 was approximately 800,000 tonnes per year. Seasonal mining of the Anabar alluvial deposits limited production at the plant to a 100-day period from June to September. In 2008, Ore Treatment Plant No. 13 ceased its operations and the processing of the gravel extracted from the Anabar alluvial mines was transferred to the five preparing units with an aggregate design capacity of 5.0 million tonnes per year. The final processing of the ore concentrate is performed at Ore Treatment Plant No. 12.

Severalmaz

As of 30 June 2010, ALROSA controlled 95.03 per cent. of Severalmaz, a diamond mining company that holds the licence to mine the Lomonosov diamond field in the Arkhangelsk region of northwestern Russia. The remaining 4.97 per cent. was owned by various individuals and legal entities. ALROSA's total equity investment in Severalmaz as of 30 June 2010 was RUB2,083 million (US$67 million). ALROSA is currently exploring the opportunity of divesting up to 45 per cent. of its interest in Severalmaz to a strategic investor.

Severalmaz Mines

Severalmaz operates the Arkhangelsk open-pit mine, which relates to the Arkhangelsk pipe located in the Lomonosov diamond field. This field consists of six kimberlite pipes. Difficult mining conditions exist in the area being developed by Severalmaz, including large volumes of groundwater. Technologies are currently being tested for use in the next stage of full production. These technologies primarily relate to the removal of groundwater from the mining area.

Severalmaz started to develop the Arkhangelsk open-pit mine in July 2002. The explored depth of the Arkhangelsk mine is 1,000 metres. As of 31 December 2009, its mined depth was 95 metres with a target depth of 420 metres. The first production line was launched on 28 June 2005. In 2009, 2008 and 2007, Severalmaz processed 1.08 million tonnes of ore, 1.11 million tonnes of ore and 1.02 million tonnes of ore, respectively, and produced diamonds valued at US$23.2 million, US$20.5 million and US$21.3 million, based on average market prices, respectively. Severalmaz accounted for approximately 1.0 per cent., 0.8 per cent. and 0.9 per cent. of the Group's total diamond production, by value, in 2009, 2008 and 2007, respectively. Ore output at the Lomonosov diamond field is projected at 0.73 million tonnes for 2010, and 1.05 million tonnes for 2011. In the initial stage, the level of commercial extraction of ore is relatively low.

As of 30 June 2010, the Lomonosov earthmoving fleet consisted of 19 vehicles, including three Liebherr excavators, eight BelAZ and one Volvo dump trucks, two Liebherr front-end loaders, four Liebherr bulldozers and one T11 bulldozer.

Severalmaz Ore Processing

Ore extracted from the Lomonosov diamond field is currently processed at the Ore Treatment Plant No. 1, which has a design capacity of 1 million tonnes per year. ALROSA is currently engaged in a project to increase the capacity of this ore treatment plant up to 4.0 million tonnes per year via construction of an additional processing line with a design capacity of 3.0 million tonnes per year by the end of 2013. Revenues from the sale of diamonds from this deposit will be used to fund construction costs, and ALROSA does not have any obligation to provide additional funding to Severalmaz. The Group is currently exploring a possible sale of a minority interest in Severalmaz to a strategic investor. Severalmaz currently has insufficient net assets under Russian law. See "Risk Factors — Risks

Related to the Group's Business — Acceleration of claims against, or forced liquidation of, Russian subsidiaries of ALROSA due to insufficient or negative net assets could have an adverse effect on the Group".

Angolan Mining Operations

See "Risk Factors — Risks Related to the Group's Business — Catoca Mining and ALROSA's other Angolan operations are subject to the risks of doing business in Angola".

Catoca Mining

In 1989, ALROSA's predecessor entered into a cooperation agreement with ENDIAMA, an Angolan government-owned entity, the Israeli-owned Daumonty Financing Company B.V. ("**Daumonty**") and Odebrecht Mining Services Inc. ("**Odebrecht**") of Brazil. In 1992, these parties agreed to establish Catoca Mining as a joint venture to mine the Catoca diamond pipe in Angola. As of 30 June 2010, ALROSA owned a 32.8 per cent. interest in Catoca Mining, ENDIAMA owned 32.8 per cent., Instaconsult B.V., a wholly owned subsidiary of Daumonty, owned 18 per cent. and Odebrecht owned 16.4 per cent.

Catoca Mining is self-financing, and ALROSA is not required to make additional capital contributions. In 2010, ALROSA received dividends of US$17.7 million in 2009; in 2009, ALROSA received dividends of US$28.4 million in 2008; in 2008, it received dividends of US$24.8 million in 2007 and in 2007, ALROSA received dividends of US$29.9 million in 2006. ALROSA provides advisory services to Catoca Mining.

As of 30 June 2010, Catoca Mining employed 2,452 persons, including 200 of ALROSA's employees seconded to that company for the provision of advisory services. Catoca Mining maintains a policy of social responsibility designed to assist the local communities and improve local living standards. This programme entails vocational training, fair wages and free medical care for workers. In addition, Catoca Mining provides relief aid to refugees and displaced persons, restores bridges, builds local water supplies and has begun to build a hospital in Saurimo, the capital of Luande Norte Province.

Catoca Diamond Pipe

The Catoca diamond pipe is located in the Luande Norte Province in eastern Angola, approximately 1,000 kilometres north of the nation's capital. This pipe is one of the largest diamond pipes in the world with a diamond pipe outcrop area covering approximately 636,300 square metres, and the deposit has been explored to a depth of 600 metres. Surveys conducted by ALROSA's research division, YakutNiproAlmaz, have indicated that the Catoca diamond pipe contains 220.5 million tonnes of ore at a depth of up to 400 metres, an average diamond content of 0.7 carats per tonne and reserves of approximately 147.6 million carats. ALROSA believes that, based on ore body size, mining conditions and the quantity and quality of diamonds, the Catoca diamond pipe is comparable to other diamond mines such as the Orapa in Botswana, the Premier in the Republic of South Africa and the Udachny mine. The venture operates on a concession basis, and is not required to purchase mineral rights to the Catoca deposit.

In July 2005, Catoca Mining completed the second phase of development of the Catoca diamond pipe commenced in 2002 and aimed at increasing production from the Catoca mine and at increasing processing capacity through the expansion of one processing plant. The total cost of completing the second phase was approximately US$94 million, which was completely self-financed through the revenues of Catoca Mining. YakutNiproAlmaz provided all design services in connection with the second phase, and the work was supervised by a representative of ALROSA.

Catoca Open-pit Mine

The Catoca open-pit mine commenced production in August 1997. In the first six years of production, the Catoca mine produced 10.4 million carats of diamonds worth approximately US$706 million. The Catoca mine produced 7.05 million carats of diamonds in 2009, 6.48 million carats of diamonds in 2008 and 6.11 million carats of diamonds in 2007.

Catoca Ore Processing

Ore extracted from the Catoca mine is processed at two processing plants with a total aggregate processing capacity of 10 million tonnes of ore per year. These processing plants processed 9.8 million tonnes of ore in 2009, 10.1 million tonnes of ore in 2008 and 9.5 million tonnes of ore in 2007. The cost per tonne of ore processed at Catoca was US$7.8 in 2009, US$7.9 in 2008 and US$8.2 in 2007.

Catoca Mining sells the rough diamonds it produces from the Catoca mine through SODIAM, an export agency of the Government of Angola. Since 2005, the Group has purchased rough diamonds, produced primarily in Angola and including production from the Catoca mine, for subsequent resale in the international market. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Sales" and "—Sales of Diamonds — Sales of Rough Diamonds — Resale of Diamonds".

Hydroelectric Station

In June 2007, ALROSA's subsidiary, ALROSA — Vneshstroy Ltd., completed the construction of Chicapa-1, a hydroelectric station on Chicapa river in Angola to supply electricity to the Catoca mine. The hydroelectric station, which became fully operational in late 2007, is operated by Hidroeléctrica do Chicapa SARL — Hidrochicapa SARL ("**Hydrochicapa**"), a joint venture between ALROSA and the Government of Angola in which ALROSA holds a 55 per cent. interest. ALROSA is entitled to appoint key Hydrochicapa managers and generally controls its operations. The hydroelectric station currently supplies electricity to Catoca mine and the nearby city of Saurimo, charging fees sufficient to make it profitable. In the future, ALROSA plans to construct another hydroelectric station on Chicapa river, to further increase its electricity production in Angola.

The total cost of the construction of the hydroelectric station amounted to approximately US$130 million. ALROSA invested US$36 million itself and has guaranteed additional financing for the project. In September 2004, Hydrochicapa entered into a credit facility agreement with VTB Bank in the total amount of US$49.5 million. The purpose of the loan was to finance the construction of the hydroelectric station. ALROSA was the guarantor under the agreement. During 2007-2009, ALROSA as the guarantor fully repaid the outstanding principal, as well as interest accrued under the loan agreement in the total amount of approximately US$60.3 million. In the context of the repaid loan, on 1 January 2010, ALROSA and Hydrochicapa executed a loan agreement in the amount of approximately US$60.3 million with a final maturity date of 31 December 2025.

Lapi, Luemba and Chauso Diamond Pipes

In 2006, Catoca Mining, together with ENDIAMA and other investors, was granted rights pursuant to a concession from the Government of Angola for the exploration and development of the Lapi and the Luemba diamond pipes in Angola.

The diamond exploration activities at the Lapi alluvial deposits are jointly carried out by ENDIAMA, which holds a 41 per cent. interest in the project, Catoca Mining, which holds a 32 per cent. interest, JASIMINAS — Exploracao Mineira Limitada, which holds a 14 per cent. interest, and MOMBO — Agro-Pecuaria e Comercio Geral, Limitada, which holds a 13 per cent. interest.

The diamond exploration activities at the Luemba diamond pipe are jointly carried out by ENDIAMA, which holds a 41 per cent. interest in the project, Catoca Mining, which holds a 32 per cent. interest, Ouse Investments Limited (Sucursal Angola), which holds a 17 per cent. interest, Nawa Nawa, which holds a 5 per cent. interest and Agipa Limitada, which holds a 5 per cent. interest. Within the framework of this project, the parties are currently prepared to develop the Chauso diamond pipe.

Camatchia-Camagico

Until the end of December 2009, ALROSA also had an indirect interest in Camatchia-Camagico, a joint venture between certain entities controlled by the Government of Angola (55 per cent.) and Escom-ALROSA (45 per cent.), a joint venture between ALROSA and Escom Mining Inc. ("**Escom Mining**"). Camatchia-Camagico is in the pilot stage of mining the Luo diamond pipe in Angola. On 30 December 2009, ALROSA sold its interest in Escom-ALROSA to Escom Mining.

Rosan Mining

In March 2006, ALROSA completed the registration of Rosan Mining and Investment Company Lda. ("**Rosan Mining**"), in which, as of 30 June 2010, ALROSA held a 90 per cent. interest, with a view to implementing mining, energy and civil works projects in Angola. Following the onset of the global economic crisis and the resulting adverse impact on diamond prices, ALROSA made a decision to suspend Rosan Mining's activities, subject to future market conditions.

Diamond Sorting and Valuation

After rough diamonds have been recovered through the ore treatment processes, the diamonds are sorted according to their classification categories and then valued. The initial sorting of diamonds is performed in the diamond sorting facility in Mirny and the final sorting and initial valuation of diamonds is conducted by ALROSA's division, United Selling Organization, which maintains sorting facilities in Moscow, Yakutsk and Mirny. As of 31 December

2009, the United Selling Organization had approximately 1,000 employees, including about 300 experts and sorters in Moscow, about 120 experts and sorters in Yakutsk, and five experts and sorters in Mirny.

The Mirny sorting facility receives rough diamonds directly from ALROSA's mining processing plants and performs the initial valuation of these stones. Following the initial valuation all diamonds are shipped to Yakutsk and Moscow, where they undergo final sorting and initial valuation in ALROSA's licenced sorting facilities.

The final sorting and initial valuation of diamonds is performed according to the Price List for rough diamonds, which is maintained and updated from time to time by the Ministry of Finance. The sorting technology is based on a sequence of valuations with respect to each diamond classification category. The initial stage involves determination of size and weight characteristics. Small diamonds are sized by screening, medium and large size diamonds are weighted on high accuracy weighing machines. Diamonds are visually examined to determine shape and presence of flaws by comparing them with samples using a magnifying glass or microscope. The diamonds are graded by color and hue also by visual examination against colour reference samples.

The largest stones, weighing 10.8 carats or more (diamonds of special sizes), are subject to valuation pursuant to the methodology adopted by the Ministry of Finance, which is based on the expected number of cut diamonds which can be obtained from the crystal. Computer modelling and calculation are used in the valuation process. Valuation of each stone is performed individually. Each such stone is individually tracked through the integrated computer system designed to track rough diamond movements.

Diamonds of large sizes and weights are sorted manually according to the complete list of categories with each stone being visually graded with respect to shape, quality and color. Small and medium size diamonds are sorted according to an aggregative list of categories. In order to separate production into groups automated processes are used to sort by shape and color. Grading of diamonds is then performed and values are assigned by taking representative samples, which are sorted according to the completed list of categories. The smallest diamonds of so-called industrial quality are separated in the initial sorting and are sold separately or are crushed to obtain diamond dust for its subsequent sale.

The sorting and initial valuation are conducted under the supervision of representatives of Gokhran. The oversight by Gokhran helps to ensure that ALROSA maintains and consistently complies with the appropriate sorting standards. ALROSA's sorting and valuation processes are certified by authorized entity of the Federal Agency for Technical Regulation and Metrology and comply with the requirements of ISO 9001:2008, an international standard for quality management systems.

ALROSA is the only company among companies mining rough diamonds in Russia that sorts diamonds, and has received a certification of its sorting facilities from agencies authorized by the Russian Government. ALROSA is well placed to operate sorting facilities because it has certified facilities, an extensive inventory of rough diamond reference samples and a team of highly skilled diamond sorting and valuation experts. These diamond reference samples have been taken from ALROSA's own production. In addition, ALROSA has developed extensive internal know-how with respect to diamond grading and valuation and maintains an internal programme for training its diamond sorting and valuation experts.

The official classification system for uncut diamonds is based on the Russian K47-01-92 grading system adopted in Russia in 1992. The K47-01-92 system was largely based on the De Beers classification system, and is generally recognised as the international standard. However, the classification system used by ALROSA is slightly different from the classification system currently used by De Beers.

Following the initial sorting diamonds undergo presale preparation or grouping. As part of this process diamonds are grouped (assembled) into "boxes" and "lots". "Box" represents a collection of diamonds of certain assortment, assembled in accordance with the pre-defined box structure. Each box contains diamonds of the pre-defined assortment and weights, having particular consumer properties. The assembled boxes are then grouped into lots offered for sale as an indivisible unit. Standard boxes and lots are very little different from each other and buyers find themselves in an equal position when purchasing a particular lot. Once boxes and lots have been grouped, diamonds become a commercial product ready for sale.

All processes related to sorting, initial valuation and grouping within ALROSA are formalized in the respective process documents and are supported and tracked by the integrated computer system.

The assembled boxes and lots are offered both to domestic purchasers and to export customers.

In addition to sorting and valuation, the United Selling Organization performs additional services, including selling diamonds extracted by other diamond miners, arranging the transport of diamonds to purchasers and complying with customs requirements in connection with exported diamonds, etc. The United Selling Organization also maintains secure facilities in which representatives of diamond buyers can inspect the diamonds being offered.

The diamonds extracted from the Catoca mine are sorted by Catoca in Angola.

On 14 October 2007, ALROSA entered into an agreement with the Antwerp international diamond centre, under which the Antwerp international diamond centre provides ALROSA its know-how on the classification and sorting of rough diamonds by participating in the Diamond High Council Programme. The Agreement is generally designed to enhance the cooperation between ALROSA and the diamond community and to promote Russian diamonds on the international markets.

Diamond Cutting and Polishing Operations

The Group cuts and polishes some of its diamonds mainly through ALROSA's division Brillianty ALROSA, and, to a lesser extent, through ALROSA's subsidiaries Orel-ALROSA and Almaz-Neva. See "Risk Factors — Risks Related to the Group's Business — The Group's diamond cutting and polishing activities subject the Group to additional risks that may increase in the future".

The Group's cutting and polishing operations are ancillary to its main business of producing rough diamonds. However, ALROSA believes that maintaining these cutting and polishing operations provides several significant benefits. By polishing a portion of the Group's production, the Group monitors the domestic market. Brillianty ALROSA also helps ALROSA to understand the domestic cutting and polishing industry and to better assess domestic demand.

Brillianty ALROSA cuts and polishes diamonds at ALROSA's Moscow cutting and polishing facility, which is located on premises leased from OJSC Almazny Mir ("**Almazny Mir**"). In addition, in August 2005, ALROSA purchased Barnaul Kristall, a diamond polishing factory.

Brillianty ALROSA maintains a small inventory of cut diamonds awaiting sale, which was valued at approximately US$36.2 million as of 31 December 2009.

Marketing and Sales of Diamonds

The Group hedges its foreign currency exposure. See "Risk Factors — Risks Related to the Group's Business — The Group's business may be negatively affected by US Dollar/Rouble exchange rate fluctuations" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain Factors Affecting the Group's Results of Operations — Exchange Rates".

Marketing and Sales Strategy

Until the end of 2008, ALROSA sold substantial portions of its rough diamond production to De Beers pursuant to trade agreements. In 2003, the European Commission challenged these arrangements and, in February 2006, De Beers agreed with the European Commission to gradually reduce its purchases of rough diamonds from ALROSA to a maximum of US$400 million in 2008 and thereafter to cease any further purchases altogether. After a series of appeals by ALROSA, the decision of the European Commission rendering the agreement legally binding was ultimately upheld by the European Court of Justice in June 2010. To reduce its dependence on De Beers and enhance demand for its rough diamonds, beginning in 2003, ALROSA began diversifying its international and domestic sales, and starting from April 2003, the Group began engaging in export sales of rough diamonds on the open market. As a result, sales to De Beers declined to 15 per cent. of the Group's total sales of rough diamonds in 2007 and 10 per cent. in 2008. In 2009, ALROSA ceased its sales of rough diamonds to De Beers altogether and currently has no plans to resume such sales in the future. See "—Sales of Diamonds — Sales of Rough Diamonds — Export of Rough Diamonds" and "— Legal and Regulatory Procedures — EU Commission's Decision on the De Beers Trade Agreement"

Long-Term Framework Agreements

In light of the elimination of the De Beers relationship, ALROSA has begun executing a new sales and marketing strategy that aims at improving the stability of operating cash flow through direct long-term rough diamond sales agreements with major international and domestic diamond buyers and enhancing the geographic diversification of the Group's customer base. Between the second half of 2009 and the first half of 2010, ALROSA entered into 24 long-term agreements for supply of rough diamonds, comprising 19 agreements with major foreign diamond traders and producers based in Belgium, Israel and India and five agreements with Russian diamond producers and re-sellers. The proportion of the Group's diamond sales revenue accounted for by these long-term framework agreements increased from 36.5 per cent. in 2009 to 47.6 per cent. in the first half of 2010. ALROSA's objective is to increase the percentage of sales of rough diamonds under long-term framework agreements to 61 per cent. and 70 per cent. in 2010 and 2011, respectively. In the first half of 2010, the Group's largest customer accounted for 8.2 per cent. of the total sales revenue under these long-term agreements. Its next five largest customers together accounted for 33.4 per cent. of the total sales revenue under these agreements in the first half of 2010.

The following table provides a geographic breakdown of revenues from sales under the 24 long-term framework agreements for the periods indicated:

	For the six months ended 30 June		For the year ended 31 December	
	2010		2009	
Geographic location[(1)]	**(in RUB millions)**	**(in per cent.)**	**(in RUB millions)**	**(in per cent.)**
Belgium	18,654.9	66.3	18,579.8	76.8
India	1,963.8	7.0	1,667,8	6.9
Israel	1,770.5	6.3	1,468.8	6.1
Russia	5,753.3	20.4	2,465.3	10.2
Total	**28,142.5**	**100.0**	**24,181.7**	**100.0**

Note:

(1) Indicates the geographic location of the customer and not the final destination of the product.

The framework agreements with the 15 export customers have terms of 4.5 years and expire on 31 December 2014. These agreements accounted for approximately 31.3 per cent. and 27.1 per cent. of the total diamond sales revenue in the first half of 2010 and in 2009, respectively. The remaining framework agreements with four export customers and five domestic customers have terms of 2.5 years and expire on 31 December 2012, and accounted for an aggregate of 16.3 per cent. and 9.3 per cent. of the total diamond sales revenue in the first half of 2010 and in 2009, respectively. None of the framework agreements currently provide for an automatic renewal upon their expiration. See "Risk Factors — Risks Related to the Group's Business — If a substantial portion of the Group's long-term framework agreements terminate at the same time, the Group's revenues and operating profits could suffer if it were unable to find alternate buyers willing to purchase rough diamonds on acceptable terms".

Under the terms of the framework agreements, ALROSA concludes individual contracts with customers for the supply of rough diamonds on a monthly basis. The quantity of boxes along with their individual assortment mix and weight, required to be purchased in each monthly sale period, is fixed for the entire duration of each framework agreement, it being understood that the actual sizes, shapes, colors and other characteristics of diamonds may differ in each monthly sale period due to variations resulting from the mining process. The terms of the framework agreements with five domestic customers, however, provide ALROSA with the right to reduce the fixed quantity of diamonds in the event of any material increase in the amount of diamonds purchased by the Russian Government or the Government of Yakutia. ALROSA has the sole discretion to define the threshold of materiality for such an increase and determine the reduced quantity of diamonds to be sold under the framework agreements.

In addition to the fixed quantity of boxes in a specified assortment, the majority of the export framework agreements require ALROSA to offer for sale and the customer to purchase an additional selection of boxes of a specified assortment mix, provided that the aggregate value of such additional purchased boxes does not exceed a fixed amount *per annum,* stipulated in each framework agreement. Depending on the framework agreement, such fixed amounts range from US$4 million to US$36 million *per annum*. The agreements also allow (but do not require) ALROSA to offer, on its own initiative or in response to a request made by the customer, additional diamonds in excess to the base level of rough diamonds provided for in each framework agreement.

The prices of rough diamonds purchased under these framework agreements are determined by ALROSA for each monthly sale period (based on prevailing market prices) and are changed, as a rule, once every three months to reflect changes in market conditions. Prior to commencement of each monthly sale period, ALROSA is required to notify the customer of the actual quantity of boxes, assortment mix and price of diamonds to be sold during such sale period. The customer has an option to inspect the diamonds and decline to purchase part of the fixed quantity offered for sale in any monthly sale period in the amount not exceeding a maximum proportion authorized by ALROSA to be rejected in such sale period. The framework agreements require payment to be made in full prior to delivery. All framework agreements are governed by Russian law.

Other Sales

In addition to the deliveries under these long-term framework agreements, ALROSA also conducts tenders to sell its diamonds and delivers additional volumes of diamonds to its regular customers, sales to which are carried out on a non-tender basis. See "—Sales of Diamonds — Export Sales of Rough Diamonds" and "—Domestic Sales of Rough Diamonds". In December 2008, the Group recorded revenues of RUB10,495 million of rough diamonds sold to Interdiam that were subsequently repurchased by the Group in September 2009. See "Management Discussion & Analysis of Financial Condition and Results of Operations — Overview — Sales — Interdiam Sales"

Customer Qualification

Potential customers who wish to purchase rough diamonds from ALROSA generally must first complete a qualification process designed to help the Group assess credit quality and other factors. ALROSA has created a customer database containing both public and confidential information, including information as to reliability and the financial condition of a number of potential customers.

Representative Offices and Trading Companies

ALROSA has representative offices in London, the United Kingdom and in Luanda, Angola, which allows it to maintain a presence in the important jurisdictions involved in the diamond trade. These offices conduct diamond market research, maintain business contacts with local diamond authorities and organisations and conduct marketing and advertising activities for the Group's benefit. In addition, the representative offices cooperate with local media on matters relating to the Group's operations. Until 2008, the Group also had representative offices in Antwerp, Belgium, where the world's largest diamond exchange is located, and in Ramat-Gan, Israel. These offices were closed and their activities transferred to the Group's trading companies in these cities.

The Group has established trading companies for the sale of rough and polished diamonds in New York, the United States (ARCOS USA Inc.); Hong Kong, China (ARCOS Hong-Kong); Antwerp, Belgium (ARCOS Belgium); Geneva, Switzerland (Sunland Trading); Dubai, United Arab Emirates (ARCOS DMCC) and Ramat-Gan, Israel (ARCOS Israel). Since November 2007, the Group holds ARCOS Israel through its wholly owned subsidiary, Sunland Holding S.A. ("**Sunland Holding**"). The primary purpose of ALROSA's trading companies is to monitor international rough diamond prices.

Marketing

ALROSA is also increasing its marketing and brand promotion efforts, in light of the decreasing role of De Beers in the world diamond market.

Sales of Diamonds

The following table sets forth the Group's diamond sales revenues (net of VAT and export duties) for the periods under review:

DIAMOND SALE REVENUE	For the six months ended 30 June		For the year ended 31 December					
	2010		2009		2008		2007	
	Revenue	Share	Revenue	Share	Revenue	Share	Revenue	Share
	(Revenue in RUB millions; Share in per cent. of total diamond sales revenue)							
Domestic sales through long-term agreements[1]	6,051	10.2	2,888	4.4	7,395	8.0	7,916	9.9
Domestic spot sales, one-time sales, other	6,000	10.2	1,412	2.1	21,778	27.8	15,269	19.1
Domestic sales to Gokhran[2]	21	0.02	21,952	33.1	6,831	8.7	3,726	4.7
Domestic sales on open market	12,072	20.4	26,252	39.6	34,895	44.6	26,912	33.7
Domestic auction sales[3]	48	0.08	10	0.02	246	0.3	608	0.8
Total rough diamond domestic sales	**12,120**	**20.5**	**26,262**	**39.6**	**35,141**	**44.9**	**27,520**	**34.5**
Export through De Beers	—	—	—	—	7,655	9.8	11,422	14.3
Export through long-term agreements (excl. De Beers)[5]	22,574	38.2	21,830	32.9	467	0.6	449	0.6
Export through spot sales, one-time sales, other	12,833	21.7	6,185	9.3	22,173[8]	28.3	24,348	30.5
Export on open market	35,407	60.0	28,015	42.3	30,295	38.7	36,239	45.4
Export through «Almaziuvelirexport»[6]	1,132	1.9	1,684	2.5	1,641	2.1	2,221	2.8
Export auction sales[3]	2,599	4.4	2,121	3.2	3,214	4.1	4,955	6.2
Total rough diamond exports[1]	**39,138**	**66.3**	**31,820**	**48.0**	**35,150**	**44.9**	**43,415**	**54.4**
Total resale of rough diamonds[7]	**5,717**	**9.7**	**6,483[9]**	**9.8**	**4,072**	**5.2**	**4,578**	**5.7**
TOTAL ROUGH DIAMOND SALES	**56,976**	**96.5**	**64,566**	**97.3**	**74,364**	**95.0**	**75,513**	**94.7**
Domestic sale of polished diamonds	54	0.09	169	0.3	152	0.2	196	0.3
Export sale of polished diamonds	2,032	3.4	1,605	2.4	3,729	4.8	4,062	5.1
TOTAL POLISHED DIAMOND SALES	**2,086**	**3.5**	**1,774**	**2.7**	**3,881**	**5.0**	**4,258**	**5.3**
TOTAL DIAMOND SALES	**59,062**	**100.0**	**66,339**	**100.0**	**78,245**	**100.0**	**79,771**	**100.0**
Including sales of industrial diamonds	68	0.1	54	0.08	61	0.08	40	0.05

Notes:

(1) Includes the long-term framework agreements with 5 domestic customers entered into between the second half of 2009 and the first half of 2010, which amounted to RUB5,753 million, or 9.74 per cent. of the Group's total diamond sales revenue in the first half of 2010 and RUB2,465 million, or 3.7 per cent. of the Group's total diamond sales revenue in 2009.

(2) Includes "unique" diamonds, as determined by the Ministry of Finance.

(3) Represents sales of diamonds weighing 10.8 carats or more, which must be sold by auction.

(4) Starting 1 January 2009, ALROSA ceased all sales to De Beers. See "—Legal and Regulatory Proceedings — EU Commission's Decision on the De Beers Trade Agreement".

(5) Includes export sales outside and within the CIS. Also, includes the long-term framework agreements with 19 export customers entered into between the second half of 2009 and the first half of 2010, which amounted to RUB22,389 million, or 37.9 per cent. of the Group's total diamond sales revenue in the first half of 2010 and RUB21,716 million, or 32.7 per cent. of the Group's total diamond sales revenue in 2009.

(6) Represents sales outside of Russia of "representative control parcels" sold by Almaziuvelirexport as agent, less a maximum of 3 per cent. commission.

(7) Represents sales of rough diamonds, produced primarily in Angola, purchased by the Group for subsequent resale in the international market. In the first half of 2010 and in 2009, includes revenues of RUB5,717 million and RUB5,187 million, respectively, from the resale of diamonds repurchased in 2009 from Interdiam.

(8) Includes revenues of RUB10,495 million from sales of rough diamonds to Interdiam in 2008 that were subsequently repurchased in September 2009. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Sales — Interdiam Sales".

(9) Includes RUB5,108 million of resales to Gokhran in 2009.

Export Sales of Rough Diamonds

Since April 2003, the Group has engaged in export sales of rough diamonds on the open market. Until early 2007, the maximum quantity of diamonds that ALROSA and its diamond-producing subsidiaries could export each year, by carat volume, was determined pursuant to a periodic export quota and a subsequent export licence. Export quotas were abolished starting from 1 January 2007. However, export of diamonds is still subject to licensing, except for export of diamonds of certain shapes and certain other lower-quality diamonds.

The Group's export sales of rough diamonds represented 66.3 per cent., 48.0 per cent., 44.9 per cent. and 54.4 per cent. of the Group's total diamond sales revenue in the first half of 2010 and in 2009, 2008 and 2007, respectively.

- *Open market export sales*

Until the end of 2008, ALROSA sold substantial portions of its rough diamond production to De Beers pursuant to trade agreements. The Group's sales to De Beers, including its subsidiaries, represented 9.8 per cent. and 14.3 per cent. of the Group's total diamond sales revenue in 2008 and 2007, respectively. Starting 1 January 2009, ALROSA ceased all sales to De Beers. See "— Legal and Regulatory Proceedings — EU Commission's Decision on the De Beers Trade Agreement".

Consistent with the sales and marketing strategy described above, ALROSA entered into 19 long-term framework agreements with major foreign diamond traders and producers. Approximately 83.3 per cent. and 85.6 per cent. of the Group's export sales under the framework agreements in the first half of 2010 and in 2009 respectively, were sold to customers located in Belgium, which is the primary supplier of rough diamonds to India's diamond cutting centres. The Group's total rough diamond export sales accounted for by these 19 long-term framework agreements were 37.9 per cent. and 32.7 per cent. of the Group's total diamond sales revenue the first half of 2010 and in 2009, respectively. The Group's total export sales of rough diamonds under long-term agreements (excluding De Beers) represented 38.2 per cent., 32.9 per cent., 0.6 per cent. and 0.6 per cent. of the Group's total diamond sales revenue in the first half of 2010 and in 2009, 2008 and 2007, respectively.

In addition to export sales carried out under the long-term agreements, the Group conducts sales under one-time contracts and on the spot market through tenders, which accounted in aggregate for 21.7 per cent., 9.3 per cent., 28.3 per cent. and 30.5 per cent. of the Group's total diamond sales revenue in the first half of 2010 and in 2009, 2008 and 2007, respectively.

- *Export sales through Almaziuvelirexport*

The Group is required by law to withhold from its export sales (including export sales of ALROSA's subsidiaries) "representative control parcels" sold outside of Russia by Almaziuvelirexport as agent, less a maximum of 3 per cent. commission. Sales of these control parcels enable the Russian Government to verify whether the prices paid by the spot customers of rough diamonds are representative of market prices. Almaziuvelirexport sells the control parcels outside of Russia pursuant to an export licence. The Group's total export sales of rough diamonds through Almaziuvelirexport represented 1.9 per cent., 2.5 per cent., 2.1 per cent. and 2.8 per cent. of the Group's total diamond sales revenue in the first half of 2010 and in 2009, 2008 and 2007, respectively.

Domestic Sales of Rough Diamonds

The Group's domestic sales are primarily made to Russian cutting and polishing companies that process the diamonds for use in jewellery. In addition, the Group sells rough diamonds to Russia and Yakutia, including unique diamonds, as required by law.

The Group's total domestic sales of rough diamonds represented 20.5 per cent., 39.6 per cent., 44.9 per cent. and 34.5 per cent. of the Group's total diamond sales revenue in the first half of 2010 and in 2009, 2008 and 2007, respectively.

- *Open market domestic sales*

The Group's domestic open market sales are primarily made to Russian cutting and polishing companies that process the diamonds for use in jewellery. Cutters and polishers use rough diamonds they purchase for their cutting and polishing operations, or for export in accordance with the 2010 Presidential Decree. See "Regulatory Matters—Regulation of Rough Diamond Sales—Export Sales—Export Sales by Diamond Cutting and Polishing Companies".

In 2005, ALROSA concluded several long-term framework agreements for the supply of rough diamonds with some of the leading cutting and polishing companies in Russia. The framework agreements with three domestic customers, Smolenskiye Brillianty Association, LLC DDK and LLC Almaz, run for the period through

31 December 2011 with successive automatic one-year renewals unless ALROSA gives notice of non-renewal six months prior to the end of the period. In June-July 2010, ALROSA terminated the 2005 framework agreements with five of its largest domestic customers, namely Smolensk Kristall, EPL Diamond, LLC Mosalmaz, LLC Kristalldiam and CJSC Ruiz Diamonds, and entered into new framework agreements with these customers, which expire on 31 December 2012. The Group's total domestic sales of rough diamonds under long-term agreements represented 10.2 per cent., 4.4 per cent., 8.0 per cent. and 9.9 per cent. of the Group's total diamond sales revenue in the first half of 2010 and in 2009, 2008 and 2007, respectively.

In December 2008, the Group recorded revenue of RUB10,495 million of sales of rough diamonds to Interdiam. See "Management's Discussion and Analysis of Financial Condition and Results—Overview—Sales—Interdiam Sales".

ALROSA estimates that the Group supplies the vast majority of diamonds purchased by its domestic customers. ALROSA believes this is partly due to the fact that until early 2008, the Group did not levy VAT on the price of rough diamonds sold to Russian cutting and polishing companies, and that if these companies were to purchase rough diamonds outside the Group, VAT would have been applied, which would have reduced the margins that these companies could have achieved by cutting and polishing imported diamonds. Other factors include price disparities between the domestic market and the international market. Effective 1 January 2008, the Group has been levying 18 per cent. VAT on the price of rough diamonds sold domestically. This has encouraged many domestic polishers and cutters to make their purchases through affiliates located outside Russia to avoid VAT. In addition, production costs incurred by Russian cutters and polishers have grown over the last few years, making it less profitable for them to cut and polish lower quality diamonds in Russia. Accordingly, certain Russian cutters and polishers have increasingly relied on tolling-based cutting services abroad, while some of them set up facilities to cut lower quality diamonds outside Russia. As a result, Russian cutters and polishers purchase larger and higher-quality diamonds on the domestic market, with lower-quality diamonds being sold primarily outside Russia.

The prices at which the Group sells diamonds on the domestic market are established by reference to the Price List maintained by the Ministry of Finance. ALROSA makes adjustments to the prices specified in the Price List by establishing correction factors by which the Price List figures are multiplied. Based upon changes in market conditions, ALROSA's marketing department periodically suggests new correction factors, which may be made effective by order of ALROSA's president. In setting these correction factors, ALROSA's objective is to manage the allocation between the domestic and export markets so that the prices ALROSA receives domestically are not less than the prices ALROSA could receive from sales to export customers. ALROSA's correction factors include a premium for diamonds that are in demand among Russian cutters and polishers. By participating in the Russian cutting and polishing industry, the Group is better able to assess this demand and to seek higher overall domestic prices. ALROSA estimates that the capacity of Russian diamond cutters and polishers is greater than the amount of diamonds that the Group supplies to the domestic market. The correction factor system helps ALROSA to react promptly to changes in the domestic rough diamond market, as it often takes one to three months for these changes to be reflected in an updated Price List. Diamonds that remain unsold on the domestic market are offered to the export market.

- *Sales to Russia and Yakutia*

Pursuant to the Law on Precious Stones, the Governments of Russia and Yakutia have the right at any time to acquire any of ALROSA's output of Russian diamonds. In addition, "unique" diamonds, as determined by the Ministry of Finance, must be offered for purchase in priority to Gokhran and then to Yakutia. These special diamonds include diamonds with characteristics that make them rare, such as their colouring, as well as all diamonds weighing more than 50.0 carats (and net diamonds of more than 20.0 carats). Under the applicable regulations, the Governments of Russia and Yakutia are required to pay the full market value of the diamonds to be purchased. This market price is agreed between ALROSA and the Governments of Russia and Yakutia (as relevant). It is expected that this price would generally reflect the prices set forth in the Price List. However, the Price List contains prices for diamonds only up to 10.8 carats. Mathematical formulae approved by the Ministry of Finance are used to calculate a representative price for larger diamonds based on the size and other characteristics of these diamonds.

The Group's total rough diamond sales to Gokhran (excluding diamonds for resale) represented 0.02 per cent., 33.1 per cent., 8.7 per cent. and 4.7 per cent. of the Group's total diamond sales revenue in the first half of 2010 and in 2009, 2008 and 2007, respectively. The Group made no sales of rough diamonds to Yakutia in the first half of 2010 and in 2009, 2008 and 2007, respectively.

Auction Sales

ALROSA also sells its diamonds in auction sales to Russian and international participants. ALROSA is required by law to conduct auctions for the sale of diamonds weighing 10.8 carats or more. See "Regulatory Matters — Export Sales — Auction Sales of Diamonds Weighing 10.8 Carats or More". In practice, as part of its sorting process, ALROSA sets aside diamonds having a weight equal to or more than 10.8 carats in view of the auction sales. Diamonds weighing at least 10.8 carats account for approximately 5.1 per cent. of the Group's total production, by value, and 0.4 per cent. in carats. ALROSA also conducts auction sales of diamonds having rare colouring, diamonds of a massive assortment and diamonds of 5 to 10 carats, which are purchased by ALROSA's customers in view of monitoring the rough diamond prices and demand for boxes and lots of rough diamonds. In accordance with the 2010 Presidential Decree, non-Russian persons and entities are authorized to participate in these actions and to export such diamonds, so long as the purchase price is above the minimum price set by ALROSA and the Ministry of Finance in its Price List. The Group's total rough diamond sales through auctions accounted for 4.4 per cent., 3.2 per cent., 4.4 per cent. and 7.0 per cent. of the Group's total diamond sales revenue in the first half of 2010 and in 2009, 2008 and 2007, respectively.

Resale of Diamonds

In March 2005, the Group began purchasing rough diamonds, produced primarily in Angola and including production from the Catoca mine, for subsequent resale in the international market. In response to the global economic crisis, ALROSA ceased all purchases of Angolan rough diamonds (including production from the Catoca mine) for subsequent resale at the end of 2008. See "—Diamond Mining Operations — Angolan Mining Operation" above. In 2009 and the first half of 2010, the Group's revenue from diamonds for resale was derived primarily from the resale to third parties (including sales to Gokhran in 2009) of rough diamonds originally sold to Interdiam in December 2008 and repurchased by the Group in September 2009. The Group's total resale of rough diamond accounted for 9.7 per cent., 9.8 per cent., 5.2 per cent. and 5.7 per cent. of the Group's total diamond sales revenue in the first half of 2010 and in 2009, 2008 and 2007, respectively.

Sales of Industrial Diamonds

ALROSA also sells industrial diamonds. The Group has historically conducted its export sales of industrial diamonds almost exclusively through Almaziuvelirexport. Under the 2010 Presidential Decree, the Group is authorised to directly sell its industrial diamonds to purchasers outside Russia and is no longer required to conduct such sales through Almaziuvelirexport. Industrial diamonds contributed to less than one per cent. of the Group's revenues from diamond sales in the first half of 2010 and in 2009, 2008 and 2007, respectively.

Sales of Polished Diamonds

The Group cuts and polishes some of its diamonds mainly through ALROSA's division Brillianty ALROSA, and, to a lesser extent, through ALROSA's consolidated subsidiaries Orel-ALROSA and Almaz-Neva. See "— Diamond Cutting and Polishing Operations" above. The Group primarily sells its polished diamonds to jewellery companies and diamond-trading firms located outside Russia. The Group's sales of polished diamonds accounted for 3.5 per cent., 2.7 per cent., 5.0 per cent. and 5.3 per cent. of the Group's total diamond sales revenue in the first half of 2010 and in 2009, 2008 and 2007, respectively. The Group's total expenses relating to polishing diamonds through Brillianty ALROSA were RUB335.7 million (US$10.8 million) in 2009, RUB557.4 million (US$17.9 million) in 2008 and RUB3,268 million (US$105 million) in 2007.

Diamond Reserves

ALROSA estimates its diamond reserves by the use of mapping, drilling, sampling and evaluation methods consistent with standard Russian methodology, which differs from international practice in certain respects. For a description of these differences, see "Calculation of Reserves—ALROSA's Calculation of Reserves". Accordingly, ALROSA's proven and probable reserve figures may not be comparable to similarly titled measures of other mining companies.

Information about volumes of diamond reserves, as well as extraction, production, delivery and consumption of natural diamonds was previously considered a state secret under the Secrecy Law and related presidential decrees. Although restrictions were lifted for diamonds not held by Gokhran or the CBR in 2004, ALROSA's internal diamond reserves estimates and estimates of the productive lives of mines have been prepared for purposes of regulatory submission to the Ministries of Natural Resources and of Finance of the Russian Federation, and for internal planning purposes and solely on the basis of standard Russian reserves methodology, which differs in material respects from the methodology used in other countries. These estimates have not been the subject of any review or examination by an independent mining engineer. Because of this and because the format, nomenclature, units of presentation and methodology for preparing ALROSA's internal reserves information differ substantially from international presentation standards, ALROSA believes that such information would be of limited utility to investors, and accordingly, that information has not been presented in this Prospectus. The Ministries have certified certain information relating to the expected useful lives of the Group's diamond mines as set forth in Appendix A hereto. The review by the Ministries may differ in significant respects from the review that would be conducted by an internationally recognised independent mining engineer certifying reserves information in accordance with international standards. See "Risk Factors — Risks Related to the Group's Business — This Prospectus does not disclose certain information regarding ALROSA's diamond reserves". However, as certified by the Federal Subsoil Use Agency of the Ministry of Natural Resources, ALROSA's proven diamond reserves of categories B and C1 (see "Calculation of Reserves") are sufficient to permit mining of diamonds over the next 24 years, i.e. until 31 December 2034, in an annual average volume of diamonds that is at least as great as the volume of diamonds produced during 2009, with the average quality of extracted diamonds continuing at the current level. The Ministry of Finance has certified in October 2010 that ALROSA's proven reserves of rough diamonds (categories A, B and C1), as of 1 January 2010, are sufficient to permit mining of diamonds over the next 24 years, i.e. until 31 December 2034 in an annual average volume of diamonds that is at least as great as the volume of diamonds produced during 2009. See "Appendix A — Certification of Diamond Deposits" and "Risk Factors — Risks Related to the Group's Business — Estimates of ALROSA's reserves and other information are subject to uncertainties".

Information and statements set forth in the preceding paragraph are included herein as public official statements made on the authority of the Ministries. The Notes have not been guaranteed by Russia, the Ministries or any other agency or political subdivision of Russia, and do not represent obligations of any such body or state.

In addition to physical reserves, calculated as the aggregate amount of carats underground, ALROSA tracks each mine's reserves by the estimated value of its deposits. This calculation is based on the physical reserves figure in carats, determined in accordance with Russian geological practice as described in "Calculation of Reserves", and the projected average per carat value of the diamonds within the deposit. The average per carat value is determined by the Ministry of Finance, the technical committee of the Ministry of Natural Resources and Gokhran, based on their analysis of a representative lot of diamonds extracted from the deposit and by reference to the prices set forth in the Price List.

The calculation of the realisable value of reserves is necessary in order to obtain a certification of reserves from the Ministry of Natural Resources. To obtain a licence for the extraction of these reserves, ALROSA first prepares a report for submission to the Ministry of Natural Resources, which includes an analysis of the deposit's physical reserves, taking into account the geological, mining and technological conditions of the relevant site and a feasibility study. The report must be prepared in accordance with special instructions adopted by the Ministry of Natural Resources, and it includes a business case analysis for the deposit utilising the realizable value of the deposit's proven reserves (categories B, C1 and C2, as described in "Calculation of Reserves"). The business case analysis indicates projected future revenues and expenses, based on the measurement of the reserves, and utilises a six-year amortisation of assets and other parameters. The report is submitted to the Ministry of Natural Resources, which reviews it for accuracy and retains independent experts to physically verify the determination of proven reserves. If necessary, the Ministry of Natural Resources requests additional information relating to the report. Following the issuance of the requested information, a working group is assembled to discuss issues relating to the report. The working group includes ALROSA's representatives and representatives from the Ministry of Natural Resources, and may include the independent experts who reviewed ALROSA's report and members of a relevant scientific institute. The working group's proposals for the resolution of the issues identified in the statement of objections are then submitted to a general meeting of the Ministry of Natural Resources. The general meeting can approve or amend the resolutions of the working group, and certify the reserve figures by majority vote of the officers of the Ministry of Natural Resources. To be certified, it must be demonstrated that reserves are sufficient to support production during the normative duration of the producing company. The normative duration is defined based on the return of investments made for the organisation and production activity of the producing company. The decision of the Ministry of Natural Resources with respect to the certification of reserves is final. However, ALROSA can request that the Ministry of Natural Resources reconsider a determination in the event there is a change in circumstances relating to the reserves, such as a change in market prices or projected mining costs. A change may also result from ALROSA's reclassification of some of the deposit's probable reserves as proven reserves due to changes in ALROSA's ability to extract the reserves.

The Group's mining licences are typically granted for a period of 5 to 20 years. However, some of these licences require a review in connection with changes in economic conditions of the extraction and certification of reserves within the relevant diamond pipes, as a condition to continued mining under the licences. In 2006, the Ministry of Natural Resources reviewed the licence of the Jubilee mine because ALROSA demonstrated that it was economically not viable to extract diamonds of less than 1 millimetre, as they are not suitable for ore processing.

Mining licences generally may be revoked if ALROSA or its subsidiaries are deemed to have materially breached environmental laws or failed to exploit the relevant diamond deposit by mining in a technically inefficient manner. None of ALROSA's and its subsidiaries' mining licences has been revoked.

ALROSA's analytical department monitors world rough diamond prices, and periodically recalculates the realisable value of ALROSA's reserves based on new price levels. ALROSA is required to submit a report of ALROSA's reserves to the Ministry of Natural Resources each year. In connection with an application for renewal of any of ALROSA's licences, it may be determined that the relevant diamond deposit is no longer economically viable, in which case the Russian Government could refuse to renew ALROSA's licences with respect to such deposit.

Exploration and Development

Exploration Activities

ALROSA conducts exploration activities in Russia and Angola (primarily through Catoca Mining).

ALROSA employs a number of techniques to locate new deposits. These include surveys of the tectonic characteristics of regions to identify conditions suitable for the formation of diamonds, as well as the identification of minerals that are usually found near diamond pipes. Diamond exploration is a capital-intensive undertaking that involves many risks and no assurance can be given that any of the Group's new or ongoing exploration programmes will result in additional diamond-producing operations. The Group incurred expenses of RUB2,308 million (US$74 million), RUB3,662 million (US$117 million) and RUB3,446 million (US$110 million) with respect to its geological exploration activities in 2009, 2008 and 2007, respectively.

Russia

In Russia, as in most other diamond-producing regions of the world, the majority of diamond reserves are found in primary deposits. ALROSA estimates that there are nearly 700 diamond pipes in Yakutia. A significant number of deposits are also located in the Arkhangelsk region, and a very small number of deposits are located within the Perm region. However, only a small portion of these deposits could be mined profitably. ALROSA believes that the vast majority of the major commercially attractive deposits in Russia are located within Yakutia.

ALROSA constantly seeks to increase its Russian reserves through the utilisation of underground mining at mature diamond pipes that have been excavated to a depth at which open-pit mining is no longer economically feasible, such as the International mine; exploitation of primary diamond deposits and diamond-bearing placer deposits; and growth of reserves through the addition of newly discovered diamond deposits. ALROSA conducts exploration on the basis of state licences issued by the Ministry of Natural Resources on an auction basis. See "Regulatory Matters — Regulation of Mineral Resources — Subsoil Licences". ALROSA's exploration activities are currently concentrated primarily in the Nyurba region, as well as in and around the Mirny, Aikhal, and Udachny regions. ALROSA also conducts exploration activities in the northwest of Yakutia, in the northeast of Russia and in the Arkhangelsk region.

ALROSA has explored the diamond deposit named Verkhne-Munskoye, which was discovered in 1955-1957 by the Amakinskaya geological expedition. The Verkhne-Munskoye deposit is located in the Oleneksky district of Yakutia, 130 kilometres from the Udachny mine, and consists of five pipes. In 2007, ALROSA recognised the reserves of the deposit on the balance sheet. The Verkhne-Munskoye mine is expected to be commissioned in 2015.

ALROSA maintains five exploratory expeditions: the Amakinskaya geological expedition responsible for northern Yakutia (approximately 678 employees as of 30 June 2010 and 718 employees as of 31 December 2009); the Botyobinskaya expedition responsible for the regions of Botyobinskaya and Natom in Yakutia (approximately 904 employees as of 30 June 2010 and 880 employees as of 31 December 2009); the expedition of the Central Scientific and Research Institute for Geological Exploration responsible for exploration in Yakutia (approximately 1,121 employees as of 30 June 2010 and 116 employees as of 31 December 2009); the Mirninskaya expedition responsible for the providing services to the ore processing plants (approximately 668 employees as of 30 June 2010 and 417 employees as of 31 December 2009) and the Arctic expedition responsible for exploration in western Yakutia (approximately 191 employees as of 30 June 2010 and 194 employees as of 31 December 2009). ALROSA's geological service consists of a research facility that carries out research work using its own resources and cooperates with other Russian geological surveys centres.

Angola

On 31 October 2006, ALROSA also entered into a protocol on cooperation with ENDIAMA, an Angolan state-owned company, for the geological survey and development of diamond deposits in Angola. Within the framework of this agreement, the parties entered on 27 March 2007 into an agreement for joint geological survey of a 3,000 square kilometres area of alluvial diamond deposit located in Cacolo, in the Lunda-Norte Province. The geological survey, conducted from 2007 to 2009, indicated a low probability of successful development of the deposit. In 2010, ALROSA made a decision to terminate the project. ALROSA's total investment in this projects amounted to US$15.4 million.

Namibia and Democratic Republic of Congo

ALROSA was involved in exploration activities in Namibia (the Warmbad and Vryheid-Ritfontein kimberlite fields) and southern regions of the Democratic Republic of Congo in accordance with the respective exploration licences obtained by the Group in January 2008. The exploration activities, however, proved to be unsuccessful and were subsequently abandoned by ALROSA in 2009.

Research and Development

ALROSA's research and development division, YakutNiproAlmaz, has principal responsibility for research as well as for designing and implementing research and development projects and creating long-term plans for production processes. ALROSA's research and development focuses primarily on mining, ore treatment, automation of production processes, reserves forecasts and environmental control. These projects focus on efficiency improvements, decreasing costs and improving diamond yield. The Institute has considerable expertise in operations involving permafrost ground. Its recent activities include:

- the improvement of techniques to develop open pits with steeply pitched walls, which reduce expenses by requiring the removal of less overburden;
- work on techniques to reduce damage to the natural qualities of diamonds resulting from extraction and ore dressing;
- the development of techniques of water-free (dry) dressing of ore containing a very low diamond content, which may be efficient in developing certain deposits;
- work on techniques relying on new physical methods to regulate and stabilise the physical and chemical properties of flush water in ore dressing processes; and
- improvement of methods and techniques to extract diamonds using radiometric separation.

Including its work in Angola, over the last 44 years the Institute has prepared 44 mining projects and 17 processing plants, as well as towns and settlements projects surrounding the Group's operations.

The Institute is located in Mirny and, as of 30 June 2010, the Institute had 583 employees, two of whom held doctoral degrees in technical sciences. From time to time, the Institute also subcontracts work to upward of 50 subcontractors a year, as well as to the various institutes of the Russian Academy of Sciences. In 2009, 2008 and 2007, the Group incurred expenses of RUB160 million (US$5 million), RUB692 million (US$22 million) and RUB702 million (US$22 million), respectively, relating to scientific research and RUB555 million (US$18 million), RUB875 million (US$28 million) and RUB720 million (US$23 million), respectively, on project works and permafrost surveys.

Non-Diamond Mining Operations

Russian Non-Diamond Mining Operations

Supply of Fuel

- *ALROSA-Gaz*

The Group produces gas for its own needs through its wholly owned subsidiary ALROSA-Gaz. See "— Supporting Operations — Supply of Energy, Fuel and Water — Fuel". In December 2006, ALROSA acquired 46.8 per cent. of ALROSA-Gaz for a total consideration of RUB778 million (US$25 million), raising its interest in this company to 100 per cent. ALROSA-Gaz holds a licence for the development of the Srednebotuobinsky oil and gas condensate field, located 140 kilometres from Mirny in the Lensky Ulus on the east-west of Yakutia, close to the Irkutsk region. The licence is valid until 2013. ALROSA-Gaz produced 235 million cubic metres of gas in 2009, 227 million cubic metres of gas in 2008 and 198 million cubic metres of gas in 2007.

As part of ALROSA's effort to ensure the reliability of power supplies to Aikhal and Udachny and to reduce heating costs in these areas, ALROSA-Gaz began constructing a 500-kilometre natural gas pipeline in 1999 to link ALROSA's Mirny, Aikhal and Udachny divisions. In 2005, ALROSA-Gaz finalised the construction of the linear pipeline portion between the Mirny and the Aikhal divisions. In 2006, ALROSA decided not to construct the linear pipeline portion linking the Aikhal and the Udachny divisions in consideration of enhanced use of electricity produced by OJSC Viluyskaya GES-3 ("**Viluyskaya GES-3**"). See "— Supporting Operations — Supply of Energy, Fuel and Water — Energy". In the first quarter of 2009, ALROSA-Gaz put the natural gas pipeline with the telemetry and technological communications into operation, linking ALROSA's Mirny and Aikhal divisions and the heat-generation plant in Aikhal. ALROSA's Management Board has also decided to construct another natural gas pipeline, Taas-Yuryakh-Mirny. The planning and surveying works on the project were completed and, in February 2008, the project received a positive conclusion of the state expertise. With the onset of the global economic crisis and reduced energy consumption in the region, the Management Board decided to suspend construction of the second portion of the Taas-Yuryakh-Mirny pipeline until more favourable market conditions eventuate.

As a result of an inspection conducted by Rosprirodnadzor in March 2008 regarding the compliance of ALROSA-Gaz with the terms of the licence agreement, Rosprirodnadzor found certain violations and issued requirements in order to eliminate such violations. Following a new inspection of Rosprirodnadzor in 2008 that revealed that ALROSA-Gaz had not complied with these requirements, Rosprirodnadzor submitted the materials of the inspection to the Commission of the Federal Agency of Subsoil Use responsible for the early termination of subsoil use rights. Subsequently, ALROSA- Gaz implemented all the requirements issued by Rosprirodnadzor within the specified timeframe and, as a result, the licence held by ALROSA-Gaz was not terminated.

- *Irelyakhneft*

The Group produces crude oil for its own needs through its wholly owned subsidiary Irelyakhneft. See "—Supporting Operations — Supply of Energy, Fuel and Water — Fuel". Irelyakhneft holds a licence for the development of the Irelyakh field, located in the Mirninskiy region of Yakutia. The licence is valid through 1 May 2023. Irelyakhneft produced 90.4 thousand tonnes (661 thousand barrels) of crude oil in 2009, 66.9 thousand tonnes (489 thousand barrels) of crude oil in 2008 and 53 thousand tonnes (371 thousand barrels) of crude oil in 2007. Irelyakhneft transports the crude oil it produces by road. The Group is currently in the process of selling the totality of its participation in Irelyakhneft.

Timir Iron Ore Deposits

In May 2008, IG ALROSA, a wholly owned subsidiary of the Group, acquired licences for the exploration and development of four large iron ore deposits, namely Taezhnoe, Desovskoe, Tarynnakhskoe and Gorkitskoe, in South Yakutia for a total consideration of RUB5,390 million (US$173 million). In May 2010, the licences were transferred to Timir, a wholly owned subsidiary of the Group, which was established in 2008 for the purpose of exploration and development of these deposits (the "**Timir Project**").

The deposits are clustered into two provinces: (i) the Southern-Aldanskoe iron ore province with Taezhnoe and Desovskoe deposits, situated approximately 150-160 kilometres north of a coal mining and industrial centre, Neryungri; and (ii) the Charo-Tokkinskoe iron ore province with Tarynnakhskoe and Gorkitskoe deposits, situated approximately 350 kilometres west of Neryungri. The four deposits were discovered between 1950 and 1964. Following exploration, the four deposits have had their resources approved by the State in the 1980s under the classification system originally established by the State Commission on Mineral Reserves of the USSR ("**GKZ**").

The upper levels of the four deposits are planned to be extracted by open-pit mining. Once the open-pit mines are depleted, the deposits are expected to be mined by using underground mining. Magnetite is the main iron ore mineral at the deposits.

The four licences are valid until May 2028, subject to a number of conditions to be achieved, including the following obligations and milestones:

- simultaneous development all four deposits;
- construction of mines and a joint processing plant at the Tarynnakskoe and Gorkitskoe deposits, to be commenced by May 2012;
- construction of mines and a joint processing plant at the Taezhnoe and Desovskoe deposits, to be commenced by September 2013;
- construction of a steel-making metallurgical plant to take feed from all mines to commence by May 2014;
- production facilities at the Taezhnoe and Desovskoe deposits with capacity of 6 million tonnes of ore per annum and 2 million tonnes of ore per annum, respectively, to be commissioned by May 2015, with an increase in production to 10 million tonnes of ore per annum at each deposit to be achieved by May 2018;

- production facilities at the Tarynnakskoe and Gorkitskoe deposits with capacity of 2 million tonnes of ore per annum and 4 million tonnes of ore per annum, respectively, to be commissioned by May 2016, and at 9 million tonnes of ore per annum and 15 million tonnes of ore per annum, respectively, to be achieved by May 2020; and

- exploration and production of associated components.

The development of the iron ore deposits is part of the "Integrated Development of the Southern Yakutia" programme, launched under the auspices of the federal and regional government and aimed at creating a large industrial region with well-developed infrastructure. The programme is partially financed by the Russian Government through the budget allocations from the Russian Federal Investment Fund. The government has an obligation to develop transportation links and electrical networks in the vicinity of the iron ore deposits. JSC South Yakutia Development Corporation, in which the Government of Yakutia holds a 25.0 per cent. interest and ALROSA holds a 14.7 per cent. interest, coordinates and holds responsibility for the construction of the necessary infrastructure for the Timir Project. Planning and construction of the infrastructure by the South Yakutia Development Corporation has already commenced.

The Tayozhnoe and Desovskoe deposits are located in the Neryungri municipal district, an area where existing support infrastructure is already available. The deposits are approximately 3 kilometres away from a rail line, which connects South Yakutia with the Trans-Siberian Railway and runs parallel with the only road in the region that is passable year-round. Electric power supply to the district is from the Neryungri GRES and the Chulman Heat and Power Plant both using local fuel from Neryungrinsky coal opencast. The area is considered to have sufficient iron ore, coal and limestone to sustain the proposed steel manufacturing plant in the vicinity of Neryungri.

The area of the Tarynnakskoe and Gorkitskoe deposits is located far from existing infrastructure and is relatively undeveloped. Power and rail lines are not available and need to be constructed. The investment programme provides for the construction of the Kanukskaya Hydro Power Plant with 1600 MW generation capacity and 7.5 billion kWh per year, which will supply power to Tarynnakhskoe and Gorkitskoe deposits via a 500-kilometer transmission line (220 kWt) with a main step-down substation (220/110/6 kWt). Development of the transportation infrastructure connecting the deposits to major federal railways and motorways primarily entails construction of a 195-kilometer railway access route, which is planned to be constructed by Russian Railways.

The Timir iron ore deposits are geographically well positioned to benefit from attractive growth markets in Russia and Asia (China, South Korea and Japan). Located less than 2,000 kilometres by rail from the Chinese steel industry centres, ALROSA believes it has potential to become one of the largest suppliers of iron ore in China.

In accordance with the licence terms, ALROSA plans to construct a joint processing plant at the Taezhnoe and Desovskoe deposits with a design capacity of 15.0 million tonnes of ore *per annum* and a joint processing plant at the Tarynnakskoe and Gorkitskoe deposits with a design capacity of 15.0 million tonnes of ore *per annum*. Starting from 2018, the processing plants are expected to reach an aggregate production volume of 20 million tonnes *per annum*. In 2010, ALROSA retained an international consulting firm to assess the mineral resources of four iron ore deposits according to an internationally recognised standard, the Australasian Code for Reporting of Mineral Resources and Ore Reserves and also engaged its research and development division, YakutNiproAlmaz, to prepare a detailed feasibility study of the deposits.

The Timir Project will require substantial investment, which ALROSA estimates may require up to US$10 billion in investments. ALROSA is currently considering various sources of financing the project, including potentially ceding a stake in the project to a strong iron ore and steel market player with expertise in ore production and distribution network or raising funds through an equity issuance by ALROSA.

Tyumen Oil and Gas Assets

With a view to diversifying its mineral extraction activities, ALROSA acquired certain Tyumen oil and gas assets in December 2005 and April 2006. In December 2005, ALROSA acquired beneficial ownership of 90 per cent. of GTG a company with interests in gas and gas condensate fields located in the Tyumen region of the Russian Federation, for an investment of approximately US$140 million, which included a total purchase price of approximately US$91 million, approximately US$48 million to fund exploration and development activities through 2007 and certain costs of arranging financing. In April 2006, ALROSA acquired beneficial ownership of 90 per cent. of Sibintek, 100 per cent. of UGC and interests in certain other companies, all of which held interests in oil or gas deposits located in the Tyumen region. These companies were acquired for an investment of approximately US$300 million, which included a purchase price of approximately US$170 million, approximately US$129 million to fund exploration and development activities through October 2007, and certain costs of arranging financing. These investments were financed by debt.

Since these acquisitions, ALROSA has revised its strategy has and decided not to diversify into commercial oil and gas production. Accordingly, in October 2009, ALROSA sold a 90 per cent. interest in GTG and UGC to companies affiliated with VTB Bank for a total cash consideration of RUB18,615 million (US$597 million). Simultaneously, the Group entered into put option agreements with the buyers and the bank. See "Risk Factors — Risks Related to Group's Business — Risks Related to Oil and Gas Put Options.

ALROSA is also in the process of exploring opportunities to dispose of its interest in Sibintek.

Other Russian Non-Diamond Mining Assets

- *Oil and Gas assets*

In February 2006, ALROSA acquired a 50.4 per cent. interest in Sakhaneftegaz for a total consideration of RUB493 million. Sakhaneftegaz owned an 85 per cent. interest in Lenaneftegaz, which performs construction services, mostly drilling of exploration and production wells, and a 92.6 per cent. interest in OJSC Yakutgazprom ("**Yakutgazprom**"), which holds licences for the development of the Sredneviluyskoye, Mastakhskoye and Severo-Nelbinskoye gas deposits. In 2007, Sakhaneftegaz' share in Yakutgazprom decreased to 22.22 per cent. as a result of an issuance of new shares by Yakutgazprom in favour of a third party. Prior to 2006, Sakhaneftegaz was controlled by OJSC NK Yukos and since then has had a total of RUB3,719 million of overdue accounts payable on demand to the companies of Yukos group, most of which are now controlled by NK Rosneft. In November 2008, Russian state authorities initiated bankruptcy procedures in relation to NNGK Sakhaneftegaz in accordance with the legal claim of NK Rosneft. In February 2010, ALROSA lost control over the financial and operating activity of NNGK Sakhaneftegaz and Lenaneftegaz when the last stage of the bankruptcy procedures commenced.

Angolan Non-Diamond Mining Operations

On 31 October 2006, ALROSA entered into a memorandum of understanding with Sonangol E.P. ("**SONANGOL**"), the National Fuel Company of Angola and the exclusive holder of subsoil use rights for the geological survey, exploration and development of liquid and gas hydrocarbons in Angola and other parties for the geological survey, exploration and development of hydrocarbons in Angola and a related assignment agreement. Within the framework of this memorandum of understanding, on 9 July 2007, ALROSA entered into an agreement with SONANGOL and Dark Oil Company Ltd. for the geological survey and prospecting of oil and gas fields in the Lower Congo and Upper Kwanza zones, in the basins of the Etosha, Okawango and Kassanje rivers, and in the shelf zones of Angola. In December 2007, Angola's Oil Ministry granted to the consortium a licence for the geological survey and prospecting of oil and gas fields in these geographical areas that will be conducted by ALROSA. A geological survey completed on 8 October 2009 showed a probability of successful exploration of the deposit. The programme requires an investment of approximately US$40-90 million over a period of three years. The Group is currently considering attracting a strategic investor to finance the capital investment programme. Non-diamond mining investments in Angola may involve substantial capital expenditure in the future.

Supporting Operations

Transportation of Supplies and Resources

Materials and supplies used in the Group's mining operation in Yakutia are shipped by rail to the river port at Osetrovo, then transported by the River Lena to a port at Lensk and delivered to the mines by truck. During the river navigation season, which lasts from May to October, the volume of cargo (approximately 296,800 tonnes in 2009) is shipped by river. Mirny, Aikhal and Udachny can be reached from Lensk by means of a year-round gravel road and a network of winter motor roads running in frozen river beds. Urgent cargoes are delivered by air transport, with airports located in Mirny, Vitim, Lensk, Aikhal, Polyarny and Saskylakh. Equipment from Asia generally comes via sea to Vladivostok, then by air. The Group transports approximately half of its supplies by river on its own vessels, and the Group generally uses its own aircraft for the transportation of goods by air.

Supply of Energy, Fuel and Water

The provision of fuel and energy is essential to the Group's mining operations. Fuel and energy costs represented 17.9 per cent. (11.8 per cent. taking into account the consumption of fuel oil to generate power and heat) of the Group's total cost of sales in 2009, excluding payments made under the Temporary Agreement. The Group's operations use electricity, oil, natural gas, fuel oil, coal, and used petroleum oil. In addition, the Group's mining operations use a substantial amount of water. In order to reduce the Group's fuel and energy costs and to reduce the Group's dependence on outside suppliers, the Group has engaged in a number of projects related to the supply of energy, fuel and water, which are described below.

- *Energy*: ALROSA used approximately 1.642 billion kilowatt-hours of electricity in 2009 supplied by centralized power system. Over 68 million kilowatt-hours used in 2009 were generated by the Group's diesel electric power plants. The volumes of electricity from the centralized power system consumed by the Group were supplied by Yakutskenergo, the regional power generation and distribution company, and Viluyskaya GES-3, an ALROSA subsidiary. Electricity is supplied to the Group's operations over dedicated 110 kV and 220 kV backbone power lines, with three 220 kV lines assigned to Aikhal and Udachny, two 220 kV lines to Mirny and two 110 kV lines to Lensk.

  The Group has a 99.83 per cent. stake in Viluyskaya GES-3, a hydroelectric power station on the Viluy River supplying the western power distribution province of Yakutia in addition to the existing hydroelectric plants owned by Yakutskenergo, the Yakutian energy utility. The first electricity-generating unit of Vilyuskaya GES-3 was put into operation in September 2004, the second in December 2005 and the third in February 2008. ALROSA is considering construction of the fourth unit, the cost of which is expected to be approximately RUB1,469 million (US$47 million), excluding VAT. Viluyskaya Ges-3 supplied 509.6 million kilowatt hours, 427.0 million kilowatt hours and 190.9 million kilowatt hours of electricity in 2009, 2008 and 2007, respectively.

- *Fuel*: The Mirny division of the Heat and Water Supply Enterprise ALROSA makes extensive use of natural gas for the generation of heat, hot water, and for its technological needs. The Mirny division has three operating natural gas heat-generation plants, supplying all of Mirny's heating and water requirements. ALROSA's wholly owned subsidiary Alrosa-Gaz supplies the natural gas it produces to the Heat and Water Supply Enterprise, Mirny and Aikhal mines. In addition, ALROSA uses crude oil as fuel for gas boiler houses and furnaces in Aikhal, Lensk and Mirny. ALROSA's wholly owned subsidiary Irelyakhneft supplies the crude oil. See "—Non-Diamond Mining Operations — Russian Non-Diamond Mining Operations — Supply of Fuel".

- *Water*: Drinking water used in the Group's facilities and by the local communities surrounding its operations, as well as the water the Group uses for its industrial and technological needs, is supplied from natural reservoirs. Aikhal has two fresh water reservoirs and Mirny and Udachny have one each. ALROSA ore-processing facilities recycle water, using fresh water only when necessary. In 2009, annual water intake from the reservoirs was approximately 31 million cubic metres.

The Group continues to work to reduce its energy and water consumption. An example is increasing use by ALROSA of frequency-regulated drives designed to conserve energy during start-up and operation of heavy technological, including ore processing equipment, which ALROSA is installing at its existing facilities. Moreover, all of ALROSA's newly designed facilities are fitted with this type of drive. Some of ALROSA's industrial facilities also have heating systems that use infrared electric irradiators. ALROSA also began converting from electric-based power generation to gas-based power generation to heat the air supplied to underground mines and production facilities. In addition, ALROSA is increasing use of heating stations designed with Western technologies. These devices are more energy efficient and ALROSA believes that they will reduce the Group's energy costs. Moreover, the Group is working to improve its energy efficiency through optimization of its production processes and organizational structure and the resulting reduction in the overall number of fixed assets that consume energy. Such tools have already reduced ALROSA's annual energy costs by 597 million kilowatt-hours for the period from 2003 to 2009.

Equipment

Equipment Purchases

The Group purchases its vehicles and other mining equipment from a number of suppliers. These include Komatsu, Caterpillar and BelAZ for ore transport vehicles, and KrAZ, Maz of Belarus, Volvo, Sandvik and Manesman for lorries and dump trucks. The Group purchases drilling equipment from Tamrock, Burner, Sandvik, Voronezh and Karpin, and purchases milling equipment from Rockail of Japan, Svedala of Sweden, Koppern of Germany and the Syzran engineering plant of Russia. Purchases are made pursuant to individually negotiated agreements. In 2009, the Group incurred expenses of RUB899.4 million (US$28.8 million) relating to purchases of plant, mining equipment and transport vehicles.

The Group makes its equipment purchases through a department responsible for purchases of materials and equipment, which attempts to obtain bulk purchase discounts where possible. The Group does not generally order custom-made equipment; however, the equipment the Group purchases is typically modified by the manufacturer to work in cold climates. All of the Group's principal mining equipment must operate in temperatures as low as -50°C.

Maintenance of Equipment

All of the Group's mining, transportation, technological and earthmoving equipment is maintained regularly according to a set schedule. All repair work is performed at facilities that service ALROSA's Udachny, Aikhal and Mirny operations. As of 31 December 2009, these repair and maintenance facilities employed 2,400 persons. In order to carry out specialist repair operations, ALROSA retains independent repair contractors (pursuant to applicable safety requirements imposed by law). Repair and maintenance quality is supervised by the Service.

Non-Mining Activities

Commercial and Ancillary Services

The Group operates a number of commercial businesses ancillary to, and for the benefit of, its mining operations and the surrounding communities. The primary purpose of these operations is to help the Group to reduce its operating costs. Although these businesses occasionally provide services to third parties, including local governments, the third party revenues are not material. These commercial businesses are described below.

- *Construction services*: As of 31 December 2009, the Group had 3,514 employees performing construction services. ALROSA maintains a construction division that is engaged in the construction and expansion of its mines. However, this division also performs ancillary work, such as constructing temporary housing for workers exploring or developing a mining deposit in a new region and maintaining the non-mining properties owned by ALROSA and its affiliates.

- *Transportation services*: The Group maintains a fleet of cargo ships and lorries, as well as aircraft designed to carry freight, in order to transport supplies and materials for its mining and other activities, including ALROSA's construction division. The activities of the transportation division are coordinated by ALROSA's Material Supply and Logistics Department. In 2009, the Group transported approximately 376 thousand tonnes of freight. The Group's transport expenditure amounted to RUB1,416 million (US$45 million) in 2009.

- *Agriculture and food supplies*: Through wholly owned subsidiaries, ALROSA operates retail food stores for the benefit of its employees in the cities in which ALROSA operates in Yakutia. In addition, ALROSA engages in agricultural operations that grow fresh produce in greenhouses to meet the needs of its employees within Yakutia.

- *Passenger air transport*: To support the Group's transportation requirements, ALROSA has established its own airline as a division under the ALROSA name. As of 31 December 2009, this airline owned 70 aircrafts. ALROSA's airline operates regularly scheduled flights involving 16 routes from Mirny and 6 routes from Polyarny. To support air travel in Yakutia, ALROSA maintains small airports in Vitim, Lensk, Aikhal, Olenek and Saskylakh. The airline division receives fees from third parties who use these airport facilities. In 2009, the ALROSA airline transported 228,723 passengers.

Social Services

To support habitation and encourage employees to relocate to these mining areas, ALROSA's predecessor entities created a complete local infrastructure in Mirny, Udachny, Aikhal and Lensk. Upon its formation, ALROSA assumed responsibility for these assets, which included hostels, residential houses, schools, hospitals, hotels, cultural centres and retail shops. In 2009, the Group incurred expenses of RUB4,941 million (US$158 million) to support and maintain these assets, net of reimbursed expenses. The Group also incurred significant expense for charitable contributions.

By the end of 1996, ALROSA had transferred most of these social assets to the local authorities of Yakutia, and the transfer was effected by decree of the Government of Yakutia. Included in the transfer were all housing units built prior to 1993; these are considered to be state property as they were constructed during Soviet times. In addition, ALROSA transferred its interest in retail shops to majority-owned subsidiaries.

In 1999, ALROSA began negotiating with Yakutia for the transfer to Yakutia, in stages, of all of its remaining social assets, which are primarily residential housing units, and also include sports complexes and cultural facilities, such as cinemas and theatres. This transfer has been substantially completed. However, ALROSA remained until recently responsible for the maintenance of certain of these assets. Following the termination of the Lease Agreement and the expiration of the Temporary Agreement (see "—Termination of the Lease Agreement"), ALROSA is no longer bound by the obligations to retain and maintain social assets and can freely dispose of such assets. ALROSA is continuing the process of transferring the remaining social assets on its balance sheet.

As of 31 December 2009, the Group owned approximately 316,545 million square metres of housing space. In the first half of 2010 and in 2009, 2008, and 2007, the Group transferred a total of 655 apartments with a balance value of RUB818.3 million (US$26.2 million), 1,074 apartments with a balance value of RUB876.9 million (US$28.1 million), 130 apartments with a balance value of RUB81.3 million (US$2.6 million) and 18 apartments with a balance value of RUB21.1 million (US$0.7 million), respectively, to the municipalities of Lensk and Mirny. The houses and flats owned by the Group have been allocated to the employees of its divisions. Housing space is allocated to employees pursuant to a joint decision by ALROSA and its local trade union. Employees living in this housing do not pay rent, but are responsible for their utility costs and maintenance payments. Utility rates are established by Yakutia.

In addition to housing, ALROSA also typically funds some road maintenance. Local municipalities and Yakutia generally finance the upkeep of roads. However, in case of a shortfall in budgeted funds, ALROSA has contributed in the past, and expects to continue to contribute in the future, to maintenance expenses in order to maintain the roads, necessary for ALROSA's operations, in a satisfactory condition. See "Risk Factors — Risks Related to the Group's business — ALROSA maintains social infrastructure in Yakutia and may be obliged to make extraordinary payments at the request of local authorities in the future".

Participation in KIT Finance

In December 2008, in the context of the Russian Government's response to the global economic crisis, the Group acquired, on an interim basis and for a nominal investment of RUB45 (US$1.5), a 45 per cent. participation interest in KIT Finance, which held shares of KIT Finance Bank and certain other assets. Although it was anticipated that the Group's share in KIT Finance would be transferred to Russian Railways in 2009, the transfer of shares for a nominal consideration of RUB45 (US$1.5) did not occur until April 2010. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Reserves — Uses of Funds — Acquisitions — Acquisition of an interim minority interest in KIT Finance". As of 31 December 2008, the Group held RUB11,285 million on deposit accounts in KIT Finance Bank. The maturity of these deposits was on 29 November 2010. In order to guarantee the refund of these deposits, KIT Finance Bank pledged certain assets to the Group. During August-September 2009, the Group withdrew this deposit.

Termination of the Lease Agreement

From 1993 to 2006, ALROSA leased production and non-production assets used by Yakutalmaz, the Soviet state-owned diamond mining company and ALROSA's predecessor prior to ALROSA's conversion into a closed joint stock company in 1992, in connection with its exploration and mining activities, pursuant to a Lease Agreement. The Lease Agreement was terminated in accordance with a Temporary Agreement from 20 December 2006. These arrangements were subsequently terminated following a series of transactions in which these assets were contributed to ALROSA in exchange for shares.

Terms of the Lease Agreement

Pursuant to the Lease Agreement, ALROSA:

- leased the assets of Yakutalmaz, and companies comprising it, as well as other assets identified by the parties; and
- obtained the use of land, diamond deposits and minerals and other natural resources, including timber, which are required for ALROSA's business, on the basis of licence agreements and/or special permissions issued on a priority basis.

Under the Lease Agreement, ALROSA was subject to annual royalty payments and other payments in connection with its use of mineral and water resources, the use of land and logging areas and the disposal and burial of waste. In addition, pursuant to the terms of the Lease Agreement, ALROSA also contributed to the ecology fund established by the Republic of Sakha (Yakutia) for the mitigation of any environmental damage resulting from ALROSA's operations and to promote the social and economic development of the eight regions of the "diamond-bearing province".

Under the Lease Agreement, ALROSA was required to return the leased production assets and certain owned assets to Yakutia at the end of the lease term in January 2018, unless ALROSA exercised a purchase option relating to these assets prior to the expiration of the term of the Lease Agreement.

Termination of the Lease Agreement

The Russian Government asserted that, under applicable Russian law, assets leased by ALROSA under the Lease Agreement properly belonged to the Russian Federation and not to Yakutia at the time of conversion of ALROSA into a closed joint stock company in 1992. See "— Formation and Development". In order to recover legal title to such assets, the Russian Government, represented by the Federal Agency for the Management of Federal Property, filed a lawsuit in the Supreme Arbitrazh Court of the Russian Federation in 2006 against Yakutia. The settlement agreement between the Federal Agency for the Management of Federal Property and the Government of Yakutia with respect to this dispute was approved by the Supreme Arbitrazh Court on 20 December 2006 (the "**Settlement Agreement**").

Under the Settlement Agreement, the parties thereto agreed to divide the contested assets in such proportion that (a) following the contribution of such assets to ALROSA's share capital and issuance of new shares to the Russian Government, Yakutia and the Ulusy, and (b) taking into account the transfer to the Russian Government of the 10.63 per cent. of outstanding shares held by VTB, the respective holdings of the Russian Government, Yakutia and the Ulusy are not less than 50 per cent. plus one share, 32 per cent. and 8 per cent., respectively.

On 29 December 2006, ALROSA and Yakutia entered into a Temporary Agreement facilitating performance of certain provisions of the Settlement Agreement effective until 1 October 2008. The Temporary Agreement terminated the Lease Agreement from 29 December 2006. Pursuant to the Temporary Agreement, ALROSA obtained the right of temporary use of the assets previously leased under the Lease Agreement in consideration for royalty payments corresponding to the difference between (a) the aggregate lease payments that would have been payable under the Lease Agreement until its initial expiration in January 2018, and (b) the compensation payments to Yakutia as discussed below. Royalty payments under the Temporary Agreement amounted to RUB567.5 million from 1 January 2008 to 1 October 2008 and to RUB1,473 million in 2007.

On 10 November 2007, ALROSA's extraordinary general shareholders' meeting decided to increase ALROSA's share capital by way of a closed subscription in favour of the Russian Federation, Yakutia and eight Ulusy, in consideration for substantially all assets of Yakutalmaz leased by ALROSA under the Lease Agreement. Agreements for the distribution of the new shares were entered into on 18 June 2008 between ALROSA and the beneficiaries of the closed subscription. The distribution process was completed on 1 October 2008. In accordance with applicable legislation, the transfer of assets of Yakutalmaz, which is primarily composed of movable and immovable property, to ALROSA in consideration of the new shares became effective following the state registration of ALROSA's ownership rights on these assets, which was completed on 25 August 2008. The issuance of new shares of ALROSA was finalised on 30 October 2008.

On 31 March 2008, the Russian Government and VTB entered into an agreement pursuant to which VTB transferred on 5 June 2008 10.63 per cent. shares of ALROSA to the Russian Government, increasing the overall holding of the Russian Government from 37.0 per cent. to 47.63 per cent. As a result, the Russian Government became the controlling shareholder of ALROSA. See "Principal Shareholders — Changes in Shareholding Structure".

On 20 June 2008, ALROSA entered into an agreement with VTB for the purchase by ALROSA of assets of Yakutalmaz, held by VTB. In accordance with applicable legislation, the transfer of assets of Yakutalmaz, which is primarily composed of immovable property, to ALROSA became effective following the registration of ALROSA's ownership rights on these assets in August 2008.

As a result of the contribution to ALROSA's capital of the Lease Agreement assets and purchase of the remaining assets of Yakutalmaz from VTB, ALROSA obtained substantially all assets leased from Yakutia under the Lease Agreement and the Temporary Agreement.

In accordance with the Settlement Agreement and subsequent legislation, in order to compensate Yakutia for the loss of revenue from the discontinued lease payments, *inter alia,* (a) 100 per cent. of the Group's mineral resources extraction tax in respect of diamonds was transferred to Yakutia's budget as of 1 January 2007, (b) the Russian Government has transferred and is transferring certain social assets of Yakutia to the relevant Russian governmental bodies and (c) ALROSA's subsidiary ALROSA-Nyurba made and will continue to make additional support payments to Yakutia in the amount of approximately RUB3,509 million (approximately US$112 million) per year from 2007 to 2011 and RUB1,209 million (approximately US$39 million) per year from 2012 to 2018. It is expected that the provisions described above will have an overall positive impact on the Group's results of operations and cash flows.

Following the termination of the Lease Agreement and the expiration of the Temporary Agreement, ALROSA is no longer bound by the obligations to retain and maintain social assets and can freely dispose of such assets. This would permit more rational and efficient management of ALROSA's overall fixed assets in Yakutia. The Group is continuing the process of transferring the remaining social assets on its balance sheet.

Taxes

Under applicable legislation, ALROSA pays taxes to the federal budget and to the regional budget of Yakutia at the rates established by the Russian Government and the Government of Yakutia, respectively, including:

- a mineral extraction tax of 8 per cent. of the estimated value of diamonds extracted, at the rate of 5.5 per cent. and 6 per cent. of the value of non-metalliferous and other minerals extracted, respectively, determined on the basis of the Price List, maintained by the Ministry of Finance;
- a water tax; and
- regular royalty payments for subsoil use.

The laws of Russia provide for an exemption from mineral resources payments during an initial period of development of mineral deposits.

Properties

ALROSA currently has five ore treatment plants and three dredges. Each ore treatment plant is located near one of ALROSA's principal mining operations. In addition, Almazy Anabara has five ore processing units and Severalmaz owns one ore treatment plant. The following table provides capacity and other information for each of these plants. Several of ALROSA's older ore treatment plants have been closed or are used for experimental processing, including Ore Treatment Plant No. 5, which has not been operational since late 2004. The following table sets out processing information for the ore treatment plants currently utilised in production:

Ore Plant/Dredge	Built	Treatment Primary Mines Serviced	For the year ended 31 December 2009	2008	2007
			('000 tonnes, except where indicated otherwise)		
Ore Plant No. 3	1966	International, Mir and alluvial gravel from Mirny	1,258	1,683	1,792
Dredge No. 201	1960	Alluvial gravel from Mirny ('000 m^3)	514	932	631
Dredge No. 202	1961	Alluvial gravel from Mirny ('000 m^3)	—	1,400	638
Dredge No. 203	2004	Alluvial gravel from Mirny ('000 m^3)	706	1,035	650
Ore Plant No. 8	1966	Aikhal and Komsomolskaya Udachny, Zarnitsa and alluvial gravel from Almazy	1,269	1,567	1,520
Ore Plant No. 12	1976	Anabara ('000 m^3)	7,192	10,350	9,300
Ore Plant No. 13(1)	1997	Alluvial gravel from Almazy Anabara ('000 m^3)	—	—	198.2
Ore Plant No. 14	1996	Jubilee	8,120	11,000	11,200
Ore Plant No. 15	1999	Nyurbinskaya	—	500	513
Ore Plant No. 16	2003	Nyurbinskaya	1,670	1,850	1,862
Ore Plant No. 1(2)	2005	Lomonosov	1,076	1,111	1,022
Five processing units	—	Alluvial gravel from Almazy Anabara ('000 m^3)	3,816	6,380	—

Notes:

(1) Owned by Almazy Anabara, a wholly-owned subsidiary of ALROSA.

(2) Owned by Severalmaz. ALROSA holds a 95.03 per cent. interest in Severalmaz.

Ore Treatment Plant No. 3 has a design capacity of up to 2.0 million tonnes of ore per year. ALROSA adopted a reconstruction and modernisation programme to decrease the design capacity of the plant to 1.88 million tonnes of ore per year in line with the design capacity of the Mir and International underground mines. ALROSA plans to commence and complete the programme in 2012. Ore Treatment Plant No. 8 underwent a reconstruction and modernisation in 2006. In 2008, Ore Treatment Plant No. 13 ceased its operations and the processing of the gravel extracted from the Anabar alluvial mines was transferred to the five enrichment units with an aggregate design capacity of approximately 5.0 million tonnes per year. The final processing of the ore concentrate is performed at Ore Treatment Plant No. 12. Given the close proximity of Ore Treatment Plan No. 15 to Ore Treatment Plant No. 16, ALROSA adopted a modernisation programme aimed at consolidation and optimisation of the processing technology used at the two plants by liquidating the final stage of ore processing at Ore Treatment Plant No 15 and transferring it to Ore Treatment Plant No. 16. ALROSA commenced the programme in 2008 and completed it in 2010. In 2014, ALROSA also plans to commence reconstruction and modernisation of Ore Treatment Plant No. 12 to decrease its design capacity to 5.0 million tonnes of ore per taking into account the substantial reduction in the expected levels of production at the Udachny open-pit mine and commencement of operations of the Udachny underground mine. The reconstruction and modernisation is expected to be completed in 2016. In the fourth quarter of 2010, ALROSA plans to implement a modernisation programme at Dredge No. 201 to increase efficiency of the extraction process. ALROSA believes that, with these improvements, its ore treatment facilities will have sufficient capacity to meet ALROSA's needs for the foreseeable future.

ALROSA's diamond cutting and polishing division, Brillianty ALROSA, leases a building of approximately 5,930 square metres in Moscow for its diamond-cutting and polishing operations from Almazny Mir. The Group incurs rent expenses in the amount of RUB52.6 million (US$1.7 million) per year for the use of these premises, and this lease is renewed on an annual basis.

In addition, the Group maintains corporate offices in Moscow, Mirny, Yakutsk, Orel, St.-Petersburg, Dubai, Ramat Gan and leases offices in New York, Hong Kong, Antwerp, Geneva, London and Luanda.

Applicable Russian federal law has required that rights to real property be registered since January 1998. However, much of ALROSA's real property is located in Yakutia, where this registration system has only been in place since 2000. As with many Russian companies extensively using real property, ALROSA was only able to register its real property rights in 2003. Although ALROSA has established an internal department to undertake these registrations, some of its real estate rights have not yet been registered and, therefore, the validity of its title has not yet been confirmed. As a result, ALROSA can give no assurance that the validity of these unregistered real property rights are not subject to challenge prior to such registration.

Insurance

The Group uses a special transport company engaged in transportation of valuables, a division of the Russian Ministry of Communications and Information Technologies, to transfer its diamonds by air from Mirny to Moscow. For domestic sales of gem and near-gem diamonds, the customer is generally required to assume the risk of transport of diamonds from ALROSA's Moscow facilities. Similarly, ALROSA's agreements with international customers that such customers are responsible for the risk of loss from the transport of diamonds from ALROSA's Moscow premises.

ALROSA insures its diamond products, including all rough diamonds, against all types of risks during transportation from ALROSA's mining operations in Yakutia to the company's facilities in Moscow.

ALROSA also maintains general liability insurance in an amount that ALROSA believes is sufficient with respect to its mining operations. Currently most of ALROSA's operating assets are insured, and the insurance substantially exceeds their replacement costs. However, ALROSA can offer no assurance that it will not incur losses beyond the limits of, or outside the coverage of, its insurance policies. See "Risk Factors — Risks Related to the Group's Business — ALROSA and some of its subsidiaries could be subject to liabilities that are not covered by insurance".

With respect to the Group's passenger air transport, ALROSA maintains carrier liability insurance and it also insures its aeroplanes. In addition, ALROSA maintains insurance with respect to accidents and additional medical insurance for its employees.

Environmental Matters

As part of its mining operations, the Group uses various chemicals and produces overburden and wastewater that could have a negative impact on wildlife and vegetation in adjacent areas if improperly discharged. In addition, the Group uses hazardous materials, such as solvents, to clean, refurbish and maintain its equipment. Through ALROSA's subsidiary Irelyakhneft, the Group is engaged in oil extraction and refining, and the Group dispenses petroleum products from underground storage tanks on its sites. These and other activities are subject to various laws and regulations concerning environmental protection.

The mitigation of the ecological effects of mining on the environment in the Udachny and Mirny areas presents a particular challenge for the Group. Because the wastewater from these operations has a high salt content, it cannot be discharged into the river system or onto the adjacent land. To address this problem, the Udachny and Mirny mines operate a system of underground storage of brine in the geological fractures of permafrost rock. ALROSA considers this method to be the most effective way to dispose of the mineralised water. In 1995, ALROSA engaged independent environmental consultants from the United States to conduct an environmental audit of the Udachny mine. On the basis of the consultants' analysis, ALROSA believes that the mining operations at Udachny satisfied all applicable environmental requirements.

ALROSA has adopted a long-term programme, guided by international standards, to address environmental concerns and follow a policy aimed at protecting water and air quality in order to minimise the impact of its activities on the local environment and to improve its employees' working conditions. Although ALROSA believes there are no existing material liabilities relating to non-compliance with environmental laws and regulations, there can be no assurance that there are no undiscovered potential liabilities or that future uses or conditions will not result in the imposition of environmental liability upon ALROSA or expose ALROSA to third-party actions. Furthermore, ALROSA can provide no assurance that changes in environmental regulations in the future will not require it to make significant capital expenditures to change its methods of disposal of hazardous materials or otherwise alter aspects of its operations.

Health and Safety

Mining is an inherently dangerous activity. As with any construction or excavation work, there is the general risk of accidents involving the heavy equipment, machinery and structures used in the mining industry. In particular, each year the Group uses approximately 20,000 tonnes of explosives that create additional dangers. Employees working above the site floor are subject to accidents involving falls and those below, to cave-ins. In addition, as the depth of ALROSA's mine pits increases, a number of problems often arise, the principal one being the resulting reduction in natural ventilation and deterioration of air quality in the working zones of the pit. The air quality is affected by the exhaust gases from the large trucks used in the pit and the gaseous by-products of blasting. In addition, in open-pit mines sudden air temperature changes can lead to deep inversions of the atmosphere in the pit with the difference between the surface temperature and the lower-level temperature being as great as 10°C to 20°C, resulting in ventilation problems. See "Risk Factors — Risks Related to the Group's Business — The Group is subject to general mining risks".

Various Russian laws govern workplace safety. The approval of the Service is required to commence any mining project. The Service has the power to inspect facilities and wide powers to take remedial measures. These powers include ordering the curing of breaches of industrial safety requirements, ordering evacuation of personnel, imposing administrative liability on individuals as well as legal entities and submitting materials to the prosecution authorities for imposition of criminal liability on the individual wrongdoers. In the past three years, ALROSA has not had any serious accidents and the Russian government authorities have not taken any material action with respect to its operations. ALROSA has instituted a general programme to improve worksite safety. As part of this programme, every mining employee certifies each calendar quarter his knowledge of ALROSA's safety procedures.

Competition

The world diamond mining industry is highly concentrated, and the number of mining companies is limited by, among other things, the high capital costs required, the limited number of economically feasible mining sites and limited access to distribution channels. ALROSA believes that only four companies produce the majority of the world's diamond production: De Beers, ALROSA, Rio Tinto and BHP Billiton. The Group is the largest diamond mining company in the world by diamond production, based on carat volume. In 2009, the Group produced approximately 30 per cent. of the world's rough diamond output, measured as a multiple of average market prices for the year, and approximately 28 per cent. by carat volume. ALROSA expects that the number of diamond mining companies will continue to be limited due to high barriers to entry, including the high capital costs involved and the limited access to licences or concessions to develop commercially feasible diamond deposits. ALROSA believes that only the diamonds produced in Namibia are of a higher quality, on average, than the rough diamonds that the Group produces. Accordingly, ALROSA believes that the quality of the Group's diamonds represents an important competitive advantage for its business.

Within Russia, ALROSA holds exclusive prospecting licences in numerous locations and, to date, only one company other than ALROSA and its majority-owned subsidiaries ALROSA-Nyurba and Severalmaz has been granted a licence to mine diamond pipes. In October 2008, Lukoil obtained state approval to acquire a 49.99 per cent. stake in Arkhangelskgeoldobycha, which holds a licence to mine rough diamonds from the Grib mine relating to the Verkhotinskoye diamond deposit in Russia. This approval is subject to an obligation to produce rough diamonds from the Verkhotinskoye diamond deposit in volumes to be further determined by the Russian Government. Except for the Group, only two other companies in Russia, Ural-Almaz and Nizhnelenskaya Company, have licences to mine diamonds from alluvial deposits, together producing approximately six per cent.

of the Group's diamond output in terms of volume and 5 per cent. in terms of value in 2009. Ural-Almaz and Nizhnelenskaya Company sell the diamonds they produce on the domestic market only.

Legal and Regulatory Proceedings

EU Commission's Decision on the De Beers Trade Agreement

In February 2006, De Beers agreed with the European Commission to gradually reduce its purchases of rough diamonds from ALROSA to a maximum of US$400 million in 2008 and thereafter to cease any further purchases altogether. The European Commission has neither requested, nor has ALROSA made, any commitments of its own regarding sales to De Beers. On 9 May 2006, ALROSA entered into a Memorandum with De Beers that complies with the De Beers commitments to the European Commission. According to the Memorandum, De Beers undertakes to purchase rough gem diamonds from ALROSA until the end of 2008, up to the maximum amounts permitted by its agreement with the European Commission. On 29 June 2006, ALROSA filed an appeal before the European Court of First Instance against the European Commission's decision rendering De Beers' commitments legally binding. On 11 July 2007, the European Court of First Instance ruled in favour of ALROSA and revised the decision of the European Commission. In September 2007, the European Commission filed an appeal with the European Court of Justice against the decision of the European Court of First Instance. On 29 June 2010, the European Court of Justice ruled in favor of the European Commission, concluding that the Commission did not make "an error of law or a manifest error of assessment" in reaching its decision.

Tax Claims

From March to October 2002, ALROSA was subject to a comprehensive tax audit by the Department of the Ministry of Taxes and Duties (now the Federal Tax Service) of Russia for the Republic of Sakha (the "**Yakutia Tax Inspectorate**") covering the tax years 1999 to 2001. As a result of this audit, the Yakutia Tax Inspectorate initially assessed ALROSA in the amount of approximately RUB30.7 billion (US$1 billion). After ALROSA formally protested these assessments, in January 2003, the Yakutia Tax Inspectorate reduced its demands to RUB1.8 billion (US$58 million).

Pursuant to ALROSA's application in January 2003, the Yakutia Tax Inspectorate agreed to offset RUB1.2 billion (US$38 million) of its claims against the Government's obligations to ALROSA. In addition, ALROSA paid local taxes pursuant to the demand notices in the amount of RUB30.7 million (US$1 million).

At the end of January 2003, ALROSA filed a higher-level administrative appeal against the assessments by the Ministry of Taxes and Duties of Russia (now the Federal Tax Service). Following the denial of this appeal, ALROSA contested the full amount of the assessment in court. The court ruled in ALROSA's favour with respect to RUB1.7 billion (US$54 million) in March 2004 and denied the remainder of ALROSA's claim. The Yakutia Tax Inspectorate disputed the court's decision in a higher court. In early November 2004, the higher court overruled this decision in part — ALROSA's claim with respect to RUB1.3 billion (US$42 million) was satisfied, and with respect to RUB544 million (US$17 million) was remanded to a new trial. While reconsidering in July 2005, the court ruled in ALROSA's favour with respect to RUB386 million (US$12 million), and against ALROSA with respect to the remainder of claim. ALROSA disputed this court's decision with respect to RUB158 million (US$5 million). In November 2005, the case in the amount of RUB127 million (US$4 million) was remanded to a new trial. In March 2006, the Yakutia Tax Inspectorate's claim in the amount of RUB127 million (US$4 million) was sustained, ALROSA did not appeal this decision.

The Audit Chamber

The Audit Chamber is an independent auditing body, which is authorised to investigate Russian agencies and other entities associated with the Russian Government. The Audit Chamber may report its findings and make recommendations to such entities; however, these recommendations do not carry the force of law and are, therefore, not mandatory. The Audit Chamber periodically investigates various matters relating to the Group's business, its financial data, its regulatory environment and, more generally, all matters relating to the Group. Among other things, the Audit Chamber investigated the following: in 2008, ALROSA's regulatory compliance in the areas of tax, customs, foreign trade, geological exploration and use of subsoil resources; in 2005, ALROSA's borrowing policies, the basis for calculation of extraction tax and ALROSA's sales to Belarus; in 2004, rough diamond prices set by the Ministry of Finance; in 2003, ALROSA's sales to Almaziuvelirexport; and in 2002, the Audit Chamber investigated the Lease Agreement. ALROSA is not aware of any Audit Chamber plans to conduct any investigations in 2010 over any matters related to the Group's business.

As a result of such investigations, the Audit Chamber made and may make in the future recommendations to ALROSA and to the Russian Government. As of the date of this Prospectus, no action has been taken, and ALROSA believes that it is unlikely that any action will be taken in the future, by the Russian Government or the General Prosecutor's Office to implement the recommendations of the Audit Chamber with respect to ALROSA or its business. However, ALROSA can give no assurance in this regard. See "Risk Factors — Risks Related to the Group's Business — The Audit Chamber periodically investigates various matters relating to ALROSA, and may issue recommendations which, if implemented by the Russian Government, could adversely affect the Group's business".

MANAGEMENT AND EMPLOYEES

Supervisory Council

Under ALROSA's charter, the Supervisory Council consists of 15 members elected by cumulative voting from candidates nominated by the shareholders. Each member has one vote. The Supervisory Council is headed by the Chairman who is entitled to cast a tie-breaking vote. Its members are elected for a period ending upon the occurrence of the next annual shareholders' meeting and may be re-elected without limitation thereafter. The Supervisory Council exercises general guidance over ALROSA's activities in accordance with the authority provided under Russian federal legislation, and controls ALROSA's executive bodies. The Supervisory Council does not, however, supervise the day-to-day running of ALROSA's business. The present term of the Supervisory Council members will expire on the date of the next annual general shareholders' meeting, which is expected to take place in June 2011.

The Supervisory Council is currently managed by the Chairman (Aleksey Leonidovich Kudrin), First Vice Chairman (Aleksandr Alikhanovich Akhpolov) and Vice Chairman (Egor Afanasyevich Borisov).

The present members of the Supervisory Council are:

Name	Member Since	Principal Occupation
Aleksey Leonidovich Kudrin(1)	June 2002	Minister of Finance of the Russian Federation; Deputy Chairman of the Russian Government; Chairman of the Supervisory Council
Aleksandr Alikhanovich Akhpolov(1)	June 2006	Head of the Administrative Department of the Ministry of Finance; Vice Chairman of the Board
Egor Afanasyevich Borisov(2)	June 2005	President of the Republic of Sakha (Yakutia), Vice Chairman of the Board
Genadiy Fedorovich Alekseev(2)	June 2005	First Deputy Chairman of the Government of the Republic of Sakha (Yakutia)
Fyodor Borisovich Andreev(4)	June 2009	President (CEO) of ALROSA
Ivan Kirillovich Demyanov(3)	June 2004	Vice President of ALROSA
Sergey Konstantinovich Dubinin(4)	June 2009	Member of the Board of CJSC "VTB Capital" (qualified state mandatary)
Viktor Petrovich Efimov(2)	June 2007	Minister of Property Relations of the Republic of Sakha (Yakutia)
Aisen Sergeevich Nikolaev(2)	June 2005	Head of the Administration of the President and the Government of the Republic of Sakha (Yakutia)
Vladimir Borisovich Rybkin(1)	June 2009	Head of Gokhran of Russia
Alexey Aleksandrovich Struchkov(2)	June 2010	First Vice-Chairman of the Government of the Republic of Sakha (Yakutia)
Anatoly Vladimirovich Tikhonov(4)	June 2009	First Deputy Chairman of the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (qualified state government mandatary)
Vladimir Ivanovich Tikhonov(2)	June 2010	Head of the Suntar Ulus (Municipal District) of the Republic of Sakha (Yakutia)
Yakov Moiseevich Urinson(4)	June 2009	Deputy CEO of the Russian Corporation of Nanotechnologies (RUSNANO) (qualified state mandatary)
Ilya Arturovich Yuzhanov(4)	June 2009	Member of Supervisory Board of ZAO NOMOS BANK (qualified state mandatary)

Notes:

(1) Nominee of Russia.

(2) Nominee of the Republic of Sakha (Yakutia).

(3) Nominee of the shareholder employees.

(4) Nominee of the Russian Federal Property Management Agency (Rosimuschestvo).

The members of the Supervisory Council can be contacted at the Moscow Representative Office address of ALROSA, 10/12 1st Kazachy Per., Moscow 119017, Russia.

Aleksey Leonidovich Kudrin, Chairman of the Supervisory Council. Mr. Kudrin became a member of the Supervisory Council in June 2002. He is also the Minister of Finance of the Russian Federation and the Deputy Chairman of the Russian Government. He currently serves as the Chairman of the Supervisory Council of VTB and is a member of the Board of Directors of OJSC Sberbank. In addition, Mr. Kudrin is the Chairman of the National Banking Board of the CBR.

Aleksandr Alikhanovich Akhpolov, First Vice Chairman of the Supervisory Council and Director of the Administrative Department of the Ministry of Finance of the Russian Federation. He became a member of the Supervisory Council in June 2006. He currently serves as a member of the Board of Directors of OJSC Prioksky Zavod Tsvetnykh Metallov.

Egor Afanasyevich Borisov, Vice Chairman of the Supervisory Council and President of the Republic of Sakha (Yakutia). He became a member of the Supervisory Council in June 2005. He currently serves as the Chairman of the Board of Directors of OJSC Nizhnelenskoye and of the Supervisory Council of OJSC AKB Almazergienbank and is a Chairman of the Board of Directors of OJSC Regionalnaya Strakhovaya Kompanya Sterkh and OJSC Respublikanskaya Investitsionnaya Kompaniya ("**RIK**").

Genadiy Fedorovich Alekseev, First Deputy Chairman of the Government of Sakha (Yakutia). Mr. Alekseev became a member of the Supervisory Council in June 2005. He currently serves as the Chairman of the Board of Directors of Tuymaada Diamond, OJSC Korporatsia Razvitiya Yuzhnoi Yakutii, OJSC Korporatsia Razvitiya Vostochnoi Yakutii, OJSC Sakhaekspomamont and OJSC Sakha Diamond**.**

Fyodor Borisovich Andreev, President of ALROSA. Mr. Andreev became a member of the Supervisory Council of ALROSA in June 2009. From 2002 to 2003, he briefly served as the First Vice-President of Economics and Finance of ALROSA. On 15 July 2009, Mr. Andreev became President of ALROSA. He is currently a member of the Board of Directors of OJSC SG-Trais.

Ivan Kirillovich Demyanov, Vice President of ALROSA. He became a member of the Supervisory Council in June 2004. He currently serves as the Chairman of the Board of Directors of CJSC ALROSA-Torg, CJSC Sanatory Golubaya Volna and Insurance Company ALROSA as well as being a member of the Board of Directors of CJSC ALROSA's Hotels and MAK-Bank.

Sergey Konstantinovich Dubinin, Member of the Board of CJSC VTB Capital. Mr. Dubinin became a member of the Supervisory Council of ALROSA in June 2009. From 2005 to 2008, he was a member of the Management Board and the Financial Director of RAO UES of Russia. In 2008, Mr. Dubinin became a member of the Board of Directors of CJSC VTB Capital. Mr. Dubinin is currently a member of the Board of Directors of OTKRITIE Financial Corporation, CJSC KB OTKRITIE, AKB Derzhava LLC, Holding VTB Capital I.B. and CJSC Holding Capital.

Viktor Petrovich Efimov, Minister of Property Relations of the Republic of Sakha (Yakutia). Mr. Efimov has been a member of the Supervisory Council since 2007. From 2004 until 2007, he served as Minister of Economic Development of the Republic of Sakha (Yakutia). Mr. Efimov currently is a member of the Board of Directors of the following companies: OJSC Sakhatransneftegas, OJSC AK Zhelezniye Dorogi Yakutii, OJSC Korporatsia razvitiya Yuzhnoi Yakutii, OJSC Korporatsia razvitiya Vostochnoi Yakutii, OJSC AKB Almazergienbank, OJSC Yakuttsement and RIK.

Aisen Sergeevich Nikolaev, Head of the Administration of the President and the Government of the Republic of Sakha (Yakutia). Mr. Nikolaev became a member of the Supervisory Council in June 2005. From 2005 until 2007, he served as Minister of Finance of the Republic of Sakha (Yakutia). He currently is the Chairman of the Board of Directors of OJSC Redaktsiya Gazeti Yakutia and OJSC Redaktsiya Gazeti Sakha-Sire. Mr. Nikolaev is also currently a member of the Supervisory Council of OJSC AKB Almazergienbank and of the Board of Directors of OJSC Regionalnaya Strakhovaya Kompanya Sterkh, RIK and OJSC Media-Holding Yakutia.

Vladimir Borisovich Rybkin, Head of Gokhran of Russia (Russia State Depositary of Precious Metals and Gems). Mr. Rybkin has been a member of the Supervisory Council since June 2009. He has been the Head of GOHKRAN of Russia since 2002. Mr. Rybkin is currently a member of the Board of Directors of OJSC Schelkovsky zavod vtorichnyh dragotsennyh metallov.

Alexey Aleksandrovich Struchkov, First Vice-Chairman of the Government of the Republic of Sakha (Yakutia). Mr. Struchkov has been a member of the Supervisory Council since June 2010. He currently is a member of the Board of Directors of OJSC Nizhnelenskoye, OJSC National Tourist Company Yakutia, OJSC Korporatsia Razvitiya Yuzhnoi Yakutii, OJSC Sakhaneftegazsbyt and RIK.

Anatoly Vladimirovich Tikhonov, First Deputy Chairman of the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)". He has been a member of the Supervisory Council since June 2009.

Mr. Tikhonov currently serves as the Chairman of the Board of Directors of OJSC AKB Sviaz-Bank. He is also a member of the Board of Directors of United Company RUSAL and OJSC International Airport Sheremetyevo.

Vladimir Ivanovich Tikhonov, Head of the Suntar Ulus (Municipal District) of the Republic of Sakha (Yakutia). Mr. Tikhonov has been a member of the Supervisory Council since June 2010. He currently serves as the Chairman of the Supervisory Council of OJSC SPOK Suntar As.

Yakov Moiseevich Urinson, Deputy CEO of the Russian Corporation of Nanotechnologies (RUSNANO). He has been a member of the Supervisory Council since June 2009. From 2000 to 2008, Mr. Urinson served as the Deputy Chairman of the Board and the Head of OJSC RAO UES of Russia Corporate Centre. He is currently a member of the Board of Directors of OJSC Meditsina and OJSC Permenergosbyt. He is also a Chairman of the Board of Non-governmental Pension Fund Elektroenergetiki.

Ilya Arturovich Yuzhanov, Member of Supervisory Board of OJSC NOMOS BANK. He has been a member of the Supervisory Council of ALROSA since June 2009. From 2006 until 2007, Mr Yuzhanov was a Vice Chairman and member of the Board of Directors of Kirov Works. Since 2006, he has been a member of the Board of Directors of OJSC Uralkali and a member of the Supervisory Council of CJSC AIKB Novaya Moskva. Mr. Yuzhanov is currently the Chairman of the Board of Directors of OJSC Polymetal.

Most of the companies in which members of ALROSA's Supervisory Council hold management positions are subsidiaries of ALROSA. See "Principal Subsidiaries — Consolidated Subsidiaries".

The business address of Messrs. Kudrin and Akhpolov is 9 Ilyinka St., Moscow 103097, Russian Federation. The business address of Mr. Andreev is 10/12 1st Kazachy Per., Moscow 119017, Russian Federation. The business address of Messrs. Borisov, Alekseev and Nikolaev is 11 Kirov St., Yakutsk 677022, Republic of Sakha (Yakutia), Russian Federation. The business address of Mr. Demyanov is 6 Lenin St., Mirny 678170, Republic of Sakha (Yakutia), Russian Federation. The business address of Mr. Dubinin is 12 Presnenskaya Embankment, Moscow 125047, Russian Federation. The business address of Mr. Efimov is 8 Amosova St., Yakutsk 677000, Republic of Sakha (Yakutia), Russian Federation. The business address of Mr. Rybkin is 14, 1812 Goda St., Moscow 121170, Russian Federation. The business address of Mr. Struchkov is 11 Kirov St., Yakutsk 677022, Republic of Sakha (Yakutia), Russian Federation. The business address of Mr. Anatoly Vladimirovich Tikhonov is 9 Academica Sakharova Boulevard, Moscow 107996, Russian Federation. The business address of Mr. Vladimir Ivanovich Tikhonov is 28 Lenin St., Suntar, Republic of Sakha (Yakutia), Russian Federation. The business address of Mr. Urinson is 10A 60-letia Octiabria Boulevard, Moscow 117036, Russian Federation. The business address of Mr. Yuzhanov is 3, Building 1 Verkhniaya Radischevskaya, Moscow 109240, Russian Federation.

To the best of the Guarantor's knowledge, other than as set forth in "Management and Employees", there are no conflicts of interest between the duties that any member of the Supervisory Council owes to ALROSA and such member's private interests and other duties.

Management Board

ALROSA's Management Board is responsible for ALROSA's general management, except for those matters that, as a matter of law, are reserved to the shareholders or the Supervisory Council. Thus, the Management Board is responsible for ALROSA's day-to-day operations. ALROSA's charter states that the Supervisory Council determines the total number of members of the Management Board. The members of the Management Board are approved by the Supervisory Council upon proposal of the President of the Company. Each member of the Management Board has one vote and decisions are taken by simple majority. The Management Board is headed by the President, who is entitled to cast a tie-breaking vote. Meetings of the Management Board are required to be held at least quarterly. Currently, the Management Board has 20 members.

The present members of the Management Board are:

Name	Year of Birth	Responsibility
Fyodor Borisovich Andreev	1966	President
Yuriy Andreevich Doynikov	1955	First Vice President, Executive Director
Ivan Kirillovich Demyanov	1942	Vice President
Yuriy Anatolyevich Ionov	1950	Vice President
Olga Alekseevna Lyashenko	1948	Chief Accountant
Valentina Anatolyevna Potrubeyko	1961	Vice President
Sergey Aramovich Ulin	1950	Vice President
Alexander Ivanovich Efimov	1956	Chief Engineer
Sergey Grigoryevich Aliabiev	1953	Director of Nyurba Division
Dmitriy Vladimirovich Mostovov	1957	Director of Mirny Division
Alexander Feodorovich Makhrachev	1956	Director of Udachny Division
Ravil Shamilevich Sanatulov	1963	Director of Aikhal Division
Igor Vitalevich Sobolev	1969	Director of Capital Construction Department
Aleksandr Sergeevich Chaadaev	1960	Director, Yakutniproalmaz Scientific and Research Institute
Vladimir Pavlovich Tkachenko	1956	Vice President
Igor Mikhailovich Kulichik	1967	Vice President, Chief Financial Officer
Sergey Ivanovich Mityukhin	1956	Deputy Executive Director, Chief Geologist
Vassily Borisovich Grabtsevich	1950	Vice President
Yuri Konstantinovich Okoyomov	1962	Vice President
Sergey Nikolaevich Pushkin	1967	Vice President

Fyodor Borisovich Andreev, President. Mr. Andreev is responsible for general management of ALROSA. Mr. Andreev graduated from the Leningrad State University in 1989 with a degree in Political Economy. From 2002 to 2003, Mr. Andreev served as First Vice President of Economics and Finance in ALROSA. Then, in 2003, he joined Russian Railways, where he was a Vice President until 2005, when he was promoted to Senior Vice President of Economics and Finance of Russian Railways, in which capacity he served until 2009. In June 2009, he became a member of the Supervisory Council. On July 15, 2009, Mr. Andreev was appointed President (CEO) of ALROSA.

Yuriy Andreevich Doynikov, First Vice President, Executive Director. He is responsible for production and business activities. Mr. Doynikov became a member of the Management Board in 2003. From 2000 until 2002 he has served as Director of the Aikhal Division, and from 2002 until 2007 he was Director of the Mirny Division. Mr. Doynikov is a member of the Board of Directors of ALROSA-Nyurba, Almazy Anabara, MAK-Bank, Alrosa-Gaz and Viluyskaya GES-3 and is a member of the National Assembly (Il Tumen) of the Republic of Sakha (Yakutia).

Ivan Kirillovich Demyanov, Vice President. Mr. Demyanov is responsible for social and human resources issues and policies. He became a member of the Management Board in 2002. From 2002 until 2006, Mr. Demyanov was Chairman of the Board of Directors of Almaznaya Osen. He currently serves as the Chairman of the Board of Directors of CJSC ALROSA-Torg and is a member of the Board of Directors of Sanatory Golubaya Volna, Insurance Company ALROSA and ALROSA's Hotels. He is also a member of the Board of Directors of MAK-Bank.

Yuriy Anatolyevich Ionov, Vice President. Mr. Ionov is responsible for economic security and legal support. He became a member of the Management Board in 2003. Mr. Ionov currently serves as the Chairman of the Board of Directors of ALROSA-Okhrana.

Olga Alekseevna Lyashenko, Chief Accountant. Mrs. Lyashenko is responsible for implementation of ALROSA's accounting policies and regulations. She became a member of the Management Board in 1993. At the present time, she does not hold any managerial positions with any other companies.

Valentina Anatolyevna Potrubeyko, Vice President. Mrs. Potrubeyko is responsible for economic planning. She became a member of the Management Board in 2003. Mrs. Potrubeyko currently serves as the Chairman of the Board of Directors of MAK-Bank and OJSC LOTK and is a member of the Board of Directors of ALROSA-Nyurba, CJSC ALROSA-Africa, Viluyskaya GES-3, Almazy Anabara and Irelyauhneft.

Sergey Aramovich Ulin, Vice President. Mr. Ulin is responsible for ALROSA's external relations, including the relations with De Beers. He became a member of the Management Board in 1993. Mr. Ulin is President of the Russian Diamond Chamber, a Russian diamond exchange. He also serves as General Director of Almazny Mir. In addition, Mr. Ulin is the Chairman of the Board of Directors of ARCOS Ltd. and is a member of the Board of Directors of Almazny Mir.

Alexander Ivanovich Efimov, Chief Engineer. Mr. Efimov is responsible for research and technology development, industrial and environmental safety. He became a member of the Management Board in 2007. Prior to that, he served as Manager and from 2006 as Director of Norilskshakhtstroi Trest. Currently, Mr. Efimov serves as the Chairman of the Board of Directors of LLC Almaz-Antareks, NPP Burevestnik and Vilyuskaya GES-3 and is a member of the Board of Directors of ALROSA-Nyurba, Almazy Anabara, LLC ALROSA Spetsburenye and ALROSA-Gaz.

Sergey Grigoryevich Aliabiev, Director of Nyurba division. Mr. Aliabiev is responsible for the management and production activities of the Nyurba division. He became a member of the Management Board in 2002 and served as the Deputy General Director from 1996 to 2001. He became Director of the Nyurba division in 2001 and has been a member of the Board of Directors of ALROSA-Nyurba since 2003.

Alexander Feodorovich Makhrachev, Director of Udachny Division. Mr. Makhrachev is responsible for the management and production activities of the Udachny division. He became a member of the Management Board in 2008. Currently, he is a member of the Board of Directors of OJSC Udachny KPP and Severalmaz.

Ravil Shamilevich Sanatulov, Director of Aikhal Division. Mr. Sanatulov is responsible for the management and production activities of the Aikhal division. He became a member of the Management Board in 2007. Prior to that, he served as Head of Irelyakh mine of the Aikhal division.

Igor Vitalevich Sobolev, Director of Capital Construction Division. From 2000 until 2007, Mr. Sobolev served as the Head of the Capital Construction Department of the Mining Operations, Zapolyarny Division of Norilsk Nickel. In 1993, he graduated from the Tula State Technological University, specializing in underground construction and mining. At the present time, Mr. Sobolev does not hold any managerial positions with any other companies.

Dmitriy Vladimirovich Mostovov, Director of Mirny Division. Mr. Mostovov became a member of the Management Board in 2007. From 2004 until 2006, he worked as a Specialist for Camatchia-Camagico. At the present time, Mr. Mostovov does not hold any managerial positions with any other companies.

Aleksandr Sergeevich Chaadaev, Director, Yakutniproalmaz Scientific and Research Institute. Mr. Chaadaev became a member of the Management Board in 2003. Until 2007, he was Director of Capital Construction Department. At the present time, Mr. Chaadaev does not hold any managerial positions with any other companies.

Vladimir Pavlovich Tkachenko, Vice President. Mr. Tkachenko is responsible for transport and logistics. He became a member of the Management Board in 2008. Mr. Tkachenko is currently the Chairman of the Board of Directors of OJSC SK ALROSA-Lena and OJSC Udachny KPP.

Igor Mikhailovich Kulichik, Vice President, Chief Financial Officer. Mr. Kulichik is responsible for financial planning. He became a member of the Management Board in 2008. He currently serves as a member of the Board of Directors of Insurance Company ALROSA, MAK-Bank, CJSC ALROSA-Africa and Almazy Anabara.

Sergey Ivanovich Mityukhin, Chief Geologist. Mr. Mitykhin is responsible for geological research. He became a member of the Management Board in 2008. He currently serves as a member of the Board of Directors of OJSC SGGK Terra, CJSC ALROSA-Africa and Timir.

Vassily Borisovich Grabtsevich, Vice President. He became a member of the Management Board in 2010. In his capacity as Vice President, Mr. Grabtsevich is responsible for liasing with the Russian Federation and the Republic of Sakha (Yakutia) authorities and is also responsible for licensing activities at ALROSA. From 2007 to 2009, Mr. Grabtsevich served as First Vice Chairman of the Sakha (Yakutia) republican government. Currently, he is a member of the Board of Directors of Severalmaz, NPO Burevestnik, OJSC Corporation of South Yakutia Development.

Yuri Konstantinovich Okoyomov, Vice President. He became a member of the Management Board in 2009. In his capacity as Vice President, Mr. Okoyomov is responsible for marketing and sales. From 2000 to 2009, he held the position of General Director of the United Selling Organization of ALROSA. Currently, Mr. Okoyomov is a member of the Board of Directors of Barnaul Kristal, Almaz-Neva, Arcos Limited, Arcos Hong Kong Limited, Arcos East DMCC, Arcos USA Inc, Acros Belgium NV, Orel-Alrosa and ARCOS Ltd.

Sergey Nikolaevich Pushkin, Vice President. He became a member of the Management Board in 2010. In his capacity as Vice President, Mr. Pushkin supervises operations of ALROSA subsidiaries and affiliates, as well as of ALROSA's African projects. From 2004 to 2009, he was President of OJSC TransCreditBank. Currently, Mr. Pushkin is the Chairman of the Board of Directors of IG ALROSA and is a member of the Board of Directors of CJSC ALROSA-Africa.

The business address of Mr. Andreev is 10/12 1st Kazachy Per., Moscow 119017, Russian Federation. The business address of Messrs. Doynikov, Efimov, Demyanov, Tkachenko, Mityukhin and Ms. Potrubeyko is 6 Lenin St., Mirny 678170, Republic of Sakha (Yakutia), Russian Federation. The business address of Messrs. Ionov, Ulin, Kulichik, Grabtsevich, Okoyomov, Pushkin and Mrs. Lyashenko is 10/12 1st Kazachy Per., Moscow 119017, Russian Federation. The business address of Mr. Aliabiev is 18 Leningradsky Boulevard, Mirny 678170, Republic of Sakha (Yakutia), Russian Federation. The business address of Mr. Makhrachev is Novy Gorod, Udachny 678188, Republic of Sakha (Yakutia), Russian Federation. The business address of Mr. Sobolev is 9 Industrialnaya St., Mirny 678170, Republic of Sakha (Yakutia), Russian Federation. The business address of Mr. Mostovov is 3 Molodezhnyi bypass, Mirny 678170, Republic of Sakha (Yakutia), Russian Federation. The business address of Mr. Chaadaev is 39 Lenin St., Mirny 678170, Republic of Sakha (Yakutia), Russian Federation. The business address of Mr. Sanatulov is 3 Kornilov St., Aikhal 678190, Republic of Sakha (Yakutia), Russian Federation.

Most of the companies, in which members of ALROSA's Management Board hold management positions, are subsidiaries of ALROSA. See "Principal Subsidiaries — Consolidated Subsidiaries". To the best of the Guarantor's knowledge, other than as set forth in "Management and Employees", there are no any conflicts of interest between the duties that any member of the Management Board owes to ALROSA and such member's private interests and other duties.

Compensation of the Members of the Supervisory Council and Management Board

ALROSA's Supervisory Council received no compensation in 2009. Total compensation, including salary and bonuses and other deferred compensation, paid to members of ALROSA's Management Board for the year ended 31 December 2009 was RUB208.4 million (US$6.7 million). There are no outstanding loans made by ALROSA to any of such members, and ALROSA has given no guarantees in respect of obligations of any of such members to third parties. Members of the Management Board are eligible to participate in ALROSA's pension plan if they are regular employees of ALROSA. Members of the Management Board, who are not employees of ALROSA, are not eligible to participate in ALROSA's pension plan.

Board Practices

ALROSA does not enter into service contracts with the members of its Supervisory Council. ALROSA's Management Board members enter into five-year employment contracts, which set forth their compensation and annual performance goals.

Audit Committee

ALROSA's Audit Committee was elected by the general shareholders' meeting in accordance with ALROSA's charter in order to exercise control over its financial and economic activities. Under ALROSA's charter, the Audit Committee consists of five members elected at a shareholders' meeting for a term ending on the date of the next annual general shareholders' meeting, which is expected to be held in June 2011.

The Audit Committee is a statutory audit committee required under Russian legislation governing joint stock companies and the functions and the scope of the Audit Committee's authority are significantly more limited than those of an audit committee of the board of directors required for certain companies in the United States under The Sarbanes-Oxley Act of 2002 and audit committees established by companies organised in some European countries.

The present members of the Audit Committee are:

Name	Responsibility
Andrey Anatolievich Babichenko	Deputy Head of ALROSA Planning and Economic Department
Andrey Vladimirovich Glinov	Head of the Bureau of Precious Metals and Stones Regulation of the Administrative Department of the Ministry of Finance
Evgeny Sergeevich Borisovsky	Departamental Expert with the Office of the Federal Agency for Federal Property Management
Anna Sergeevna Sergeeva	Deputy Head of the Department in the Office of the Federal Agency for the Federal Property Management
Sargylana Nikolaevna Yakovleva	Deputy Minister of Property Relations of the Republic of Sakha (Yakutia)

The business address of Mr. Babichenko is 6 Lenin St., Mirny 678170, Republic of Sakha (Yakutia), Russian Federation. The business address of Mr. Glinov is 14, 1812 Goda St., Moscow 121170, Russian Federation. The business address of Mr. Borisovsky is 9 Nikolsky Per., Moscow 103685, Russian Federation. The business address of Ms. Sergeeva is 9 Nikolsky Per., Moscow 103685, Russian Federation. The business address of Ms. Yakovleva is 8 Amosov St., Yakutsk 677000, Russian Federation.

Budget and Investments Committee

The Strategy and Investments Committee currently consists of up to 23 members, who were elected on 25 June 2010. The Committee is chaired by Fyodor Borisovich Andreev, President (CEO) of ALROSA, and assists the Board of Directors with development of ALROSA's investment, marketing, financial and dividend policies, as well as with ALROSA's overall business strategy.

Employees

The following table sets forth the Group's employees as of 30 June 2010 and 31 December 2009, 2008 and 2007:

	As of 30 June	As of 31 December		
	2010	2009	2008	2007
Mining Activities:				
Udachny	3,911	4,132	4,252	4,231
Mirny	3,469	3,574	3,567	3,503
Aikhal	4,660	4,747	4,805	4,716
Nyurba	1,134	1,119	1,133	1,110
United Selling Organization	938	934	971	983
Maintenance	1,002	1,058	1,285	1,306
Construction	3,306	3,907	4,586	4,811
Transport	3,853	3,914	4,100	4,809
Geology	2,541	2,913	3,227	3,267
Management in Moscow and Mirny	370	428	450	444
Supply	887	914	948	935
Other activities(1)	5,472	5,598	5,727	5,098
Total ALROSA	**31,543**	**33,238**	**35,051**	**35,687**
Subsidiary employees	3,736	3,702	4,207	5,010
Total ALROSA and subsidiaries	**35,279**	**36,940**	**39,258**	**50,223**

Note:

(1) Includes employees of ALROSA's diamond sorting facilities in Mirny, Brillianty ALROSA, ALROSA's YakutNiproAlmaz Institute and ALROSA's representative offices in Russia and abroad.

Most of ALROSA's non-executive management employees are represented by ProfAlmaz, the interregional diamond workers' labour union of ALROSA. However, these employees are not required to join the union. Relations with employees are governed by the terms of a collective agreement, which provides the framework for relations between the employees and ALROSA's management personnel, including wages and salaries, benefits, pensions, training and safety matters. This agreement was signed for the year 2010. ALROSA has not experienced any disruption in operations as a result of any labour dispute, strike or employee legal action during the last three years, and ALROSA believes relations with employees are good.

ALROSA maintains a comprehensive training programme, which includes sponsorship of promising students, as well as worker training.

The average monthly wage for ALROSA's employees was RUB40,213 (US$1,289) as of 31 December 2009. ALROSA significantly increased the salary and bonus levels of its employees from 30 June 2003, commensurate with an increase in the cost of living and to reward its employees for the achievement of production and financial targets. This increase in wages and salaries caused a corresponding increase in pension expenses. ALROSA also pays for the cost of one trip by employees and unemployed members of their families once every two years or, in lieu thereof, pays employees a predetermined travel allowance. The destination may be any place within Russia. In addition, for workers with health problems, ALROSA will pay 70 per cent. of the cost for the employee and two non-working family members to visit a sanatorium within Russia, selected from an approved list, that specialises in the relevant medical condition.

See "Business — Non-Mining Activities — Social Services".

Each employee with more than 15 years of service is entitled to continued benefits after retirement based on their final salary and position. Because of employment in the harsh conditions in northern Yakutia, female employees who have worked for at least 15 years in this region are entitled by law to retire at the age of 50, which is five years earlier than the normal Russian retirement age for female employees. The retirement age for male employees who have worked for at least 15 years in this region is 55, which is five years earlier than the normal Russian retirement age for male employees. Employees who have retired within this northern region also qualify for relocation expenses, should they decide to relocate.

In accordance with the collective agreement, ALROSA has operated a defined benefit plan through its consolidated subsidiary Almaznaya Osen since 1999.

PRINCIPAL SHAREHOLDERS

ALROSA is a closed joint stock company and, consequently, its shares may be sold only in compliance with its shareholders' right of first refusal and in accordance with its charter. ALROSA's principal shareholders exercise their control within the framework established by Russian corporate law and ALROSA's charter. ALROSA's shareholders are currently considering the conversion to an open joint stock company structure which would allow the transfer of its shares, free of the existing shareholders' right of first refusal; however, no final decision has been made in this regard. See "Risk Factors — Risks Related to the Group's Business — ALROSA's status as a closed joint stock company may violate Russian law and its potential conversion into an open joint stock company may occur more slowly than expected or may never occur".

The following table sets forth the ownership of ALROSA's ordinary share capital as of 30 June 2010:

	Number of shares	Per cent.
Federal Agency for the Management of Federal Property of Russia(1)	138,887	50.9256
Ministry for Management of the State-Owned Property of the Republic of Sakha (Yakutia)	87,273	32.0002
Administrations of the Ulusy	21,819	8.0003
Other shareholders(2)	24,747(3)	9.0739
Total	**272,726**	**100.0**

Notes:

(1) Formed in March 2004 as a successor of the State Property Ministry of Russia.

(2) Consists primarily of former and current employees of ALROSA and its predecessor entities.

(3) Includes 497 shares, representing approximately 0.2 per cent. of ALROSA's share capital, held by entities controlled by the Group and accounted for as treasury shares. See "—Shares held by Supervisory Council and Management Board Members".

Shares held by Supervisory Council and Management Board Members

As of 30 June 2010, the members of the Supervisory Council beneficially owned in the aggregate 3 shares of ALROSA and the members of the Management Board beneficially owned in the aggregate 52 shares of ALROSA. In addition, as of 30 June 2010, LLC Management Company Almaz, wholly owned by IG ALROSA, MAK-Bank and pension fund Almaznaya Osen, ALROSA's subsidiaries, held 497 ordinary shares of ALROSA. ALROSA's management controls the voting right of these shares.

Shareholders' Meetings

Annual general shareholders' meetings are convened by the Supervisory Council. They take place each year not earlier than two months, and no later than six months, after the end of the financial year. Extraordinary general shareholders' meetings may be convened by the Supervisory Council upon its own initiative, upon the request of shareholders holding jointly at least 10 per cent. of the voting shares of ALROSA as of the date of making such request, upon the request of ALROSA's Audit Committee or upon the request of an external auditor. Each ordinary share of ALROSA carries the right to cast one vote at a general meeting.

PRINCIPAL SUBSIDIARIES

Material Subsidiaries and Associated Undertakings

Most of the Group's assets are included in, and almost all of the Group's revenues are derived from, ALROSA. However, ALROSA has the following subsidiaries and associates, which are considered to be material to its operations:

- *ALROSA-Nyurba*. ALROSA-Nyurba was formed as an open joint stock company under Russian law. It holds the prospecting licence under which the Nyurba division operates its mines. See "Business — Diamond Mining Operations — Russian Mining Operations — Nyurba Division". As of 30 June 2010, ALROSA-Nyurba's shareholders were as follows: ALROSA owned an 87.52 per cent. interest, the Ministry of Property Relations of Yakutia owned a 10 per cent. interest and other legal entities and individuals held the remaining interest. All work at the Nyurba operations is performed by the Nyurba division pursuant to a services agreement with ALROSA-Nyurba. The principal business address of ALROSA-Nyurba is 25, Lenin Street, Nyurba, 678450, Republic of Sakha (Yakutia), Russia.

- *Severalmaz*. Severalmaz is a diamond mining company, formed as an open joint stock company under Russian law, which holds the licence to mine the Lomonosov diamond field in the Arkhangelsk region of northwestern Russia. As of 30 June 2010, ALROSA owned 95.03 per cent. of Severalmaz and various individuals and legal entities, collectively, owned the remaining 4.97 per cent. The principal business address of Severalmaz is 15, K. Marx Street, Arkhangelsk, 163000, Russia. ALROSA is currently exploring the opportunity of divesting up to 45 per cent. of its interest in Severalmaz to a strategic investor.

- *Catoca Mining*. Catoca Mining was established in 1992 as a joint venture for the purpose of mining the Catoca diamond pipe in Angola. As of 30 June 2010, ALROSA owned a 32.8 per cent. interest in Catoca Mining, ENDIAMA owned 32.8 per cent, Instaconsult B.V. owned 18 per cent. and Odebrecht owned 16.4 per cent. See "Business — Diamond Mining Operations — Angolan Mining Operations — Catoca Mining". The principal business address of Catoca Mining is Sector Talatona, Luanda Sul, Luanda, Angola. Catoca Mining is accounted for under the equity method in the Group Financial Statements.

ALROSA has a number of additional direct and indirect subsidiaries, which are primarily engaged in the performance of ancillary activities relating to the Group's diamond mining operations. The Group's current structure is primarily the result of ALROSA's consolidation of the operations of its predecessor entities, and ALROSA has initiated a process to simplify and rationalize this corporate structure as part of its current strategic plan. Under its current plan, ALROSA intends to focus on its core mining operations and continue to explore opportunities to divest its non-core assets. See "Business—Strategy—Divesting non-core assets".

Consolidated Subsidiaries

Certain consolidated financial information for ALROSA is set forth in "Selected Financial Information". The principal consolidated subsidiaries of ALROSA as of 30 June 2010 are listed in Note 4 to the Group's Interim Financial Statements.

Viluygesstroy, ALROSA-Lesprom, LLC Mirny ORS and Orel-Almaz have been put under receivership. All of ALROSA's interest in LLC Bazis was sold in 2008. LLC Mirkom and Invest Almaz were liquidated in 2008 and in the first quarter of 2010, respectively.

IG ALROSA, a wholly owned subsidiary of ALROSA, is in the process of liquidation. All of its subsidiaries were sold or liquidated excluding Timir, the stake in which has been transferred to ALROSA. Timir holds four licences for the exploration and development of four large iron ore deposits (Taezhnoe, Desovskoe, Tarynnakhskoe and Gorkitskoe) in southern Yakutia.

In October 2008, IG ALROSA entered into a share purchase agreement with respect to the purchase of a 45 per cent. stake in KIT Finance. In December 2008, in the context of the Russian Government's response to the global economic crisis, the Group acquired, on an interim basis and for a nominal investment of RUB45, a 45 per cent. participation interest in KIT Finance, which held shares of KIT Finance Bank and certain other assets. Although it was anticipated that the Group's share in KIT Finance would be transferred to Russian Railways in 2009, the transfer for a nominal consideration of RUB45 did not occur until April 2010. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Uses of Funds — Acquisitions — Acquisition of an Interim Minority Interest in KIT Finance".

CERTAIN TRANSACTIONS WITH RELATED PARTIES

ALROSA's principal shareholders include Russia and the Republic of Sakha (Yakutia). ALROSA's mining business requires ALROSA to obtain licences by tender or auction, the results of which are decided by commissions, which include representatives of both Russia and the Republic of Sakha (Yakutia), and to enter into licence agreements with the authorities that regulate the use of subsoil in Russia. As a result, ALROSA has engaged in several transactions with these related parties. For a description of the licences involving Russia and the Republic of Sakha (Yakutia) under which ALROSA operates, please see "Regulatory Matters — Regulation of Mineral Resources — Subsoil Licences". For a description of the Group's sales to these entities, please see "Business — Marketing and Sales of Diamonds — Sales of Diamonds — Domestic Sales of Rough Diamonds — Sales to Russia and Yakutia".

Further, in 2009, IG ALROSA, a wholly owned subsidiary of ALROSA, signed an investment agreement (the "**Investment Agreement**") for the implementation of the first stage of the "Integrated Development of the Southern Yakutia" programme together with the Government of Russia and the Republic of Sakha (Yakutia) as well as other participating investors. The programme is partially financed by the Russian Government through budget allocations from the Russian Federal Investment Fund and is aimed at creating a new large industrial region with well-developed infrastructure. Pursuant to the Investment Agreement, IG ALROSA undertook to finance the development of project documentation for the construction of industrial facilities at the Timir iron ore deposits and Seligdarskoe apatite deposit for a total amount of RUB1,702 million (US$54.6 million). In May 2010, the rights and obligations under the Investment Agreement related to construction of the Taezhnyi and Tarynnakhskyi processing plants passed to Timir in connection with a transfer of the licences to the Timir Project iron ore deposits from IG ALROSA. See "Business—Non-Diamond Mining Operations—Russian Non-Diamond Mining Operations—Timir Iron Ore Deposits". The obligations with respect to Seligdarskoye apatite deposit remain subject to receipt of the requisite licences for such deposit.

In the ordinary course of its business, the Group enters into transactions with other entities, which are controlled by the Russian Federation or the Republic of Sakha (Yakutia). The main lines of dealings with such entities are diamond sales, purchases of electricity and attracting financing.

ALROSA sells rough diamonds to Smolensk Kristall, a diamond cutting and polishing company wholly owned by the Russian Government through the Federal Agency for the Management of Federal Property. Total sales to Smolensk Kristall were RUB2,901 million (US$93 million) in the first half of 2010, RUB1,642 million (US$53 million) in 2009, RUB5,089 million (US$163 million) in 2008 and RUB4,522 million (US$145 million) in 2007. As of 30 June 2010, the accounts receivable for Smolensk Kristall were RUB307.4 million (US$9.8 million) as of 30 June 2010 and RUB294.3 million (US$9.4 million) and RUB183.9 million (US$5.9 million) as of 31 December 2009 and 2008, respectively. There were no accounts receivable for Smolensk Kristall as of 31 December 2007

ALROSA formerly sold rough diamonds to Tuymaada Diamond in Yakutsk, a company heading a group of diamond cutters and polishers controlled by the Republic of Sakha (Yakutia) and in which ALROSA held a 12.73 per cent. interest until November 2007. There were no sales to Tuymaada Diamond in the first half of 2010 and in 2009 and 2008. During the last several years, the financial position of Tuymaada Diamond has been unstable and there has been substantial doubt as to whether it will be able to settle its outstanding accounts receivable with ALROSA. Pursuant to an assignment agreement entered into by ALROSA in August 2005, repayment of the receivables liability of Tuymaada Diamond was transferred to EPL Diamond. Accounts receivable for EPL Diamond in connection with the assignment of receivables for Tuymaada Diamond totalled RUB26 million (US$0.8 million) and RUB44 million (US$1.4 million) as of 31 December 2008 and 2007, respectively. On 26 January 2009, EPL Diamond repaid the accounts receivable in full following the assignment of the accounts receivables to Tuymaada Diamond.

For a description of the Group's dealings with entities controlled by the Russian Federation in relation to raising financing, please see "Description of Existing Material Agreements—Material Financing Agreements—US Dollar-Denominated Borrowings—VTB Bank" and "—TransCreditbank"; "Description of Existing Material Agreements—Material Financing Agreements—Almazy Anabara Loans"; "Description of Existing Material Agreements—Material Financing Agreements—Hydrochicapa Loans"; and "Description of Existing Material Agreements—Guarantees of Indebtedness".

In addition, the Group enters into transactions with, or in relation to, entities in which it has a non-controlling interest.

Beginning in 2000, the Group's diamond cutting and polishing division, Brillianty ALROSA, leased premises in Moscow for its diamond cutting and polishing operations from Almazny Mir, a 52.4 per cent. stake in which is owned by the Russian Government and a 47.4 per cent. stake in which is owned by the Group. Payments under the lease were RUB25.8 million (US$0.8 million) in the first half of 2010, RUB52.6 million (US$1.7 million) in 2009, RUB48.0 million (US$1.5 million) for 2008 and RUB46.7 million (US$1.5 million) for 2007.

ALROSA also formerly sold rough diamonds on credit to Orel-Almaz, its affiliate. However, in 2005 ALROSA ceased to sell rough diamonds to Orel-Almaz due to its unstable financial position. There were no sales to Orel-Almaz in 2010, 2009 and 2008. Accounts receivable for Orel-Almaz totalled RUB162 million (US$5.2 million as of both 31 December 2008 and 2007, respectively although the balance was fully provided for during the year ended 31 December 2007 In the year ended 31 December 2009, the provision and related receivable were written off in full due to Orel-Almaz announcing the initiation of bankruptcy proceedings.

ALROSA entered into financing transactions with Escom-ALROSA, a joint venture between ALROSA and Escom Mining Inc., which holds a 45 per cent. interest in Camatchia-Camagico, a development stage diamond-mining venture located in Angola, which is in the pilot stage of mining of the Luo diamond deposit. In October 2005, ALROSA issued a US Dollar-denominated loan to Escom-ALROSA bearing interest at LIBOR+2.5 per cent. *per annum* with a repayment period of June 2006 to June 2014. The purpose of the loan was to finance construction of the main processing plant at the Luo deposit. As of 31 December 2008, the outstanding amount of the loan was RUB3,582 million, including the current portion of RUB592 million. On 30 December 2009, ALROSA sold its interest in Escom-ALROSA and transferred its rights under the loan to Escom Mining. On the same date, the parties entered into a separate agreement under which, in consideration for the transfer and assignment of the loan, ALROSA would be repaid the whole of the aggregate amount of transferred loan, bearing interest of 0.5 per cent. *per annum* on 31 March 2035, provided that the Luo project could generate free cash flow sufficient for repayment of the aggregate amount of the loan. In 2009, ALROSA recorded an impairment provision in respect of the full amount of the loan totalling RUB3,763 million, which represents management's belief that the loan will not be recovered.

ALROSA is required by Russian law and its charter to obtain the approval of disinterested shareholders or disinterested independent directors, as the case may be, for transactions "with interested parties". See "Risk Factors — Risks Related to the Legal and Regulatory Environment in Russia — Some transactions between ALROSA and interested parties or affiliated companies require the approval of disinterested independent directors or disinterested shareholders and ALROSA's failure to obtain such approvals may lead to invalidation of transactions that are important for the Group's business".

For a description of additional related party transactions, see Note 24 of the Interim Financial Statements and Note 27 to the 2009/2008 Group Financial Statements.

DESCRIPTION OF EXISTING MATERIAL AGREEMENTS

Material Agreements Relating to Operational Matters

For a description of the long-term framework agreements for supply of rough diamonds entered into between the second half of 2009 and the first half of 2010, see "Business — Marketing and Sales of Diamonds — Marketing and Sales Strategy — Long-Term Framework Agreements".

For a description of the long-term framework agreements for supply of rough diamonds entered into 2005 with domestic customers, see "Business — Marketing and Sales of Diamonds — Sales of Diamonds — Domestic Sales of Rough Diamonds".

Material Financing Agreements

2014 Notes

On 16 November 2004 and 25 January 2005, the Issuer issued a total of US$500 million in aggregate of Notes (the "**2014 Notes**") due in 2014 at 8.91 per cent., guaranteed by ALROSA. The 2014 Notes are listed on the Luxembourg Stock Exchange.

The ECP Programme

On 21 December 2007, the Issuer established an unlisted European Commercial Paper Programme (the "**ECP Programme**") of up to US$700 million, guaranteed by ALROSA. As of 30 September 2010, borrowings under the ECP Programme consisted of a US$321 million tranche with a weighted average rate of 9.13 per cent. *per annum* and a maturity date in December 2010. In October 2010, a US$300 million tranche was issued under the ECP Programme with a weighted average rate of 5.23 per cent. *per annum* and a maturity date on 19 November 2010. The tranche was issued to an affiliate of VTB Bank to refinance a US$300 million credit facility agreement with VTB Bank, which was repaid in full on 22 October 2010. See "— US Dollar-denominated Borrowings — VTB Bank" below.

Rouble-denominated Bonds

In June 2010, ALROSA issued four series of Rouble-denominated five-year bonds, Series 20-23, in the total amount of RUB26 million at 8.25 and 8.95 per cent. *per annum* with three-year put options on Series 21 and 22.

Commercial Paper

ALROSA has issued commercial paper, primarily to service providers as payment for their services. As of 30 June 2010, there was US$19.23 million in aggregate principal amount of commercial paper outstanding, including RUB302 million (US$9.7 million) that would become payable within one year.

US Dollar-denominated Borrowings

VTB Bank

On 20 January 2010, ALROSA entered into a credit facility agreement with VTB Bank, allowing borrowings of up to US$600 million. The agreement has a maturity date in December 2010. As of 30 September 2010, US$587.3 million was outstanding under this agreement. The purpose of the loan was to refinance certain existing indebtedness of ALROSA to VTB Bank. The loan bears interest at 8 per cent. *per annum*. Obligations under this agreement are unsecured.

On 25 January 2010, ALROSA entered into a credit facility agreement with VTB Bank in the total amount of US$300 million with a maturity date in October 2010. As of 30 September 2010, US$300.6 million was outstanding under this facility agreement. The purpose of the loan was to refinance certain existing indebtedness of ALROSA to VTB Bank, as well as to finance ALROSA's working capital. The loan bore interest at 7.5 per cent. *per annum*. Obligations under this agreement were unsecured. In October 2010, the loan was repaid in full through an issuance of a US$300 million tranche to an affiliate of VTB Bank under the Issuer's ECP Programme. See "— The ECP Programme" above.

On 30 April 2010, ALROSA entered into a credit facility agreement with VTB Bank, allowing borrowings of up to US$500 million. The agreement has a maturity date in April 2012. As of 30 September 2010, US$500.9 million was outstanding under this facility agreement. The purpose of the loan was to refinance certain existing indebtedness of

ALROSA, as well as to finance ALROSA's working capital. The loan bears interest at 6.35 per cent. *per annum*. Obligations under this agreement are unsecured.

TransCreditBank

On 29 March 2010, ALROSA entered into a credit line agreement with TransCreditBank, allowing borrowings of up to US$200 million. The agreement has a maturity date in April 2011. As of 30 September 2010, US$200 million was outstanding under this facility agreement. The purpose of the loan was to finance ALROSA's working capital. The loan bears interest at 6.475 per cent. *per annum*. Obligations under this agreement are unsecured.

Unicredit Bank

On 1 February 2010, ALROSA entered into a credit facility agreement with CJSC Unicredit Bank, allowing borrowings of up to US$70 million. The agreement has a maturity date in August 2011. As of 30 September 2010, US$70 million was outstanding under this facility agreement. The purpose of the loan was to finance ALROSA's working capital. The agreement provides for two interest rate periods: (i) from the date of the agreement until 27 December 2010 the loan bears interest at LIBOR plus 5.25 per cent. *per annum;* and (ii) from 28 December 2010 until the maturity date the loan bears interest at LIBOR plus 5.5 per cent. *per annum*. Obligations under this agreement are unsecured.

On 12 March 2010, ALROSA entered into a credit facility agreement with CJSC Unicredit Bank, allowing borrowings of up to US$45 million. The agreement has a maturity date in September 2011. As of 30 September 2010, US$9.3 million was outstanding under this facility agreement. The purpose of the loan was to finance payments under letters of credit and guarantees issued by Unicredit Bank for ALROSA. The interest rate under the agreement is LIBOR plus a percentage separately agreed by the parties for each drawdown. The interest rate under the outstanding drawdown is LIBOR plus 3.75 per cent. *per annum.* Obligations under this agreement are unsecured.

Severalmaz Loans

On 9 March and 9 April 2004, ING Bank N.V. issued a total of US$150 million in aggregate of credit linked notes (the "**Credit Linked Notes**") due in 2006 at 8.875 per cent.. The proceeds of the Credit Linked Notes were used to extend a loan to ALROSA's subsidiary Severalmaz in the amount of US$150 million. On 9 March 2006, ALROSA repurchased and subsequently cancelled all outstanding Credit Linked Notes. In the context of the repurchased Credit Linked Notes, in June 2007, ALROSA signed a novation agreement with Severalmaz providing for the obligation of Severalmaz to repay its indebtedness to ALROSA in the amount of US$150 million by 15 May 2009. In October 2008, the parties entered into an additional agreement to extend the repayment date until May 15, 2010. In December 2009, the parties signed an additional agreement to further extend the repayment date until 25 December 2012.

On 20 June 2008, Severalmaz entered into a two-year syndicated facility agreement with CJSC Natixis Bank, CJSC The Royal Bank of Scotland, CJSC Commerzbank and Natixis in the total amount of US$135 million to be issued in several tranches with a maturity date in June 2010. The purpose of the loan was to finance the capital expenditures and general corporate requirements of Severalmaz. On 24 December 2008, ALROSA entered into a suretyship agreement with CJSC Natixis Bank, CJSC The Royal Bank of Scotland, CJSC Commerzbank and Natixis in order to guarantee obligations of Severalmaz under the loan agreement. During 2009, ALROSA, as the guarantor, partially repaid the principal under the agreement in the total amount of approximately US$72.7 million, as well as accrued interest and other fees payable under the agreement. In December 2009, ALROSA signed a novation agreement with Severalmaz providing for the obligation of Severalmaz to repay its indebtedness to ALROSA by 25 December 2012. During January — February 2010, ALROSA, as a guarantor, partially repaid the outstanding principal under the agreement in the total amount of approximately US$62.3 million, as well as accrued interest under the agreement. In March 2010, ALROSA signed another novation agreement with Severalmaz providing for the obligation of Severalmaz to repay its indebtedness to ALROSA by 25 December 2012.

On 7 October 2008, Severalmaz entered into a three-year credit facility agreement with OJSC AKB Bank of Moscow, allowing borrowings of up to US$100 million. The purpose of the loan was to finance general corporate requirements of Severalmaz. On 7 October 2008, ALROSA entered into a suretyship agreement with OJSC AKB Bank of Moscow in order to guarantee obligations of Severalmaz under the loan agreement. During 2009, ALROSA, as the guarantor, repaid accrued interest, as well as other fees payable under the agreement in the total amount of approximately RUB331 million. In December 2009, ALROSA signed a novation agreement with Severalmaz providing for the obligation of Severalmaz to repay its indebtedness to ALROSA by 25 December 2012. In February 2010, ALROSA, as the guarantor, fully repaid the principal under the agreement in the total amount of US$100 million, as well as accrued interest under the agreement. In March 2010, ALROSA signed another novation agreement with Severalmaz providing for the obligation of Severalmaz to repay its indebtedness to ALROSA by 25 December 2012.

As of 30 September 2010, the total outstanding indebtedness of Severalmaz to ALROSA under all novation agreements was approximately RUB13,884 million (US$445 million).

Almazy Anabara Loans

On 25 March 2008, Almazy Anabara entered into a credit line agreement with VTB Bank, allowing borrowings of up to RUB304.17 million. The agreement has a maturity date in March 2011. As of 30 September 2010, RUB304.99 million was outstanding under this facility agreement. The purpose of the loan was to finance acquisition of certain equipment and transport vehicles, as well as to finance working capital of Almazy Anabara. The loan bears interest at 3-month MosPrime Rate plus 6 per cent. *per annum*. ALROSA is the guarantor under this agreement.

On 9 April 2008, Almazy Anabara entered into a credit line agreement with VTB Bank, allowing borrowings of up to RUB252.00 million. The agreement has a maturity date in April 2011. As of 30 September 2010, RUB252.71 million was outstanding under this facility agreement. The purpose of the loan was to finance acquisition of certain equipment and transport vehicles, as well as to finance working capital of Almazy Anabara. The loan bears interest at 3-month MosPrime Rate plus 6.55 per cent. *per annum*. ALROSA is the guarantor under this agreement.

On 6 May 2008, Almazy Anabara entered into a credit line agreement with VTB Bank, allowing borrowings of up to RUB100.00 million. The agreement has a maturity date in May 2011. As of 30 September 2010, RUB100.28 million was outstanding under this facility agreement. The purpose of the loan was to finance acquisition of certain equipment and transport vehicles, as well as to finance working capital of Almazy Anabara. The loan bears interest at 3-month MosPrime Rate plus 6.55 per cent. *per annum*. ALROSA is the guarantor under this agreement.

On 19 August 2008, Almazy Anabara entered into a credit line agreement with VTB Bank, allowing borrowings of up to RUB400.00 million. The agreement has a maturity date in April 2011. As of 30 September 2010, RUB401.16 million was outstanding under this facility agreement. The purpose of the loan was to finance acquisition of certain equipment and transport vehicles, as well as to finance working capital of Almazy Anabara. The loan bears interest at 3-month MosPrime Rate plus 6.89 per cent. *per annum*. ALROSA is the guarantor under this agreement.

On 3 September 2008, Almazy Anabara entered into a credit line agreement with VTB Bank, allowing borrowings of up to RUB500.00 million. The agreement has a maturity date in February 2011. As of 30 September 2010, RUB501.52 million was outstanding under this facility agreement. The purpose of the loan was to finance acquisition of certain equipment and transport vehicles, as well as to finance working capital of Almazy Anabara. The loan bears interest at 3-month MosPrime Rate plus 7.22 per cent. *per annum*. ALROSA is the guarantor under this agreement.

Hydrochicapa Loans

In September 2004, Hydrochicapa entered into a credit facility agreement with VTB Bank in the total amount of US$49.5 million. The purpose of the loan was to finance the construction of the hydroelectric station. ALROSA was the guarantor under the agreement. During 2007-2009, ALROSA as the guarantor fully repaid the outstanding principal, as well as interest accrued under the loan agreement in the total amount of approximately US$60.3 million. In the context of the repaid loan, on 1 January 2010, ALROSA and Hydrochicapa executed a loan agreement in the amount of approximately US$60.3 million with a final maturity date of 31 December 2025.

On 22 September 2006, Hydrochicapa entered into a six-year credit facility agreement with Moscow Narodny Bank Limited (subsequently renamed into VTB Europe) in the total amount of US$62.4 million. The purpose of the loan was to finance general corporate requirements of Hydrochicapa. On 22 September 2006, ALROSA entered into a suretyship agreement with VTB Europe in order to guarantee obligations of Severalmaz under the loan agreement. During 2007-2009, ALROSA as the guarantor partially repaid the outstanding principal, as well as interest accrued under the loan agreement in the total amount of approximately US$19 million. In the context of the repaid loan, on 1 January 2010, ALROSA and Hydrochicapa executed a loan agreement in the amount of approximately US$19 million with a final maturity date of 31 December 2020. In 2010, ALROSA as the guarantor further repaid a portion of principal in the amount of US$9.6 million, as well as interest accrued under the agreement. As of 30 September 2010, the total outstanding amount under this facility agreement was US$38.4 million.

As of 30 September 2010, the total outstanding indebtedness of Hydrochicapa to ALROSA was approximately RUB2,913 million (US$93 million).

Guarantees of Indebtedness

ALROSA has provided a number of guarantees as security for the indebtedness of its subsidiaries (other than the Issuer), affiliates and third parties. As of 30 September 2010, the following two material guarantees were in force for the benefit of entities other than the Issuer: (i) US$38.4 million, expiring in September 2012, representing the outstanding amount under the US$62.4 million credit facility agreement entered into between Hydrochicapa and VTB Europe on 22 September 2006 and secured with the guarantee of ALROSA; and (ii) RUB1,556.2 million (US$50 million), expiring between February 2011 and May 2011, representing the aggregate outstanding amount under the five credit line agreements entered into between Almazy Anabara and VTB Bank, each secured with suretyship of ALROSA.

In addition, ALROSA has extended a number of further guarantees, which are denominated in Roubles and US Dollars and collectively amounted to RUB60.8 million (US$1.9 million) and US$9.5 million, respectively, as of 30 September 2010.

CALCULATION OF RESERVES

Calculation of Diamond Reserves

ALROSA estimates its diamond reserves in accordance with standard Russian methodology, which differs in some material respects from the methodology used in other countries. The primary difference is that the Russian methodology relies on "geometrical" methods to determine reserves, as opposed to international practice, which utilises sampling and extrapolation techniques. As a result, Russian geometrical calculations can be verified by physical analysis, which allows the Ministry of Natural Resources to independently verify ALROSA's reserve calculations. ALROSA believes that the Russian method of verifying reserves is more conservative than international methodology, as it generally results in a smaller portion of total reserves being classified as proven rather than probable.

Russian Methodology for the Calculation of Mineral Reserves

According to Russia's 1997 Classification of Solid Mineral Reserves and Forecast Resources, mineral resources are separated into different categories, depending on the methods used to evaluate those resources. Initially, these resources are grouped within one of the following four classes, based on the complexity of their geological structure:

First: The first class consists of deposits with a simple geological structure. These include very large, large or, more rarely, medium-sized mineral bodies having an unbroken, or almost unbroken, bedding. These deposits are characterised by a consistent thickness, internal fabric and mineral quality, as well as an even distribution of basic valuable components.

Second: The second class consists of deposits having a complex geological structure. These are large and medium-sized mineral bodies with a broken bedding. This class is characterised by an inconsistent thickness, internal fabric and mineral quality, as well as an uneven distribution of basic valuable components. The second class also comprises deposits of coal, fossils, salt and other minerals, which make mining conditions difficult or very difficult.

Third: The third class consists of deposits with a very complex geological structure. These are medium-sized or small mineral bodies with a heavily disrupted bedding. The third class is characterised by a widely varied thickness and internal fabric, a substantially inconsistent mineral quality and an uneven distribution of basic valuable components.

Fourth: The fourth class consists of deposits with small or, more rarely, medium-sized mineral bodies which have an extremely disrupted bedding. Fourth-class deposits are characterised by abrupt variations in thickness and internal fabric, extremely inconsistent mineral quality and uneven distribution of basic valuable components.

The complexity classification may take into account quantitative results measuring the inconsistencies in the basic features of mineralisation (i.e. classification of diamonds according to their size and average content in the rock). This initial classification is intended to identify those resources warranting further study. Depending on the extent of further exploration, mineral resources are subsequently divided between "proven" and "evaluated" reserves. Proven reserves are those which have been sufficiently explored to proceed with a feasibility study relating to commercial development. Evaluated reserves are those, which have been explored to the extent necessary to determine whether continued exploration is warranted. Identified resources that fail to meet the criteria of proven and evaluated reserves are deemed to be only projected resources.

Proven and evaluated reserves are further categorised based on the type, quantity and quality of the measurements taken to evaluate the reserves. Proven reserves are divided into Categories A, B and C1 while Category C2 relates to evaluated reserves.

Category A (proven reserves). Category A reserves include only proven deposits falling within the first complexity class described above. Category A reserves must meet the following criteria:

- the sizes, forms and bedding conditions of the mineral body have been determined; the nature and regularities in their morphology and internal fabric have been studied; the barren and off-grade segments within the mineral bodies have been detected and mapped; and the locations and fault amplitudes of dislocations with a break have been identified;
- the natural varieties of the minerals within the body have been determined; its categories and grades have been identified and mapped; its composition and properties have been verified; and the quality of all categories and

grades of the identified minerals have been characterised in terms of all parameters stipulated by industrial regulations;

- the distribution and forms of those valuable and noxious components found in the mineral body and products of its processing have been investigated; and
- the mineral reserves have been mapped based on test wells, mine workings and detailed trial runs.

Category B (proven reserves). Category B reserves include only proven deposits falling within the first and second complexity classes described above. Category B reserves have been subject to a high level of investigation; however, their boundaries have been determined with less accuracy than Category A reserves. Category B reserves meet the criteria established for Category A, except that Category B reserves may contain a limited extrapolation zone that is substantiated on the basis of geological criteria and geophysical and geochemical research.

Category C1 (proven reserves). Category C1 reflects a slightly lower level of accuracy than the determination of Category B reserves. Most of the proven deposits within the first three complexity classes are Category C1 reserves. Category C1 reserves meet the criteria established for Category B, except that additional extrapolation is permitted in mapping the mineral deposit.

Category C2 (evaluated reserves). Category C2 reserves are identified, but are not considered to have been proven, and these constitute the bulk of reserves within the fourth complexity class. Category C2 reserves must meet the criteria established for Category C1, except that:

- the sizes, forms, internal fabric and bedding conditions of the mineral body are confirmed by means of only a limited number of test wells and core samples; and
- the boundaries of the deposit (including core samples and outcroppings) are mapped based on data gathered from only a limited number of test wells, and a geologically substantiated extrapolation of deposit parameters is permitted.

ALROSA's Calculation of Reserves

Due to the unique geological conditions of diamond pipes, ALROSA does not use Category A with respect to these deposits. Accordingly, ALROSA uses only Categories B, C1 and C2 in its reserve determinations. However, ALROSA will only proceed with the commercial development of deposits that have been classified as Category C1 or above. In addition, only Categories B and C1 were considered in connection with the confirmations of the Federal Subsoil Use Agency of the Ministry of Natural Resources set forth in "Appendix A — Certification of Diamond Deposits".

ALROSA calculates its reserves based on standard Russian methodology. These reserves have not been presented in accordance with Industry Guide 7 of the Securities Act and are not based on the definitions adopted by the Society for Mining, Metallurgy and Exploration or the Council of Mining and Metallurgical Institutions. Accordingly, ALROSA's reserve information is not comparable to the reserve information of other mining companies that follow Industry Guide 7 under the Securities Act or the practices of the SME or CMMI. See "Risk Factors — Risks Related to the Group's Business — Estimates of ALROSA's reserves and other information are subject to uncertainties".

REGULATORY MATTERS

Regulatory Authorities

Until 1991, the Precious Metals and Precious Stones Depository of the former Soviet Union, known as Gokhran, was responsible for the management of state reserves of precious metals and precious stones, and Almaziuvelirexport was responsible for the export of these reserves in accordance with the government policy. In 1992, Gokhran and the Precious Metals and Precious Stones Committee were merged to form a new State Committee of Russia for Precious Metals and Stones, known as Roskomdragmet. This merger marked the first time that the functions of control over transactions related to diamonds, on the one hand, and the sale of them from state reserves, on the other, had come under the jurisdiction of a single entity. After the abolition in 1991 of Glavalmazzoloto, the State Committee of the Soviet Union for Diamonds and Gold, Roskomdragmet also assumed responsibility for the management of diamond cutting firms. Roskomdragmet was disbanded in 1996 and Gokhran resumed its role as Russia's diamond depository.

Regulation of Mineral Resources

Subsoil Licences

Russian legislation provides that all underground resources within the territory of Russia are state property. In accordance with federal legislation, the use of the subsoil is under the joint jurisdiction of the federal and regional authorities. Mining minerals in Russia requires a subsoil licence from the state authorities with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land where such licenced mineral deposit is located.

The primary law regulating subsoil licensing is the Subsoil Law and the regulations thereunder, which set out the regime for granting licences for the exploration and production of mineral resources and subsoil use. The Subsoil Law allocates jurisdiction in the mining sector between federal and regional authorities, sets out the basic principles and rules of the licence-based regulatory framework, and outlines the rules governing the issuance, transfer, suspension and termination of licences. Depending on the nature of a subsoil plot, a licence for its geological investigation is granted either by the Government of Russia or by a special commission, including both federal and regional authorities. Production licences and combined exploration and production licences are awarded by tender or auction conducted by special commissions, formed by either federal or regional authorities depending on the nature of the deposit. The winning bidder in a tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. At an auction, the attractiveness of a financial proposal primarily determines the success of a bid. In limited circumstances production licences may also be issued without holding an auction or tender.

There are several types of licences applicable to the exploration and production of natural resources, including: (1) licences for geological exploration and assessment within the licenced area (which is defined in terms of latitude, longitude and depth); (2) licences for the production of natural resources within the licenced area; and (3) combined licences for exploration, assessment and production of natural resources within the licenced area.

Payments with respect to the exploration, evaluation and extraction of minerals may include: (i) payments for the use of subsoil under the Subsoil Law (which may include regular payments for exploration of minerals and certain one-off payments) and (ii) the mineral extraction tax under the Russian Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil licence.

The term of the licence is set forth in the licence. Pursuant to the Subsoil Law, exploration licences generally have a maximum term of five years (and in some limited circumstances, ten years), production licences are generally granted for a term of the expected operational life of the field (deposit) based on a feasibility study. The term of a subsoil licence runs from the date the licence is registered with the Federal Agency for Subsoil Use. A licence recipient is also usually granted rights to use the land surrounding the licenced area.

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement executed between the licensing authority and the licencee. The licensing agreements set out the terms and conditions for the use of the subsoil licence and certain environmental, safety and production commitments, including, among other things, bringing the field into production by a certain date; extracting an agreed upon volume of natural resources each year; conducting agreed mining and other exploratory and development activities; protecting the environment in the licencee areas from damage; providing geological information and data to the relevant authorities; and submitting on a regular basis formal progress reports to regional authorities. The licensing agreement may also contain commitments with respect to social and economic development of the region. When the licence expires, the licencee must return the land to a condition that is adequate for future use. Although most of the conditions set out in a licence are based on mandatory rules contained in Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties. However, commitments relating to safety and the environment are generally not negotiated.

Licences may be transferred only under certain limited circumstances that are identified in the Subsoil Law, including, *inter alia*, reorganisation through merger of the licence holder and another entity or a transfer by the initial licence holder of its licence to a newly incorporated legal entity, in which it has at least a 50 per cent. ownership interest, or to an existing subsidiary provided that the transferee complies with certain requirements.

The Group's mining licences are typically granted for a period of 5 to 20 years. However, some of these licences require a review in connection with changes in economic conditions of the extraction and certification of reserves within the relevant diamond pipes as a condition to continued mining. In 2006, the Ministry of Natural Resources reviewed the licence of the Group's Jubilee mine because ALROSA demonstrated that it was economically not viable to extract diamonds of less than 1 millimetre, which are not suitable for ore processing. As a result, the term of the licence was changed from 2004 to 2015.

Article 10 of the Subsoil Law provides that the term of the relevant licence may be extended on request of the licensee in order to, for example, complete production from the deposit covered by the licence or vacate the land once the use of subsoil is complete, provided such licensee complied with the terms and conditions of the licence and the relevant regulations. The Group intends to extend its licences for each of its licenced plots that are expected to continue to produce after their current term expires. However, in the event that the Federal Agency for Subsoil Use determines that the Group has not complied with the terms of any of its licences, it may not extend the licence upon the expiration of its current period.

The Subsoil Law and other Russian legislation contain extensive provisions for limitation, suspension or termination of the rights of a subsoil user. A licensee can be fined for failing to comply with the conditions of the subsoil licence and the subsoil licence can be revoked, suspended or limited in certain circumstances, including:

- breach or violation of material terms and conditions of the licence by the licensee
- repeated violation of the subsoil regulations by the licensee
- failure by the licensee to commence operations within the required period of time or to produce the required volumes, as specified in the licence;
- occurrence of an emergency situation;
- emergence of an immediate threat to the life or health of people working or residing in the area affected by the operations under the licence;
- liquidation of the licensee and
- non-submission of reporting data in accordance with the legislation.

None of ALROSA's and its subsidiaries' diamond mining licences has ever been revoked or suspended.

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to the licence termination or refusal to re-issue an existing licence, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases, prior to termination, the licensee has the right to attempt to cure the violation within three months after notice of the violation. If the issue has been resolved within such a three-month period, no termination or other action may be taken.

Subsoil Plots of Federal Importance

On 29 April 2008, certain amendments were made to the Subsoil Law in line with the Strategic Industries Law. See "— Regulation of Foreign Ownership — Strategic Industries Law". The amended Subsoil Law established a new regulatory framework in respect of subsoil plots of federal importance, including, *inter alia*, subsoil plots containing deposits of diamonds. The list of subsoil plots of federal importance is officially published by the Federal Agency for Subsoil Use in the "Russian Newspaper" ("**Rossiyskaya gazeta**").

The Subsoil Law imposes a specific procedure for granting licences for subsoil plots of federal importance. Such licences are awarded by tender or auction conducted in accordance with a decision of the Russian Government. In particular, the Russian Government may introduce limitations on access to such tenders or auctions for legal entities with foreign investments established under the laws of the Russian Federation. A resolution of the Russian Government is required for the issuance of a subsoil licence for exploration and/or production of natural resources on, and for the issuance of combined licences for, subsoil plots of federal importance.

In addition, pursuant to the amended Subsoil Law, if a legal entity with foreign investments or a foreign investor during the process of geological exploration, which may also be conducted under a combined licence, discovers a deposit that renders the relevant subsoil plot a subsoil plot of federal importance under the Subsoil Law, the Russian Government is entitled to refuse to grant the right to use such subsoil plot for production of natural resources or, where exploration of such subsoil plot was carried out under a combined licence, to terminate rights to use such subsoil plot for production of natural resources, provided there is a threat to national defence and security. These provisions do not apply to the combined licences under which production of natural resources commenced before 5 May 2008.

Pursuant to the Subsoil Law, a transfer of rights to use a subsoil plot of federal importance, including plots with diamond deposits, to a Russian legal entity controlled by a foreign entity or a group of entities is subject to a specific decision of the Russian Government. See "—Regulation of Foreign Ownership — Strategic Industries Law". An entity or group of entities is considered to have control over such a Russian legal entity when such entity or group of entities holds directly or indirectly 10 or more per cent. of the voting shares of the Russian legal entity or determines the decisions adopted by such Russian legal entity, including the terms of the business activity of such Russian legal entity or holds the right to appoint its sole executive officer and/or 10 or more per cent. of its management board or has the unconditional right to elect 10 or more per cent. of its board of directors.

Law on Precious Stones

The Law on Precious Stones contains rules regulating the geological exploration and mining of deposits of precious stones, as well as production, use and turnover of precious stones in the Russian Federation. The Law on Precious Stones provides that state regulation in these areas is achieved, among others, through the following means:

(i) licensing of the use of deposits containing precious stones;

(ii) priority rights of the federal and regional authorities to buy precious stones for the replenishment of the state and, respectively, regional funds of precious metals and precious stones;

(iii) establishing the rules regarding registration, certification, storage, transporting and turnover of precious stones;

(iv) prescribing rules for market participants' dealings with precious stones and special registration of such market participants;

(v) control over compliance with regulations in the fields of exploration, mining, production, use and turnover of precious stones, as well as over sale prices for precious stones;

(vi) setting up customs controls over import into, and export from, the Russian Federation of precious stones; and

(vii) setting up the state control system over sorting, classification and appraisal of rough diamonds.

Land Use Rights

Russian legislation prohibits the carrying out of any commercial activity, including mineral extraction, on a land plot without appropriate land use rights. Land use rights are needed and obtained for only the portions of the licence area actually being used, including the plot being mined, access areas, and areas where other mining-related activity is occurring.

Under the Land Code of the Russian Federation of 25 October 2001, as amended (the "**Land Code**"), companies generally have one of the following rights with regard to land in the Russian Federation: (1) ownership; (2) right of free use for a fixed term; or (3) lease. A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities, which, through public auctions or tenders or through private negotiations, can sell, lease or grant other use rights to the land to third parties. Under the Land Code, no auction or tender is required for granting of land lease rights to a mining licence holder for a land plot that is necessary for the subsoil mining activities.

At the moment, companies may also have a right of perpetual use of land that was obtained prior to the enactment of the Land Code. However, with certain exceptions, companies using land pursuant to a right of perpetual use must either purchase the land from, or to enter into a lease agreement relating to the land with, the relevant federal, regional or municipal authority (as the owner of the land) by 1 January 2012.

The Group generally has entered into long-term lease agreements for approximately 50 per cent at the land surfacing its mining plots and has a right of perpetual use or ownership right to other land plots. A lessee generally has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. Any lease agreement for a period of longer than one year must be registered with the relevant state authorities.

Environmental Regulations

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law No. 7-FZ "On Environmental Protection", dated 10 January 2002 (the "**Environmental Protection Law**"), as amended, as well as by a number of other federal and regional laws and applicable international treaties.

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by the Ministry of Natural Resources and Ecology of Russia and other federal and local authorities. The Ministry of Natural Resources and Ecology of Russia, the Federal Service for Environmental, Technological and Nuclear Supervision and the Federal Agency of Water Resources have established standards relating to the permissible impact on the environment and resource extraction, while the Federal Service for Supervision of Natural Resources has set limits for the emission and disposal of substances as well as for waste disposal. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. Fees are assessed for exceeding agreed limits on emissions and effluents and the revenues are divided between federal and local budgets. Currently these fees are generally small in relation to the cost of environmental protection equipment and it is generally less expensive to pay the fees than to install anti-pollution devices. Further, this law does not generally include clear clean-up requirements and, when clean-up is required, the applicable laws provide no guidance as to the extent to which the clean-up must be carried out. However, as the economic situation in Russia improves, enforcement of existing legislation and licences may become more stringent and more comprehensive legislation may be adopted.

A number of activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with the Federal Law No. 174-FZ "On Ecological Expert Examination", dated 23 November 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences discussed in "Business — Environmental Matters".

In connection with obtaining a licence to explore or develop mining deposits, ALROSA is generally required to make environmental commitments. The fees for failing to comply with these commitments are generally low and any clean-up requirements are generally limited.

Regulation of Rough Diamond Sales

On 20 September 2010 certain amendments were introduced to the regulation of rough diamond sales, including by way of Decree of the President No. 1137 "On approval of the Regulations for export and import of precious metals, precious stones and raw materials containing precious metals to/from the countries that are not parties to the Customs Union of the Eurasian Economic Community (EurAsEC)" (the "**2010 Presidential Decree**"). The 2010 Presidential Decree annulled, among others, Decree of the President No. 1373 "On Approval of the Regulations for export in the Russian Federation, and export from the Russian Federation, of rough and polished diamonds", dated 30 November 2002 (the "**2002 Presidential Decree**").

The new 2010 Presidential Decree provides that export and import of precious metals and stones shall be governed by the "Regulations for export and import of precious metals, precious stones and raw materials containing precious metals to/from the customs area of the Customs Union of EurAsEC" approved by the Interstate Council of EurAsEC on 27 November 2009 (the "**EurAsEC Regulations**"). Annexed to the EurAsEC Regulations are lists of precious metals, precious stones and raw materials containing precious metals. Under the EurAsEC Regulations, export of certain goods from countries that are parties to the Customs Union of EurAsEC is permitted only under special licences. As for export of natural diamonds, the same way as stipulated by the 2002 Presidential Decree, a special licence is needed in most cases.

In principle, details of the export and import regime in respect of countries that are not parties to the Customs Union of EurAsEC are the same as set forth by the 2002 Presidential Decree, except for some procedural changes. Among the latter is the provision that customs registration of exported and imported natural diamonds shall be done at the special customs terminal in Moscow only, with participation of inspectors from the Ministry of Finance, whereas the former Decree stipulated the same only for natural diamonds suitable for production of brilliants, other natural diamonds requiring registration at special customs terminals and departments defined by the Federal Customs Service by agreement with the Ministry of Finance. The 2010 Presidential Decree also states that export of state-owned natural diamonds equal to or more than 10.8 carat and unique natural diamonds, as well as the export of state-owned gems in excess of quotas set out by the Government, shall be carried out only according to special decision of the Russian President.

Export Sales

Prior to 2003, only ALROSA and the Russian Government-owned Almaziuvelirexport were allowed to export rough diamonds from Russia. Since 2003, all diamond mining enterprises can export their production and all cutting and polishing entities can export a limited percentage of the rough diamonds they purchase, subject to certain restrictions.

Export Sales by Diamond Mining Companies

All diamond mining enterprises in Russia are authorized to export their rough diamond production extracted in accordance with any applicable subsoil use licences, provided that: (i) such enterprise is licensed to export non-industrial (jewelry) diamonds, as required by the Russian Government (export of diamonds falling into categories of "bort" and "drilling" and sieve diamonds classified "– 3 + 2" or lower does not require a license); (ii) export of unique diamonds is made on the basis of an individual decision of the Russian Government; and (iii) representative control samples, withheld from the supplies by diamond mining companies, shall be sold through Almaziuvelirexport.

Export Quotas

Until early 2007, the maximum quantity of diamonds that a diamond mining enterprise could export each year, by carat volume, was determined pursuant to a periodic export quota set by the Russian Government. Once the quota was approved, the Ministry for Economic Development and Trade issued annual export licences up to the quantity set by the export quota. While quotas were generally issued for one year, the 2002 Presidential Decree authorised multi-year export quotas for up to five years, which could have been granted by the Russian Government in "exceptional cases". For a description of quotas and licences granted to ALROSA and its diamond-producing subsidiaries until early 2007, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain Factors Affecting the Group's Results of Operations — Quotas and Licences for the Export of Diamonds". As part of the liberalisation of the diamond industry in Russia, the President signed a decree on 11 January 2007 that abolished export quotas for diamonds starting from 1 January 2007.

Export Licences

Export of diamonds is still subject to licensing, except for export of diamonds of certain shapes and certain other lower-quality diamonds. An export licence issued by the Ministry of Industry and Trade of the Russian Federation (previously issued by the Ministry of Economic Development and Trade) is valid for a period of one year. Russian law generally entitles diamond mining companies to apply for the following types of export licences: (i) a single licence issued based on a particular export contract with a foreign counterparty and (ii) a general licence issued on the basis of a corresponding decision of the Russian Government which authorises export of rough diamonds by the licencee. The general licence is issued by the Ministry of Industry and Trade within 20 days of the submission of all the documents required.

No export licences are required for the export of bort diamonds, which are diamonds having a rough, rounded form and which lack a distinct cleavage, drill diamonds, which are diamonds containing obvious imperfections and inclusions, irrespective of their size and their percentage completeness, as well as small diamond sieves.

Representative Control Parcels Sold through Almaziuvelirexport

Diamond mining companies are required by law to withhold from their export sales "representative control parcels" of 5 to 20 per cent. of such sales, by value, depending on the amount of the diamonds to be exported. These control parcels of rough diamonds are sold outside of Russia by Almaziuvelirexport as agent, less a maximum of 3 per cent. commission. Almaziuvelirexport is a jewellery exporter wholly owned by the Russian Government. Sales of these control parcels enable the Russian Government to verify whether the prices paid by the export customers for rough diamonds are representative of market prices. Almaziuvelirexport sells the control parcels outside of Russia pursuant to an export licence.

Export Sales by Diamond Cutting and Polishing Companies

Diamond cutting and polishing entities may export up to 15 per cent., by value, of the rough diamonds they purchase in any year from diamond mining companies conducting mining activities in Russia or from the Russian Government and Russian sub-federal political units' diamond stocks, provided that: (i) the diamonds are offered for sale on the domestic market and are not sold within 10 business days, and (ii) the export sale price is at least as high as the price at which the diamonds were offered on the domestic market.

Certificate of Russian Origin

In the last few years, increasing attention has been focused on the issue of "conflict diamonds", the name ascribed to diamonds that are extracted in war-torn regions and sold by rebel forces to fund insurrection. A certificate must be obtained from the Ministry of Finance confirming the Russian origin of parcels of rough diamonds sold for export. This requirement represents the implementation in Russia of the Kimberley Process, a self-regulatory system devised by the World Diamond Council and the United Nations, which relies on certificates of origin in an attempt to eliminate trading in "conflict diamonds" and break the link between the illicit transaction of rough diamonds and the fuelling of military conflicts in Africa. The Kimberley Process Certification Scheme (**"KPCS"**) is a voluntary system of industry self-regulation, expressed in the Interlaken Declaration of 5 November 2002 by the countries — participants of the Kimberley Process, including Angola and Russia, and launched on 1 January 2003. The United Nations Security Council Resolution 1459 (2003) of 28 January 2003 supported the Kimberley Process. The KPCS, among other things, requires each cross-border shipment of rough diamonds to be accompanied by a government-validated certificate and permits cross-border shipments only to other countries participating in the KPCS. Furthermore, the system of warranties for diamonds created by the World Diamond Council and endorsed by all KPCS participants, requires all buyers and sellers of rough diamonds to affirmatively warrant their conflict-free origin. The implementation of the KPCS is based on the domestic regulations of the countries participating in the KPCS. See "Risk Factors — Risks Relating to the Group's Business — Adverse publicity regarding "conflict diamonds could have an adverse impact on the diamond industry and the Group's business".

Auction Sales of Diamonds Weighing 10.8 Carats or More

Under the Decree of the President No. 1524 dated 15 November 1999, the 2010 Presidential Decree and Resolution of the Russian Government No. 233, dated 26 March 2001, as amended, diamonds weighing 10.8 carats or more must be sold only pursuant to an auction. This provision is considered to apply to sales on both the export and the domestic market. Diamonds sold at such auctions must be subject to a prior valuation with the participation of state controllers of the Ministry of Finance. At these auctions, diamonds are sold to the highest bidder. In accordance with the 2010 Presidential Decree, non-Russian persons and entities are also authorised to participate in these auctions and to export such diamonds, so long as the purchase price is above the minimum price set by ALROSA (as the seller) and by the Ministry of Finance in its Price List.

Sales of Unique Diamonds

The Law on Precious Stones requires that "unique" diamonds as determined by the Ministry of Finance, must be offered for purchase in priority to the Russian Government acting through Gokhran, and then to the sub-federal unit in the territory of which these diamonds are extracted. These "unique" diamonds include diamonds with characteristics that make them rare, such as their colouring, as well as all diamonds weighing more than 50.0 carats. Sales of these diamonds to Gokhran and to the sub-federal unit are at agreed market prices. Unique diamonds may be offered to other customers only if Gokhran and then the sub-federal unit waive their right to buy them. Export of these diamonds must be authorised by an individual decision of the Russian Government. Sales of such diamonds on the domestic market may take place only pursuant to an auction as described above.

Regulation of Rough Diamond Imports

Russian companies are authorised to import rough and cut diamonds without restriction or licence, provided that the imported diamonds are sorted by a state organisation organised under the Ministry of Finance and Russian customs law is observed.

Implementing the Kimberley Process, Resolution of the Russian Government No. 527 dated 27 August 2003 requires that imported diamonds are accompanied by a certificate, confirming that the parcels of rough diamonds do not include "conflict diamonds" and were formed in compliance with the international certification scheme.

Natural Monopoly Regulation

Certain services provided by ALROSA and a number of its subsidiaries, such as gas transmission services and services at transportation terminals, ports and airports, are included in the list of regulated activities provided by Article 4 of the Natural Monopoly Law. Therefore, ALROSA and certain of its subsidiaries are included in the Register of Natural Monopolies and are subject to the Natural Monopoly Law.

The Natural Monopoly Law regulates (i) operations of companies engaged in naturally monopolistic activities (such as mentioned above), (ii) major investments of such companies in assets that are not used for naturally monopolistic activities, and (iii) transactions involving fixed assets and shares of such companies.

In respect of business operations of natural monopolies, the regulators (being the FTS in respect of price regulation and the FAS in respect of other issues) are entitled to regulate tariffs for gas transmission services, as well as loading and unloading services and services at ports and airports.

The following key restrictions apply to the investment activities and dealing in shares of natural monopolies, such as ALROSA and its relevant subsidiaries:

- a natural monopoly needs a prior consent from the state authorities for any acquisition of fixed assets or rights to use such assets, if (a) such assets are not used for the production or sale of goods subject to the Natural Monopoly law and (b) the asset value exceeds 10 per cent. of its "own capital" according to its latest approved balance sheet;
- a party that intends to acquire, rent or otherwise obtain the right to own or use fixed assets of a natural monopoly must obtain a prior written consent of the regulators, if such assets (a) are used for the production or sale of goods subject to the Natural Monopoly Law and (b) exceed by value 10 per cent. of the "own capital" of the natural monopoly according to its latest approved balance sheet;
- a natural monopoly requires prior regulatory approval for any investments into production or sale of goods subject to the Natural Monopoly Law, provided that such investments exceed 10 per cent. of its "own capital" according to its latest approved balance sheet; and
- any person or group of persons that acquires more than 10 per cent. of the total number of votes attributable to all shares of a natural monopoly is obliged to notify the regulatory authorities of such acquisition, as well as of any subsequent changes in the stake. The same obligation is imposed on a natural monopoly that acquires more than 10 per cent. of the total number of votes attributable to all shares (stakes) of any company.

The regulators are entitled to issue mandatory orders to regulated companies, requiring them to perform certain actions in order to avoid abuse of their natural monopoly status, e.g. to avoid refusing third parties' access to their services.

Regulation of Competition

ALROSA and some of its subsidiaries are included in the Register of Entities Having a Market Share in Excess of 35 per cent. on a Particular Commodity Market maintained by the Russian antimonopoly authorities (the "**FAS Register**"). Russian law prescribes that prior consent of the Russian antimonopoly authorities must be obtained for certain transactions to which an entity included in the FAS Register (or its group) is a party, including, *inter alia*, (i) acquisition by an individual or an entity and its group of more than 25 per cent. of the voting shares of a joint stock company (or more than 33.33 per cent. of participation interests in a limited liability company), except upon incorporation, and any subsequent increases of ownership past thresholds of 50 per cent. and 75 per cent. of the voting shares of a joint stock company (or more than 50 per cent. and 66.67 per cent. participation interests in a limited liability company); (ii) acquisition by an individual or an entity and its group of ownership or right to use with respect to the fixed production and/or intangible assets of such entity if the balance-sheet value of such assets exceeds 20 per cent. of the total balance sheet value of the assets of such entity (as measured by the company's most recent balance sheet prepared under Russian accounting regulations); (iii) acquisition by an individual or an entity and its group of rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body; or (iv) merger and consolidation of entities.

Moreover, under Russian law, ALROSA has a dominant position on the Russian diamond market as it has a market share in a particular commodity market in excess of 50 per cent, and the Russian antimonopoly authorities did not specifically establish that ALROSA (together with its subsidiaries) does not have a dominant position. Under Russian law, an entity with a dominant position in a particular commodity market shall not engage in the following array of activities: (a) fixing and maintaining high or low monopoly prices for goods; (b) the withdrawal of goods from circulation resulting in price increases; (c) dictating terms unfavourable to a counterparty or irrelevant to the subject-matter of the agreement; (d) reduction or termination of production of goods, for reasons not economic or technological in nature, where demand for the goods exists, so long as the goods can be produced at a profit; (e) the refusal to enter into an agreement with particular buyers or customers, where the goods can be produced or supplied; (f) fixing of disparate prices (tariffs) for the same goods, for reasons not economic or technological in nature; (g) the creation of discriminatory conditions; (h) creation of barriers to enter or exit a particular commodity market; and (i) any other activities that result or may result in the prevention, limitation or elimination of competition and/or the infringement of interests of other individuals or entities.

Russian law grants the Russian antimonopoly authorities ample powers necessary for the performance of their functions and to cope with violations of antimonopoly legislation, which include, *inter alia*, (i) initiation or examination of cases regarding violation of antimonopoly legislation; (ii) issuance of prescriptions to business entities regarding, for instance, (a) termination of agreements and/or of co-ordinated acts of business entities limiting the competition, and performance of actions aimed at ensuring the competition; (b) termination of the abuse of its dominant position by a business entity, and performance of actions aimed at ensuring the competition; (c) mitigation of effects of the violation of the antimonopoly legislation; (d) entry into agreements, amendments thereto or cancellation thereof agreements upon a motion of an interested party or upon its own initiative when performing state supervision over the economic concentration; or (e) transfer to the federal budget of any income received as a result of violation of the antimonopoly legislation; (iii) enforcing the antimonopoly laws against commercial and not-for-profit organisations and their officers; and (iv) initiating court cases to enforce violations of antimonopoly laws, including, *inter alia*, seeking to invalidate in full or in part any non-conforming agreements.

Regulation of Foreign Ownership

Law on Precious Stones

Under the Law on Precious Stones, no person may engage in the business of mining diamonds within Russia except an entity in which the majority of the voting capital is held solely or in the aggregate by: (i) the Russian Federation, (ii) a sub-federal political unit within Russia, or (iii) Russian entities without direct or indirect foreign shareholdings.

Strategic Industries Law

The Strategic Industries Law was adopted on 29 April 2008. It regulates foreign investments in companies with strategic importance for the national defence and security of the Russian Federation (the "**Strategic Companies**"). The Strategic Industries Law provides for an exhaustive list of strategic activities, engagement in which makes a company subject to regulations on foreign investments. Among others, the list of such activities includes exploration and/or production of natural resources on subsoil plots of federal importance. In accordance with the current version of the Subsoil Law, which was amended on 29 April 2008 in line with the provisions of the Strategic Industries Law, such subsoil plots include, *inter alia*, plots with diamond deposits. See "— Regulation of Mineral Resources — Subsoil Plots of Federal Importance".

Investments resulting in a foreign entity or a group of entities obtaining control over a Strategic Company are either banned or require prior approval from state authorities. The procedure for issuing such consent involves a special governmental commission on control of foreign investments (the "**Governmental Commission**"), which was established by Resolution of the Russian Government No. 510, dated 6 July 2008, as the authority responsible for granting such consents, and the FAS, which is authorised to process applications for consent from foreign investors. "Control" means an ability to determine, directly or indirectly, decisions taken by a Strategic Company, whether through voting at the general shareholders' (participants') meeting of the Strategic Company, participating in the board of directors or management bodies of the Strategic Company, or acting as the external management organisation of the Strategic Company, or otherwise. As a result, control will be deemed to exist, for instance, where (i) an entity or a group of entities can, directly or indirectly, dispose of more than 50 per cent. of votes in a Strategic Company, or (ii) through contract or otherwise it is able to appoint the sole executive body, more than 50 per cent. of the members of the board of directors or of the management board of a Strategic Company or it has the right to determine decisions of the Strategic Company, including the conduct of its business. However, there are special provisions for Strategic Companies involved in the exploration or production of natural resources on plots of federal importance. An entity or group of entities is considered to have control over a Subsoil Strategic Company where such entity or group of entities holds directly or indirectly 10 or more per cent. of the voting shares of the Subsoil Strategic Company or holds the right to appoint its sole executive officer and/or 10 or more per cent. of its management board or has the unconditional right to elect 10 or more per cent. of its board of directors. The above "control-setting" numerical thresholds are lowered to 25 per cent. and 5 per cent., in cases of, respectively, Strategic Companies and Subsoil Strategic Companies, where a foreign investor is a foreign state, an international organisation or an entity under control of a foreign state/international organisation.

Furthermore, if a foreign entity or group of entities holding securities of a Strategic Company, Subsoil Strategic Company or other entity that exercises control over these companies becomes a direct or indirect holder of such number of voting shares that is sufficient to give it direct or indirect control under the Strategic Industries Law due to a change in allocation of voting shares (*e.g.* as a result of a buy-back of its shares by the relevant company), then such entity or group of entities will have to apply for state approval within three months after it received such control. If the Governmental Commission refuses to grant the approval, such shareholder is required to sell the relevant part of its respective stake. If the shareholder does not comply with this requirement, a Russian court can deprive such foreign entity or group of entities from its voting rights in such Strategic Company or Subsoil Strategic

Company upon a claim of the competent authority. The shares held by a shareholder thus deprived of its voting rights are not counted for the purposes of determining the quorum and counting votes at the general shareholders' meeting of the Strategic Company or Subsoil Strategic Company.

If a foreign entity or group of entities obtains control over a Strategic Company or Subsoil Strategic Company in violation of the Strategic Industries Law, the relevant transaction is void. The deprivation of voting rights, as described above, may follow, to the extent the court is unable to apply general consequences of voidness of a transaction. In addition, resolutions of the general shareholders' meetings or other management bodies of a Strategic Company or Subsoil Strategic Company adopted after a foreign entity or group of entities obtained control over the Strategic Company or Subsoil Strategic Company in violation of the Strategic Industries Law, as well as transactions made by the Strategic Company or Subsoil Strategic Company after obtaining such control, may be invalidated in court upon a claim of the competent authority. See "Risk Factors — Risks Related to the Legal and Regulatory Environment in Russia — Expansion of limitations on foreign investment in strategic sectors could affect ALROSA's ability to attract and/or retain foreign investment and create joint ventures".

Secrecy Law

Information about volumes of diamond reserves, as well as extraction, production, delivery and consumption of natural diamonds were formerly considered state secrets, under the State Secrecy Law. In accordance with the State Secrecy Law that empowers the President of Russia to approve a list of data constituting a state secret, based on the list of data set out in the State Secrecy Law, the 1995 Presidential Decree specifically provided for secrecy as to deposits of precious stones (including diamonds) in Russia, certain production data relating to the Russian state diamond reserves and data in relation to diamond deposits containing reserves in excess of 25 million carats.

The State Secrecy Law was amended with effect from 20 February 2004. Pursuant to these amendments, only information about reserves of natural diamonds held by Gokhran and the CBR, and information about volumes of reserves, extraction, production and consumption of strategic mineral resources specifically identified by the Russian Government in a separate list, are considered state secrets under the State Secrecy Law. As of the date of this Prospectus, the Russian Government has not identified diamonds as a "strategic mineral resource". The amendments to the State Secrecy Law were reflected in the 1995 Presidential Decree with effect from 17 March 2005, state secrecy restrictions in respect of the above data being formally lifted.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes, which, subject to amendment, will be endorsed on each Definitive Note and will (subject to the provisions thereof) apply to the Global Note.

The US$1,000,000,000 7.750 per cent. Guaranteed Notes due 2020 (the "**Notes**") which expression includes any further Notes issued pursuant to Condition 16 and forming a single series therewith of ALROSA Finance S.A. (the "**Issuer**") were authorised by a written resolution of the Board of Directors of the Issuer dated 29 October 2010 and are guaranteed by "ALROSA" Company Limited (the "**Guarantor**"). The Notes are constituted by a trust deed to be dated 3 November 2010 (the "**Trust Deed**") made between the Issuer, the Guarantor and BNY Corporate Trustee Services Limited (the "**Trustee**", which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes.

These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer and the Guarantor will enter into a paying agency agreement, to be dated 3 November 2010 (the "**Agency Agreement**"), made between the Trustee, The Bank of New York Mellon, London Branch, as principal paying agent (the "**Principal Paying Agent**") and as transfer agent in London, and The Bank of New York Mellon, as registrar of the Rule 144A Notes (the "**Rule 144A Registrar**"), New York paying agent and New York transfer agent (together with the London transfer agent, the "**Transfer Agents**"), The Bank of New York Mellon (Ireland) Limited, as Irish paying agent (together with the Principal Paying Agent and the New York paying agent, the "**Paying Agents**"), The Bank of New York Mellon (Luxembourg) S.A., as registrar of the Regulation S Notes (the "**Regulation S Registrar**" and together with the Rule 144A Registrar, the "**Registrars**"). The Registrars, Paying Agents and Transfer Agents are together referred to herein as the "**Agents**", which expression includes any successor or additional paying and transfer agents or registrars appointed from time to time in connection with the Notes. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office of the Trustee, being at the date hereof One Canada Square, London E14 5AL, United Kingdom, and at the specified offices of the Agents. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Capitalised terms used but not defined in these Terms and Conditions shall have the respective meanings given to them in the Trust Deed.

1. Form and Denomination

The Notes are issued in fully registered form, without interest coupons attached, in denominations of US$200,000 or integral multiples of US$1,000 in excess thereof ("**authorised denominations**"). Title to the Notes shall pass by registration in the relevant register (the "**Register**") which the Issuer shall procure to be kept by the relevant Registrar. The Notes are initially issued in global, fully registered form, and will only be exchangeable for Notes in definitive, fully registered form ("**Definitive Notes**") in the limited circumstances set forth in the Agency Agreement and the Global Notes.

2. Guarantee and Status

(a) Guarantee

The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (the "**Guarantee**"). The Guarantor's obligations in respect of the Guarantee are contained in the Trust Deed. The Guarantor has undertaken in the Trust Deed that so long as any of the Notes remains outstanding (as defined in the Trust Deed) it will not take any action for the liquidation or winding-up of the Issuer.

(b) Status

The Notes constitute (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and of the Guarantor under the Guarantee shall, save for such exceptions as may arise by mandatory operation of law and subject to Condition 4, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer and the Guarantor, respectively.

3. Register, Title and Transfers

(a) Register

The relevant Registrar shall maintain the relevant Register in respect of the Notes in accordance with the provisions of the Agency Agreement. The relevant Register shall be kept at the specified office for the time being of the Registrar and shall record the names and addresses of the holders of the Notes, particulars of the Notes and all transfers thereof. On or about the Closing Date, a copy of each Register shall be sent by each Registrar to the Issuer to be kept by the Issuer at its registered office. As soon as practicable after any change being made to either Register, the relevant Registrar shall provide to the Issuer an up-to-date copy of the relevant Register. In these Conditions, the "**holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(b) Title

Title to the Notes will pass by and upon registration in the Register. The holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note) and no person shall be liable for so treating such holder.

(c) Transfers

Subject to Conditions 3(f) and 3(g) below, a Note may be transferred in whole or in part in an authorised denomination upon surrender of the relevant Definitive Note representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the "**Transfer Form**"), duly completed and executed, at the specified office of any Transfer Agent or of the Registrar, together with such evidence as such Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Note are the subject of the transfer, a new Definitive Note in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3(d). Neither the part transferred nor the balance not transferred may be less than the applicable authorised denomination.

(d) Registration and delivery of Definitive Notes

Within five business days of the surrender of a Definitive Note in accordance with Condition 3(c) above, the Registrar shall register the transfer in question and deliver a new Definitive Note to each relevant holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of any Transfer Agent or (at the request and risk of such relevant holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder.

(e) No Charge

The registration of the transfer of a Note shall be effected without charge to the holder or transferee thereof, but against such indemnity from the holder or transferee thereof as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) Closed periods

Noteholders may not require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of such Note.

(g) Regulations concerning Transfer and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in the First Schedule to the Agency Agreement. The regulations may be changed by the Issuer and the Guarantor with the prior written approval of the Trustee and the Agents. A copy of the current regulations will be sent by the Registrar free of charge to any person who so requests and will be available at the specified offices of each Registrar and at the specified office of each Transfer Agent.

4. Negative Pledge

So long as any of the Notes remains outstanding (as defined in the Trust Deed):

(a) neither the Issuer, the Guarantor nor any Material Subsidiary (as defined below) will create or permit to exist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (a "**Security Interest**") other than a Permitted Security Interest upon the whole or any part of its property, assets or revenues, present or future, to secure:

(i) payment of any sum due in respect of any Indebtedness of the Issuer, the Guarantor or any Material Subsidiary; or

(ii) any payment under any indemnity or other like obligation relating to any Indebtedness of the Issuer, the Guarantor or any Material Subsidiary; and

(b) each of the Issuer and the Guarantor will procure that no person (other than the Guarantor in respect of its giving of the Guarantee) gives any guarantee of, or indemnity in respect of, any of the Issuer's or the Guarantor's Indebtedness (except for Indebtedness relating to a specific asset or project in respect of which a guarantee of an export development agency has been given, Project Finance Indebtedness, Trade Finance Indebtedness and Indebtedness incurred specifically to finance a particular shipment or shipments of diamonds and guaranteed by a party which has committed contractually to purchase such shipment or shipments),

without in any such case at the same time according to the Notes, to the satisfaction of the Trustee, either an equivalent and rateable security, guarantee or indemnity as is granted or is given in respect of such other Indebtedness, indemnity or other like obligations or such other security, guarantee or indemnity as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed). The Issuer and the Guarantor have undertaken in the Trust Deed to deliver to the Trustee from time to time upon request of the Trustee certificates prepared by each of them as to compliance with this Condition 4. The Trustee is not obliged to monitor compliance with this Condition 4 and shall be entitled to rely on such certificates without further enquiry or liability to any person and need not enquire further as regards the circumstances then existing.

5. Covenants

(a) Asset Sales

The Guarantor shall not, and shall ensure that no member of the Group engages in, an Asset Sale or a Sale and Leaseback Transaction, in each case if such Asset Sale or Sale and Leaseback Transaction has a Material Adverse Effect.

(b) Maintenance of Authorisations

The Issuer and the Guarantor shall take all necessary action to maintain, obtain and promptly renew, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Grand Duchy of Luxembourg and the Russian Federation (including, for the avoidance of doubt, with the CBR) for (i) the execution, delivery or performance of the Trust Deed, the Agency Agreement, the Notes and the Guarantee, or for the validity or enforceability thereof or (ii) the conduct by it of its diamond mining, polishing and distribution businesses, but only if the failure to maintain, obtain, renew or ensure the continuance of such consents, licences, approvals and authorisations, registrations, recordings and filings would have a Material Adverse Effect.

(c) Maintenance of Property

The Group shall cause all property used in the carrying on by any member of the Group of its business for the time being to be kept in good repair and working order as, in the judgement of the Guarantor, may be reasonably necessary so that its business may be carried on, but only if the failure to keep such property in such condition would have a Material Adverse Effect.

(d) Maintenance of Insurance

The Group shall maintain, with respect to those of its properties and assets which it currently insures against loss or damage, such insurance with insurers who (in the Group's reasonable judgment) implement good business practices and are believed by the Guarantor to be responsible against loss or damage in amounts that are customary in the business in which the Group operates in the jurisdiction(s) where it operates.

(e) Incurrence of Indebtedness

The Guarantor will not, and will not permit any of its Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise (collectively, "incur"), with respect to any Indebtedness (including Acquired Debt) except for Permitted Indebtedness; *provided* that the Guarantor and its Subsidiaries may also incur Indebtedness (including Acquired Debt) in addition to Permitted Indebtedness if the Fixed Charge Coverage Ratio of the Guarantor would be at least 3.5 to 1.0.

The accrual of interest and the accretion or amortisation of original issue discount will not be deemed to be an incurrence of Indebtedness for the purposes of this Condition 5(e); provided, in each such case, that the amount thereof is included, as accrued, in Fixed Charges of the Guarantor.

For the purposes of determining compliance with this Condition, if an item of proposed Indebtedness is entitled to be incurred pursuant to this Condition, the Issuer or the Guarantor will be permitted to classify such item of Indebtedness on the date of its incurrence, or later reclassify all or a portion of such item of Indebtedness, in any manner that complies with this Condition.

For the purposes of this Condition 5(e), the US Dollar equivalent amount of any non-Dollar denominated Indebtedness will be calculated based on the relevant currency spot exchange rate in effect on (i) the Issue Date (in the case of Indebtedness incurred on or before the Issue Date), or (ii) the date such Indebtedness was incurred (in the case of Indebtedness incurred after the Issue Date).

(f) Financial Statements etc.

So long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer, failing which the Guarantor, shall deliver to the Trustee:

(i) not later than seven months after the end of the Guarantor's financial year, copies of the Guarantor's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding period, and all such annual financial statements of the Guarantor shall be accompanied by the report of the Auditors thereon;

(ii) not later than 120 days after the end of the first six months of each of the Guarantor's financial years, copies of its unaudited consolidated financial statements for such six-month period, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding period; and

(iii) in the case of every other item referred to below, not later than 20 days after their initial distribution to any of the persons referred to below,

three copies in English of every balance sheet, profit and loss account and, to the extent permitted by applicable law, every report or other notice, statement or circular issued, or which legally should be issued, to the members or holders of securities (generally) of the Issuer or the Guarantor or any holding company thereof generally in their capacity as such.

(g) Limitation on Merger and Consolidation

The Issuer and the Guarantor shall not engage in the following transactions (each such transaction or series of transactions, a "**Merger**"):

(i) merge, consolidate, amalgamate or otherwise combine with or into another Person (whether or not the Issuer or Guarantor is the surviving entity); or

(ii) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Group, in one or more related transactions, to another Person, unless:

A. the Issuer or the Guarantor, as the case may be, is the surviving entity;

B. the Person formed by or surviving any such consolidation or merger (if other than the Issuer or the Guarantor) or the Person to which such sale, assignment, transfer, conveyance or other disposition shall have been made assumes all the obligations (if any) of the Issuer or the Guarantor, as the case may be, under the Notes, the Trust Deed and the Guarantee pursuant to agreements reasonably satisfactory to the Trustee;

C. immediately after such transaction no Potential Event of Default or Event of Default exists; and

D. the Guarantor or, if the Guarantor engages in a Merger, the surviving entity or the Person to which such sale, assignment, transfer, conveyance or other disposition shall have been made: (i) will have Adjusted Consolidated Net Worth immediately after the transaction equal to or greater than the Adjusted Consolidated Net Worth of the Guarantor immediately preceding the transaction and (ii) will, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable Four-Quarter Period, be permitted to incur at least US$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in Condition 5(e).

Notwithstanding the foregoing, nothing in these Conditions shall prohibit the reorganisation of the Guarantor involving its conversion from a "Closed Joint Stock Company" to an "Open Joint Stock Company" for purposes of the Law "On Joint Stock Companies" No. 208-F2 dated 26 December 1995, as amended. This Condition 5(g) will not apply to a Merger between or among the Guarantor and any member of the Group.

(h) Changes in Covenants When Notes Rated Investment Grade

If on any date following the Issue Date:

(i) The Notes are rated Baa3 or better by Moody's and BBB- or better by S&P (or, if either such entity ceases to rate the Notes for reasons outside the control of the Guarantor, the equivalent investment grade credit rating from any other "nationally recognised statistical rating organisation" within the meaning of Section 3(a)(62) of the US Securities Exchange Act of 1934, selected by the Guarantor as a replacement agency, if any such agency exists at such time) (such ratings referred to collectively as an "Investment Grade Rating"); and

(ii) No Potential Event of Default or Event of Default shall have occurred and be continuing, then, beginning on that date and continuing at all times thereafter, regardless of any subsequent changes in the rating of the Notes, Conditions 5(a) and (e), and Clause (D) of Condition 5(g), will no longer be applicable to the Notes.

(i) Trustee's Reliance

The Issuer and the Guarantor have undertaken in the Trust Deed to deliver to the Trustee periodically and from time to time an Officers' Certificate of the Issuer or, as the case may be, of the Guarantor, as to there not having occurred an Event of Default or Potential Event of Default since the date of the last such certificate, or, if such an event had occurred, as to the details of such event, in the form set out in the Trust Deed. The Trustee will be entitled to rely, without liability to any person, on any such certificate and shall not be obliged to enquire as to or otherwise monitor compliance by the Issuer or the Guarantor with the covenants set forth in this Condition 5 and need not enquire further as regards the circumstances existing on the date of such Officers' Certificate.

6. Interest

(a) The Notes bear interest from 3 November 2010 at the rate of 7.750 per cent. per annum, payable in equal instalments semi-annually in arrear on 3 May and 3 November in each year (each an "**Interest Payment Date**"), commencing on 3 May 2011. The Notes will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event the Notes shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of the Notes up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

(b) If interest is required to be calculated in respect of any Calculation Period or other period, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In this Condition 6, each period beginning on an Interest Payment Date and ending on the next succeeding Interest Payment Date is called an "**Interest Period**".

7. Redemption and Purchase

(a) Final redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 3 November 2020.

(b) Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders and, for so long as the Notes are listed on the Irish Stock Exchange, to such Exchange (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it (or, if the Guarantee was called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Grand Duchy of Luxembourg or the Russian Federation or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or becomes effective on or after 3 November 2010 and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee (i) a certificate signed by two directors of the Issuer (or the President of the Guarantor, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of such conditions precedent, in which event it shall be conclusive and binding on the Noteholders and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment upon which opinion the Trustee shall be entitled to rely absolutely without liability to any person. All Notes in respect of which any such notice of redemption is given under this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

(c) Redemption of 144A Notes

The Issuer may compel any beneficial owner of Notes sold pursuant to Rule 144A under the Securities Act to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a US person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act).

(d) Redemption at the option of the Issuer

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a), (b) and (c) above. All Notes in respect of which any such notice of redemption is given under this Condition 7 shall be redeemed on the date specified in such notice in accordance with this Condition 7.

(e) Redemption at the option of Noteholders upon a Change of Control

If at any time while any Note remains outstanding a Change of Control occurs, the Issuer shall, at the option of the holder of any such Note, redeem or purchase such Note on the Change of Control Put Date (as defined below) at 100 per cent. of its principal amount together with (or, where purchased, together with an amount equal to) interest accrued to but excluding the Change of Control Put Date.

Such option (the "**Change of Control Put Option**") shall operate as set out below:

If a Change of Control occurs then, within 14 days of the occurrence of the Change of Control, the Issuer (failing which the Guarantor) shall, and upon the Trustee having actual knowledge thereof (the Issuer and Guarantor having failed to do so) the Trustee may, and, if so requested by the holders of at least one-quarter in principal amount of the Notes then outstanding, shall (subject to its being indemnified and/or secured and/or prefunded to its satisfaction), give notice (a "**Change of Control Notice**") to the Noteholders in accordance with Condition 17 specifying the nature of the Change of Control and the procedure for exercising the Change of Control Put Option.

To exercise the Change of Control Put Option, a holder of Notes must deliver at the specified office of any Paying Agent on any business day (being a day on which commercial banks are open for business in the city where such Paying Agent has its specified office) falling within the period commencing on the date on which the Change of Control Notice is given to Noteholders as required by this Condition 7(e) and ending 60 days after such date (the "**Change of Control Put Period**"), a duly signed and completed notice of exercise in the form obtainable from any specified office of any Paying Agent (a "**Change of Control Put Option Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this paragraph accompanied by the applicable Definitive Note or Notes or evidence satisfactory to the Paying Agent concerned that the certificate for such Notes will, following the delivery of the Change of Control Put Option Notice, be held to its order or under its control.

The Issuer shall redeem or purchase (or procure the purchase of) the Notes the subject of each Change of Control Put Option Notice on the date (the "**Change of Control Put Date**") seven days after the expiration of the Change of Control Put Period unless previously redeemed or purchased and cancelled. A Change of Control Put Option Notice given by a holder of any Note shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Change of Control Put Option Notice and require the applicable Definitive Note or Notes to be returned.

For the purposes of this Condition 7(e), a "**Change of Control**" will occur at any time that (i) the Russian Federation, the Republic of Sakha (Yakutia) and/or any Agency of the foregoing and/or any entity wholly-owned by the foregoing shall together cease to be the beneficial owners, directly or indirectly, of at least 50 per cent. plus one share of the issued and outstanding voting share capital of the Guarantor or cease to be able to appoint the majority of the Board of Directors of the Guarantor or (ii) the Russian Federation and/or any Agency thereof and/or any entity wholly-owned thereby shall together cease to be the beneficial owner, directly or indirectly, of at least 25 per cent. plus one share of the issued and outstanding voting share capital of the Guarantor.

(f) Purchase

The Issuer, the Guarantor and any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

(g) Cancellation

All Notes redeemed or purchased pursuant to this Condition 7 shall be cancelled forthwith and may not be held or resold. Any Notes so cancelled may not be reissued.

8. Payments

(a) Principal

Payments of principal (whenever due) and interest due on redemption shall be made by the Paying Agents by US Dollar cheque drawn on a bank in New York City, or by transfer to a US Dollar account maintained by the payee with, a bank in New York City and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Notes at the specified office of any Paying Agent.

(b) Interest

Payments of interest (other than interest due on redemption) shall be made by the Paying Agents by US Dollar cheque drawn on a bank in New York City, or by transfer to a US Dollar account maintained by the payee with, a bank in New York City not later than the due date for such payment.

(c) Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) Payments on business days

If the due date for any payment of principal or interest under this Condition 8 is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 8, "business day" means any day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business in the place of the specified office of the relevant Paying Agent and, in the case of payment by transfer to a US Dollar account as referred to above, on which dealings in foreign currencies may be carried on both in New York City and in such other place.

(e) Record date

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's specified office) on the fifteenth day before the due date for such payment or if such date is not a business day the next following business day. Any cheque will be mailed to the holder of the relevant Note at his address appearing in the Register.

(f) Agents

The initial Agents and their initial specified offices are listed below. The Issuer and the Guarantor, acting together, reserve the right (subject to prior written approval of the Trustee) to vary or terminate the appointment of all or any of the Agents at any time and appoint additional or other payment or transfer agents, provided that they will maintain (i) a Principal Paying Agent, (ii) Paying and Transfer Agents having specified offices in at least two major European cities approved by the Trustee, and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any such change will be provided as described in Condition 17 below.

9. Taxation

All payments of principal and interest in respect of the Notes by the Issuer or under the Guarantee by the Guarantor shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the Grand Duchy of Luxembourg or the Russian Federation or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall increase the relevant payment so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

(a) held by a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or the Guarantee by reason of its having some connection with the Grand Duchy of Luxembourg or (as the case may be) the Russian Federation other than the mere holding of such Note or the benefit of the Guarantee; or

(b) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Note on the last day of such period of 30 days; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Definitive Note to another Paying Agent in a member state of the European Union.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in New York City by or for the account of the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition. If the Issuer or the Guarantor becomes subject in respect of payments of principal or interest on the Notes or (as the case may be) payments under the Guarantee at any time to any taxing jurisdiction other than (or in addition to) the Grand Duchy of Luxembourg or the Russian Federation, respectively, references in these Conditions to the Grand Duchy of Luxembourg or the Russian Federation shall be construed as references to the Grand Duchy of Luxembourg or (as the case may be) the Russian Federation and/or such other jurisdiction.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) shall, give notice to the Issuer that the Notes are, and they shall immediately become, due and repayable at their principal amount together with accrued interest if any of the following events occurs and is continuing (each, an "Event of Default"):

(a) the Issuer fails to pay any amounts payable on any of the Notes when due and, in the case of payment of interest, such failure continues for a period of five business days; or

(b) the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in the Notes or the Trust Deed which default (i) is (in the opinion of the Trustee) incapable of remedy and, in the case of a breach of an obligation under the Trust Deed, (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders or (ii) if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer or the Guarantor by the Trustee in writing requesting the same to be remedied; or

(c) any Indebtedness of the Issuer, the Guarantor or any Material Subsidiary is not paid when due, or within any applicable grace period, or any Indebtedness of the Issuer, the Guarantor or any Material Subsidiary is either declared to be or otherwise becomes due and payable prior to its specified maturity otherwise than at the option of the Issuer, the Guarantor or any Material Subsidiary (as the case may be) or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; provided, however, that the total amount of such Indebtedness which is not paid when due or becomes due and payable prior to its specified maturity is equal to or greater than US$30,000,000 (or its equivalent in another currency) disregarding any guarantee of such Indebtedness by the Issuer, the Guarantor or any Material Subsidiary (as the case may be); or

(d) a judgment or order of a court of competent jurisdiction for the payment of any amount in excess of US$30,000,000 (or its equivalent in another currency) is rendered against the Issuer, the Guarantor or any Material Subsidiary and continues unsatisfied and unstayed or uncontested for a period of 60 days after the date thereof or, if later, the date therein specified for payment or on which such judgment or order otherwise becomes enforceable; or

(e) any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any Material Subsidiary in respect of any Indebtedness in an aggregate principal amount in excess of US$30,000,000 (or its equivalent in another currency) becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and such enforcement is not stayed or discharged within 60 days of such step having been taken; or

(f) (i) the Issuer or any of its Subsidiaries is unable to pay its Indebtedness as it falls due or is declared insolvent or bankrupt by a competent court or judiciary or petitions the courts for a suspension of payments or suspends payments of its Indebtedness generally or makes any agreement for the deferral, rescheduling or other readjustment of all of its Indebtedness or all of a particular type of its Indebtedness which it will or might otherwise be unable to pay when due or makes a general assignment or arrangement or composition with or for the benefit of its creditors in respect of its Indebtedness generally or a moratorium or suspension of payments is agreed or declared in respect of or affecting its Indebtedness generally; or (ii) the Guarantor or any Material Subsidiary is unable to pay its Indebtedness as it falls due or is declared insolvent or bankrupt by an appropriate judicial body or petitions the courts for a suspension of payments or suspends payments of its Indebtedness generally or makes any agreement for the deferral, rescheduling or other readjustment of all of its Indebtedness (or all of a particular type of its Indebtedness the deferral, rescheduling or other readjustment of which is, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) which it will or might otherwise be unable to pay when due or makes a general assignment or arrangement or composition with or for the benefit of its creditors in respect of its Indebtedness generally or a moratorium or suspension of payments is agreed or declared in respect of its Indebtedness generally and, following the occurrence of any of the events specified in this clause (ii) in relation to a Material Subsidiary, the Trustee is of the opinion that such event is materially prejudicial to the interests of the Noteholders; or

(g) an order of a court of competent jurisdiction is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the Issuer, the Guarantor or any Material Subsidiary which event in the case of a Material Subsidiary is in the opinion of the Trustee materially prejudicial to the interests of the Noteholders, or (ii) the Issuer, the Guarantor or any Material Subsidiary ceases to carry on all or a substantial part of its business or operations which cessation in the case of a Material Subsidiary is in the opinion of the Trustee materially prejudicial to the interests of the Noteholders, except, in each case, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (A) on terms approved by an

Extraordinary Resolution of the Noteholders or (B) in the case of a Material Subsidiary, whereby the undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor or another of their respective Subsidiaries; or

(h) by or under the authority of any agency, authority, central bank, department, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, a state (an "**Agency**") the authority of the Issuer, the Guarantor or any Material Subsidiary in the conduct of its business is wholly or substantially curtailed or any Agency seizes, compulsorily acquires, expropriates or nationalises all or, in the opinion of the Trustee, any substantial part of the assets or shares of the Issuer, the Guarantor or any Material Subsidiary or any such Agency takes any step for or with a view to any of the foregoing and such curtailment, seizure, compulsory acquisition, expropriation, nationalisation or step is, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders; or

(i) the Issuer ceases (directly or indirectly) to be wholly owned and controlled by the Guarantor; or

(j) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Trust Deed admissible in evidence in the courts of the Grand Duchy of Luxembourg and the Russian Federation, is not taken, fulfilled or done; or

(k) it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed which event is in the opinion of the Trustee materially prejudicial to the interests of the Noteholders; or

(l) the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or

(m) any event occurs with respect to any member of the Group which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

The Issuer and the Guarantor have each covenanted in the Trust Deed that at any time after an Event of Default or Potential Event of Default has occurred pursuant to this Condition 10 or if the Trustee believes that such an event has occurred, they will, so far as permitted by applicable law, allow, and procure that each Subsidiary will allow, inter alia, the Trustee access to its books of account (other than books of account containing information access to which is restricted by mandatory provisions of applicable law, including Russian law).

11. Prescription

Claims for the payment of principal and interest in respect of any Definitive Note shall be prescribed unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate relevant date.

12. Replacement of Definitive Notes

If any Definitive Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantor may reasonably require. Mutilated or defaced Definitive Notes must be surrendered before replacements will be issued.

13. Meetings of Noteholders, Modification and Waiver

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such meetings shall be held in accordance with the provisions set out in the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes, (iv) to change the currency of payment of the Notes, (v) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (vi) to modify or cancel the Guarantee, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed or the Notes which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Notes or the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable.

(c) Substitution

The Trust Deed contains provisions permitting the Trustee to agree with the Issuer and the Guarantor, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such substitution, the Trustee may agree with the Issuer and the Guarantor, without the consent of the Noteholders, to a change of law governing the Notes and/or the Trust Deed, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of Noteholders. Notice of any such substitution will be provided as described in Condition 17 below and, for so long as the Notes are listed on the Irish Stock Exchange, to such Exchange.

(d) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other Person, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

14. Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such steps, actions or proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed and the Notes (whether by arbitration pursuant to the Trust Deed or by litigation), but it need not take any such steps, actions or proceedings unless it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding, nor shall the Trustee be bound to take or omit to take any steps, actions or proceedings unless it has been indemnified and/or provided with security and/or prefunded in each case to its satisfaction in respect of all costs, claims, expenses and liabilities to or for which it may, in its opinion, thereby become liable. No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

15. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

16. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition. Any such other securities shall be constituted by a deed supplemental to the Trust Deed.

17. Notices

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, notices will be published (so long as the Notes are listed on the Irish Stock Exchange and the Rules of that exchange so require) in a leading newspaper having general circulation in Ireland (which is expected to be the *Irish Times*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

18. Currency Indemnity

If any sum due from the Issuer or the Guarantor in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer, failing whom the Guarantor, shall indemnify each Noteholder on the written demand of such Noteholder addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the specified office of the Registrar, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Issuer or, as the case may be, the Guarantor and shall give rise to a separate and independent cause of action.

19. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

20. Governing Law

The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with any of them are governed by, and shall be construed in accordance with, English law.

21. Jurisdiction, Consent to Enforcement and Waiver of Immunity

(a) Jurisdiction and Arbitration

Any dispute arising out of or connected with the Notes, the Trust Deed and the Guarantee, including a dispute as to the validity or existence of the Notes, the Trust Deed and the Guarantee and/or this Condition 21 (a "**Dispute**"), shall be resolved:

(i) subject to (ii) below, by arbitration whose seat shall be in London, England, conducted in the English language by three arbitrators, as an institutional arbitration administered by the LCIA, in accordance with the LCIA Rules, which rules are deemed to be incorporated by reference into this Condition with the exception that any provision of such rules relating to the nationality of an arbitrator shall, to that extent, not apply and save that, unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA; or

(ii) at the option of the Trustee, by proceedings brought in the courts of England, which courts are to have exclusive jurisdiction (a "**Proceeding**"). If the Trustee is in the position of a respondent and the Trustee wishes to exercise this option, it must do so by notice to the other parties to the Dispute within 60 days of service on it of the request for arbitration, and article 2.1 of the LCIA rules shall be amended accordingly.

For the avoidance of doubt, (a)(ii) above is for the benefit of the Trustee alone and shall not limit the right of the Trustee to bring proceedings in any other court of competent jurisdiction.

For the purpose of (a)(ii) above the Trustee shall be entitled to rely and act on instructions received from Noteholders of at least one-quarter in principal amount of the Notes then outstanding in exercising such option (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) which instructions shall be binding and conclusive on all Noteholders and the other parties.

(b) Appropriate forum

Each of the parties irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Dispute, and agrees not to claim that any such court is not a convenient or appropriate forum.

(c) Agent for Service of Process

Each of the Issuer and the Guarantor has appointed Arcos Limited at its registered office (being, at the date hereof, 2nd Floor, 86 Hatton Garden, London EC1N 8QQ) as its agent in England to receive service of process in any Proceedings in England in connection with the Notes or the Trust Deed.

(d) Consent to enforcement etc.

The Issuer and the Guarantor consent generally in respect of any Proceedings or Disputes to the giving of any relief or the issue of any process in connection with such Proceedings or Disputes including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any judgment or award which may be made or given in such Proceedings or Disputes.

(e) Waiver of immunity

To the extent that either the Issuer or the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before the making of a judgment or an award or otherwise) or other legal process including in relation to the enforcement of an arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer, the Guarantor or their respective assets or revenues, the Issuer and the Guarantor agree not to claim and irrevocably waive such immunity to the fullest extent permitted by the laws of such jurisdiction.

22. Definitions

In these Conditions, the following terms shall have the following meanings:

"**Acquired Debt**" means, with respect to any specified Person, Indebtedness of any other Person existing at the time such other Person is merged, consolidated, amalgamated or otherwise combined with or into, or becomes a Subsidiary of, such specified Person, in each case other than Indebtedness incurred in connection with, or in contemplation of, such other Person merging, consolidating, amalgamating or combining with or into, or becoming a Subsidiary of, such specified Person;

"**Adjusted Consolidated Cash Flow**" means, with respect to any Person for any period, the sum (without duplication) of (i) Adjusted Consolidated Net Income, (ii) to the extent Adjusted Consolidated Net Income has been reduced thereby, (A) all income taxes of such Person and its Subsidiaries paid or accrued as determined on a consolidated basis in accordance with IFRS for such period, (B) Adjusted Consolidated Interest Expense and (C) Adjusted Consolidated Non-Cash Charges, less any non-cash items increasing Adjusted Consolidated Net Income for such period, and (iii) dividends or distributions paid in cash to such Person or its Subsidiary by another Person who is not a Subsidiary of such Person;

"**Adjusted Consolidated Interest Expense**" means, with respect to any Person for any period, the sum (without duplication) of:

(a) the consolidated interest expense of such Person and its Subsidiaries for such period, whether paid or accrued (including, without limitation, amortisation of original issue discount, non-cash interest payments (except for payments in respect of Equity-pay Indebtedness made in the form of Capital Stock that is not Disqualified Stock), the interest component of any deferred payment obligations, the interest component of any Qualified Receivables Transaction and the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of a letter of credit or bankers' acceptance financings, but excluding amortisation of debt issuance costs); and

(b) the consolidated interest expense of such Person and its Subsidiaries that was capitalised during such period;

"**Adjusted Consolidated Net Income**" means, with respect to any Person for any period, the aggregate of the net profit (or loss) of such Person and its Subsidiaries for such period, on a consolidated basis, determined in accordance with IFRS; provided that there shall be excluded therefrom, without duplication:

(a) after-tax gains and losses from Asset Sales or abandonments or reserves relating thereto;

(b) after-tax items classified as extraordinary or non-recurring gains (and, solely for purposes of calculation of Fixed Charge Coverage Ratio only, extraordinary or non-recurring losses);

(c) the net income of any Person acquired in a "pooling of interests" transaction accrued prior to the date it becomes a Subsidiary of the referent Person or is merged or consolidated with it or any of its Subsidiaries;

(d) any net income or loss of any Subsidiary, if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions (by loans, advances, intercompany transfer or otherwise) by such Subsidiary, directly or indirectly, to the Guarantor, except that the Guarantor's equity in the net income of any such Subsidiary for such period shall be included in such Adjusted Consolidated Net Income up to the aggregate amount of cash which could actually have been distributed by such Subsidiary during such period to the Guarantor as a dividend or other distribution (by loans, advances, intercompany transfer or otherwise) for so long as so permitted;

(e) the net income (and, solely for purposes of calculation of Fixed Charge Coverage Ratio only, losses) of any Person other than a Subsidiary; and

(f) any restoration to income of any contingency reserve, except to the extent that provision for such reserve was made out of Adjusted Consolidated Net Income accrued at any time following the Issue Date;

"**Adjusted Consolidated Net Worth**" means, with respect to any specified Person as of any date, the sum of:

(a) the consolidated equity of the common stockholders of such Person and its consolidated Subsidiaries as of such date; plus

(b) the respective amounts reported on such Person's balance sheet as of such date with respect to any series of Preferred Stock (other than Disqualified Stock) that by its terms is not entitled to the payment of dividends unless such dividends may be declared and paid only out of net earnings in respect of the year of such declaration and payment, but only to the extent of any cash received by such Person upon issuance of such Preferred Stock;

"**Adjusted Consolidated Non-Cash Charges**" means, with respect to any Person for any period, the aggregate depreciation, amortisation and any other non-cash expenses of such Person and its Subsidiaries for such period determined on a consolidated basis in accordance with IFRS (excluding any such charge which requires an accrual of a reserve for a cash charge for any future period);

"**Affiliate**", in respect of any specified Person, means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person, and, in the case of a natural Person, any immediate family member of such Person. For purposes of this definition, "control", as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise;. For purposes of this definition, the terms "**controlling**", "**controlled by**" and "**under common control with**" shall have correlative meanings. No Person (other than the Issuer, the Guarantor or any Subsidiary of the Guarantor) in whom a Receivables Subsidiary makes an Investment in connection with a Qualified Receivables Transaction will be deemed to be an Affiliate of the Guarantor or any of its Subsidiaries solely by reason of such Investment;

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory Person (whether autonomous or not);

"**Asset Acquisition**" means (i) an Investment by the Guarantor or any Subsidiary in any other Person pursuant to which such Person shall become a Subsidiary of or shall be consolidated or merged with the Guarantor or any Subsidiary or (ii) the acquisition by the Guarantor or any Subsidiary of assets of any Person which constitute all or substantially all of the assets of such Person or which comprise a division or line of business of such Person;

"**Asset Sale**" means any sale, lease, transfer or other disposal (including, without limitation, by way of a Sale and Leaseback Transaction) in one or more transactions or series of transactions (whether related or not) by the Guarantor or any other member of the Group to a Person that is not a member of the Group of all or any of the Capital Stock of any Subsidiary or any other property, assets or revenues of the Guarantor or any other member of the Group; provided that "Asset Sale" shall not include:

(a) sales, leases, transfers or other disposals of inventory, stock-in-trade, goods, services and other current assets in the ordinary course of business, and assignments of or other arrangements over the rights or revenues arising therefrom;

(b) sales of accounts receivable and related assets of the type specified in the definition of "Qualified Receivables Transaction" to a Receivables Subsidiary for the Fair Market Value thereof, including monetary consideration (including, without limitation, payment in instalments) in an amount at least equal to 70 per cent. of the book value thereof as determined in accordance with IFRS; or

(c) transfers of accounts receivable and related assets under a Qualified Receivables Transaction; or

(d) sales, leases, transfers or other disposals of property, assets or revenues of any Social Business;

"**Board of Directors**" means: with respect to the Guarantor, its Supervisory Council; with respect to a corporation, the board of directors or managers of the corporation and, in the case of any other corporation having both a supervisory board and an executive or management board, the executive or management board (except where the supervisory board is expressly indicated); with respect to a partnership, the board of directors of the general partner of the partnership; and with respect to any other Person, the board or committee of such Person serving a similar function;

"**business day**" means (except where expressly defined otherwise) a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the relevant Registrar has its specified office (including for the avoidance of doubt in Luxembourg and New York);

"**Capital Lease Obligation**" means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalised on a balance sheet in accordance with IFRS;

"**Capital Stock**" means: in the case of a corporation, corporate stock; in the case of a company, share capital; in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock; in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and any other interest or participation in the nature of an equity interest in the issuing Person or that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person;

"**Cash Equivalents**" means:

(a) securities issued or directly and fully guaranteed or insured by the government of (a) any of the United States of America or any member state of the European Union or (b) any agency or instrumentality of any of the foregoing (provided that the full faith and credit of the relevant jurisdiction is pledged in support thereof) or by any European Union central bank, and in each case having maturities of not more than one year from the date of acquisition;

(b) certificates of deposit, time deposits and money market deposits with maturities of one year or less from the date of acquisition, bankers' acceptances with maturities not exceeding six months and overnight bank deposits, in each case, with a commercial bank or trust company having one of the two highest rating categories obtainable from Moody's or S&P;

(c) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (a) and (b) above entered into with any financial institution having one of the two highest rating categories obtainable from Moody's or S&P;

(d) commercial paper having a rating at the time of the investment of at least "P-1" from Moody's or "A-1" from S&P or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term debt obligations, an equivalent rating and in each case maturing within 12 months after the date of acquisition; and money market funds at least 95.0 per cent. of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (d) of this definition;

"**Control**" shall have the meaning provided in the definition of "Affiliate" and "**controlled**" shall be construed accordingly;

"**Disqualified Stock**" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the date that is 180 days after the date on which the Notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require the repurchase of such Capital Stock upon the occurrence of a change of control or an asset sale shall not constitute Disqualified Stock;

"**Equity Interests**" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock);

"**Equity-pay Indebtedness**" means Indebtedness in respect of which any and all payments of principal may be made only in the form of Capital Stock of a Person or its Subsidiaries or Affiliates that is not Disqualified Stock (provided, that any such Capital Stock must provide that any and all payments of dividends or any other amounts thereunder may be made only in the form of Capital Stock that is not Disqualified Stock.

"**European Union**" means the European Union, including the countries of Austria, Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden and the United Kingdom but not including any country which became a member of the European Union after 6 May 2003;

"**Fair Market Value**" means, with respect to any property, asset or Investment, the fair market value of such asset or Investment at the time of the event requiring such determination, as determined in good faith by the Issuer or the Guarantor, or, with respect to any asset or Investment in excess of US$10,000,000 (or its equivalent in another currency) (other than cash or Cash Equivalents), as determined by an Independent Appraiser;

"**Fixed Charges**" means, with respect to any Person for any period, the sum, without duplication, of:

(a) Adjusted Consolidated Interest Expense for such period; and

(b) the product of (x) the amount of all dividend payments on Preferred Stock (other than dividends paid in Capital Stock that is not Disqualified Stock) of such Person or on Disqualified Stock of such Person held by Persons other than the Parent or any of its Restricted Subsidiaries paid, accrued or scheduled to be paid or accrued during such period and (y) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal and local tax rate of such Person, expressed as a decimal, in each case, computed on a consolidated basis and in accordance with IFRS;

For the avoidance of doubt, "Fixed Charges" shall not include any amounts paid or payable in respect of Equity-pay Indebtedness.

"**Fixed Charge Coverage Ratio**" means with respect to any Person for the two consecutive six month fiscal periods (the "**Four Quarter Period**") ending on or prior to the date of determination, the ratio of the Adjusted Consolidated Cash Flow of such Person for such period to the Fixed Charges of such Person and its Subsidiaries for such period.

For purposes of this definition, "Adjusted Consolidated Cash Flow" and "Fixed Charges" shall be calculated on a *pro forma* basis after giving effect to:

(a) the incurrence of Indebtedness of such Person and its Subsidiaries (and the application of the proceeds therefrom) giving rise to the need to make such calculation and any incurrence (and the application of the proceeds therefrom) or repayment or redemption of Indebtedness, other than the incurrence or repayment of Indebtedness pursuant to working capital facilities, occurring at any time subsequent to the beginning of the Four Quarter Period and on or prior to the date of determination, as if such incurrence and issuance (and the application of the proceeds thereof), or the repayment or redemption, as the case may be, occurred on the first day of the Four Quarter Period;

(b) any Asset Sales or Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of such Person or one of its Subsidiaries (including any Person that becomes a Subsidiary as a result of such Asset Acquisition) incurring, assuming or otherwise becoming liable for Indebtedness) at any time on or subsequent to the first day of the Four Quarter Period and on or prior to the transaction date, as if such Asset Sale or Asset Acquisition (including the incurrence, assumption or liability for any Indebtedness and also including any Adjusted Consolidated Cash Flow associated with such Asset Acquisition) occurred on the first day of the Four Quarter Period; and

(c) discontinued operations determined in accordance with IFRS at any time on, or subsequent to, the first day of the Four Quarter Period and on, or prior to, the date of determination, as if such discontinued operations had occurred on the first day of the Four Quarter Period (but with respect to Fixed Charges, only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Subsidiaries following the date of determination).

If such Person or any of its Subsidiaries directly or indirectly guarantees any Indebtedness of a third Person, the Fixed Charge Coverage Ratio shall give effect to the incurrence of such guaranteed Indebtedness as if such Person or Subsidiary had directly incurred such guaranteed Indebtedness. If, since the beginning of a Four Quarter Period, any Person that subsequently became a Subsidiary or was merged with or into the Guarantor or any of its Subsidiaries since the beginning of such Four Quarter Period shall have made any Investment in a Subsidiary, acquisition, disposition, merger or consolidation or determined a discontinued operation that would have required adjustment pursuant to this definition, then the Fixed Charge Coverage Ratio shall be calculated giving pro forma effect thereto for such period as if such Investment, acquisition, disposition, merger or consolidation or discontinued operations had occurred at the beginning of the applicable Four Quarter Period.

For purposes of this definition, whenever pro forma effect is to be given to an acquisition or disposition of assets or other transaction for purposes of calculating the Fixed Charge Coverage Ratio, the pro forma calculations shall be determined in good faith by an Officer of the Guarantor on the basis of reasonable assumptions.

Furthermore:

(i) for purposes of the calculation of "Fixed Charge Coverage Ratio", (a) "Adjusted Consolidated Cash Flow" shall not include the cash flow or other proceeds (including insurance proceeds) derived from an asset or a project with respect to which Project Finance Indebtedness has been incurred to the extent such cash flow or other proceeds were applied to service such Project Finance Indebtedness, including, but not limited to, payment of principal, interest and any applicable additional amounts, whether paid or accrued, during the relevant Four Quarter Period and (b) "Fixed Charges" shall not include interest expense, whether paid or accrued, relating to Project Finance Indebtedness; and

(ii) in calculating "Adjusted Consolidated Interest Expense" for purposes of the calculation of "Fixed Charge Coverage Ratio", interest determined on a fluctuating basis as of the date of determination (including Indebtedness actually incurred on the date of the transaction giving rise to the need to calculate the Fixed Charge Coverage Ratio) and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness as in effect on the date of determination;

"**Group**" means the Guarantor and its Consolidated Subsidiaries;

"**guarantee**" means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness;

"**Hedging Obligations**" means, with respect to any Person, the obligations of such Person under:

(a) interest rate swap agreements, interest rate cap agreements and interest rate collar agreements;

(b) other agreements or arrangements designed to protect such Person against fluctuations in interest rates; and

(c) any foreign currency futures contract, option or similar agreement or arrangement designed to protect such Person against fluctuations in foreign currency rates;

"**IFRS**" means International Financial Reporting Standards as in effect from time to time, and which are consistent with the accounting principles and practices then applied by the Guarantor, and any variation to such accounting principles and practices which is not material;

"**Indebtedness**" means, without duplication, with respect to any specified Person, any indebtedness of such Person, whether or not contingent (including, without limitation, guarantees):

(a) in respect of moneys borrowed or raised;

(b) evidenced by bonds, notes, debentures, loan stock or similar instruments or letters of credit (or reimbursement agreements in respect thereof);

(c) in respect of bankers' acceptances;

(d) in respect of the balance deferred and unpaid of the purchase price of any property, except any such balance that constitutes an accrued expense or trade payable;

(e) representing Capital Lease Obligations;

(f) representing any Hedging Obligations; and

(g) representing the proceeds received by the Guarantor or any Subsidiary from a Qualified Receivables Transaction not otherwise giving rise to Indebtedness under items (a) through (f) above, in each case, if and to the extent any of the preceding items (other than letters of credit, guarantees and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with IFRS.

In addition, the term "Indebtedness" includes all indebtedness of others secured by a lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, any guarantee by the specified Person of any Indebtedness of any other Person. The amount of any Indebtedness outstanding as of any date shall be: (1) the accreted value thereof, in the case of any Indebtedness issued with original issue discount; and (2) the principal amount thereof, together with any interest thereon that is more than 30 days past due, in the case of any other Indebtedness. The term "Indebtedness" does not include trade payables or current liabilities (other than short-term debt and the current portion of long-term debt), indebtedness to the federal budget, regional budgets, local budgets and non-budgetary funds on account of current taxes which are not overdue or Equity-pay Indebtedness;

"**Independent Appraiser**" means any of PricewaterhouseCoopers LLC, KPMG LLC, Deloitte & Touche LLP, Ernst & Young LLP or such other reputable investment banking, accountancy or appraisal firm of international standing appointed at its expense by the Guarantor (with the prior written consent of the Trustee, provided it is not an Affiliate of the Issuer, the Guarantor or any Material Subsidiary;

"**Investments**" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of (a) Equity Interests and the making of capital contributions, (b) corporate bonds, promissory notes, commercial paper, certificates of deposit and other securities, (c) the granting of loans and the making of advances (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), (d) the extension of credit (including, without limitation, commodity credits) and (e) holding the benefit of any Indebtedness (including guarantees, indemnities or other like obligations), together with all items that are or would be classified as investments on a balance sheet prepared in accordance with IFRS. If the Guarantor or any Subsidiary of the Guarantor sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of the Guarantor such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of the Guarantor, the Guarantor shall be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Equity Interests of such Subsidiary not sold or disposed of. The acquisition by the Guarantor or any Subsidiary of the Guarantor of a Person that holds an Investment in a third Person shall be deemed to be an Investment by the Guarantor or such Subsidiary in such third Person in an amount equal to the fair market value of the investment held by the acquired Person in such third Person;

"**Issue Date**" means 3 November 2010;

"**Material Adverse Effect**" means a material adverse effect on (a) the financial condition or operations of the Guarantor or any of its Material Subsidiaries, (b) the ability of the Guarantor to perform its obligations under the Guarantee, (c) the ability of the Issuer to perform its obligations under the Trust Deed and the Notes or

(d) the validity or enforceability of the Trust Deed, the Notes and the Guarantee, or the rights or remedies of the Noteholders thereunder;

"**Material Subsidiary**" means at any relevant time a Subsidiary of the Guarantor:

(a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent not less than 5 per cent. of the total consolidated assets or the gross consolidated revenues of the Guarantor and its Subsidiaries, all as calculated by reference to the then latest audited accounts (or consolidated accounts, as the case may be) (in each case, produced on the basis of IFRS, consistently applied) of such Subsidiary and the then latest audited consolidated accounts of the Guarantor (produced on the basis of IFRS, consistently applied) and its consolidated Subsidiaries; or

(b) to which is transferred all or substantially all the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Material Subsidiary. For the purposes of this definition, a report of the Auditors or the Chief Accountant of the Guarantor that in their or his or her opinion a Subsidiary of the Guarantor is or is not or was or was not a Material Subsidiary shall without further enquiry or evidence and in the absence of manifest error, be conclusive and binding on the Issuer, the Guarantor, the Trustee and the Noteholders;

"**Moody's**" means Moody's Investors Service, Inc.;

"**Obligations**" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness;

"**OECD Asset**" means shares or other equity interests (or any securities, instruments, options, or other rights convertible for, exchangeable for or exercisable for, such equity interests) in a legal entity that is organised under the laws of an OECD Country or a political subdivision thereof, or other tangible or intangible assets located in an OECD Country;

"**OECD Asset Acquisition**" means a purchase or acquisition by the Guarantor or a Subsidiary of an OECD Asset at its fair market value, as determined by the Management Board of the Guarantor;

"**OECD Country**" means a country that is, at the time of the relevant OECD Asset Acquisition, a member of the Organisation for Economic Cooperation and Development;

"**Officer**" means, with respect to any Person, any Managing Director, Director, the Chairman of the Board, the President, any Vice President, the Chief Financial Officer, the Controller, the Treasurer or the Secretary of such Person or any general partner or other person holding a corresponding or similar position of responsibility;

"**Officers' Certificate**" means, as applied to any Person, a certificate executed on behalf of such Person by two Officers; provided that every Officers' Certificate with respect to the compliance with the Trust Deed shall include (i) a statement that the Officers making or giving such Officers' Certificate have read such condition and any definitions or other provisions contained in the Trust Deed relating thereto, (ii) a statement that, in the opinion of the signers, they have made or have caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such condition has been complied with, and (iii) a statement as to whether, in the opinion of the signers, such condition has been complied with;

"**Permitted Indebtedness**" means the following Indebtedness (each of which shall be given independent effect):

(a) Indebtedness of up to US$1,200,000,000 (or its equivalent in another currency) in aggregate principal amount at any time outstanding;

(b) Indebtedness owed by the Guarantor to any Subsidiary, or Indebtedness owed by any Subsidiary to the Guarantor or any other Subsidiary of the Guarantor; provided that any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than a Group member and any sale or other transfer of any such Indebtedness to a Person that is not a Group member (other than a pledge or other transfer of such Indebtedness intended to create a Security Interest therein) will be deemed, in each case, to constitute an incurrence of Indebtedness that was not permitted by this paragraph (b);

(c) Permitted Refinancing Indebtedness;

(d) Project Finance Indebtedness;

(e) Trade Finance Indebtedness; and

(f) any Acquired Debt in connection with an OECD Asset Acquisition, to the extent that such Acquired Debt would not, after such OECD Asset Acquisition, form part of the consolidated Indebtedness of the Guarantor.

"**Permitted Refinancing Indebtedness**" means any Indebtedness issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund, other Indebtedness (other than intercompany Indebtedness); provided that:

(a) the principal amount of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness extended, refinanced, renewed, replaced, defeased or refunded (plus all accrued interest on the Indebtedness and the amount of all expenses and premiums incurred in connection therewith);

(b) such Permitted Refinancing Indebtedness has a final maturity date equal to or later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, either (i) the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded or (ii) the Notes;

(c) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the Notes, such Permitted Refinancing Indebtedness is subordinated in right of payment to the Notes on terms at least as favourable to the Noteholders as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and

(d) such Indebtedness is incurred by the Guarantor, the Issuer or another Group member who is the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded;

"**Permitted Security Interest**" means:

(a) any Security Interest in existence on the Issue Date;

(b) any Security Interest in respect of Indebtedness created by a Person prior to it becoming a Material Subsidiary or otherwise being acquired by any Group member, provided that such Security Interest was not created in contemplation thereof or in connection therewith;

(c) any Security Interest on property existing at the time of acquisition of such property by the Guarantor or any Subsidiary, provided that such Security Interest was not created in contemplation of such acquisition or in connection therewith;

(d) any Security Interest arising from a purchase money mortgage or other purchase money lien of the Guarantor or any Material Subsidiary; provided that (i) the related Indebtedness shall not be secured by any property or assets of the Guarantor or any Material Subsidiary other than the property and assets so acquired and (ii) the Security Interest securing such Indebtedness shall be created within 90 days of such acquisition;

(e) any Security Interest created or permitted to be outstanding by the Guarantor or a Subsidiary in respect of Project Finance Indebtedness;

(f) any Security Interest in respect of Trade Finance Indebtedness created or permitted to be outstanding by a Subsidiary of the Guarantor incurring such Trade Finance Indebtedness;

(g) any Security Interest created or permitted to exist over goods and products in commercial turnover (including, without limitation, rough diamonds in their natural form and/or being processed) or over accounts receivable (whether denominated in Roubles or in US Dollars or other convertible currency) of the Guarantor or any of its Subsidiaries (including any Receivables Subsidiary) in connection with a Qualified Receivables Transaction; provided that the aggregate value of such goods and products in commercial turnover or accounts receivable which is subject to such Security Interest or Security Interests and is securing Indebtedness due in the current financial year shall not exceed such aggregate value of such Security Interests of the type described in this clause (g) as shall secure Indebtedness in a maximum aggregate principal amount of US$150,000,000;

(h) any other Security Interest created in respect of any other Indebtedness incurred after the Issue Date up to an aggregate principal amount of US$30,000,000 outstanding at any time;

(i) any Security Interest in favour of the Guarantor or any of its Subsidiaries;

(j) any Security Interest created to secure liabilities under letters of credit issued in connection with the acquisition and disposal of inventory, stock in trade, goods, services and other current assets in the ordinary course of business;

(k) any Security Interest for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted, provided that any reserve or other appropriate provision as may be required in conformity with IFRS or with RAR has been set aside;

(l) any Security Interest arising by operation of law, including, without limitation, Security Interests of landlords, unpaid vendors, carriers, warehousemen, mechanics, suppliers, material men or repairmen arising in the ordinary course of business for sums not yet delinquent or being contested in good faith, provided that any reserve or other appropriate provision as may be required in conformity with IFRS or with RAR has been set aside;

(m) any Security Interest to secure the performance of tenders, statutory obligations, surety or appeal bonds, bids, leases, governmental contracts, performance and return of money bonds or other obligations of a like nature (exclusive of obligations for the payment of borrowed money) incurred in the ordinary course of business;

(n) any easements, rights of way, municipal and zoning ordinances, utility agreements, reservations, encroachments, restrictions and similar charges, encumbrances, title defects or other irregularities that do not materially interfere with the ordinary course of business of the Guarantor or any of its Subsidiaries;

(o) any Security Interest granted or deposit made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of statutory obligations, including any Security Interest securing letters of credit issued in the ordinary course of business in connection therewith; or

(p) any extension, renewal or replacement in whole or in part of any Security Interest referred to in the foregoing clauses (b) through (o), inclusive, provided, however, that the principal amount of Indebtedness secured thereby shall not exceed the principal amount of Indebtedness so secured at the time immediately preceding the time of such extension, renewal or replacement, and that such extension, renewal or replacement shall be limited to all or a part of the assets (or to similar assets of no greater value than those) which comprised the Security Interest so extended, renewed or replaced;

"**Person**" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company or government or other entity;

"**Potential Event of Default**" means an event or circumstance which, with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 10, would constitute an Event of Default;

"**Preferred Stock**" of any Person means any Capital Stock of such Person that has preferential rights to any other Capital Stock of such Person with respect to dividends or redemptions or upon liquidation;

"**Project Finance Indebtedness**" means any Indebtedness issued, borrowed or raised by the Guarantor or a Subsidiary to finance the ownership, acquisition, development and/or operation of an asset or project where there is no recourse whatsoever for repayment thereof other than:

(a) recourse to the cash flow or net cash flow from such asset or project (including insurance proceeds); and/or

(b) recourse, for the purpose only of enabling amounts to be claimed in respect of such Indebtedness, over such asset or project or the income, cash flow or other proceeds deriving therefrom, provided that the extent of such recourse is limited solely to the amount of any recoveries made on any such enforcement;

provided, however, that Project Finance Indebtedness shall not include completion or other guarantees or obligations entered into by the Guarantor or any Subsidiary where recourse is not limited as described above;

"**Qualified Receivables Transaction**" means any transaction or series of transactions entered into by the Guarantor or any of its Subsidiaries with any Person (including, without limitation, any Receivables Subsidiary) pursuant to which the Guarantor or any of its Subsidiaries (a) creates or permits to exist any Security Interest over, (b) sells, conveys or otherwise transfers or (c) grants a participation or beneficial interest in, its goods in commercial turnover and/or accounts receivable (whether now existing or arising in the future) and any assets related thereto (including, without limitation, all collateral securing such goods in commercial turnover and accounts receivable, all contracts and all guarantees or other obligations in respect of such goods in commercial turnover and accounts receivable, the proceeds of such goods in commercial turnover and accounts receivable, and other assets which are customarily subject to the grant of a Security Interest, transferred or subject to the grant of a participation or beneficial interest, in connection with financing transactions involving goods in commercial turnover and accounts receivable);

"**RAR**" means accounting rules and standards generally applicable in the Russian Federation;

"**Receivables Subsidiary**" means a Subsidiary of the Guarantor which engages in no activities other than in connection with the financing of accounts receivable and which is designated by the Board of Directors of the Guarantor (as provided below) as a Receivables Subsidiary (a) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which (i) is guaranteed by the Guarantor or any Subsidiary of the Guarantor (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to representations, warranties, covenants and indemnities entered into in the ordinary course of business in connection with a Qualified Receivables Transaction) and excluding guarantees by any other Receivables Subsidiary, (ii) provides recourse to or obligates the Guarantor or any Subsidiary of the Guarantor in any way other than pursuant to representations, warranties, covenants and indemnities entered into in the ordinary course of business in connection with a Qualified Receivables Transaction, or (iii) subjects any property or asset of the Guarantor or any Subsidiary of the Guarantor (other than accounts receivable and related assets as provided in the definition of "Qualified Receivables Transaction"), directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to representations, warranties, covenants and indemnities entered into in the ordinary course of business in connection with a Qualified Receivables Transaction, (b) with which neither the Guarantor nor any Subsidiary of the Guarantor has any material contract, agreement, arrangement or understanding other than on terms no less favourable to the Guarantor or such Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Guarantor, other than fees payable in the ordinary course of business in connection with servicing accounts receivable, and (c) with which neither the Guarantor nor any Subsidiary of the Guarantor has any obligation to maintain or preserve such Subsidiary's financial condition or cause such Subsidiary to achieve certain levels of operating results. Any such designation by the Board of Directors of the Guarantor will be evidenced to the Trustee by filing with the Trustee a certified copy of the resolution of the Board of Directors of the Guarantor giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing conditions. The Trustee shall be entitled to rely on such certificate without further enquiries or liability to any person nor inquire further as regards the circumstances then existing;

"**S&P**" means Standard & Poor's, a division of The McGraw-Hill Companies, Inc.;

"**Sale and Leaseback Transaction**" means any direct or indirect arrangement with any Person or to which any such Person is a party, providing for the leasing to the Guarantor or any of its Subsidiaries of any property, whether owned by the Guarantor or such Subsidiary at the Issue Date or later acquired, which has been or is to be sold or transferred by the Guarantor or such Subsidiary to such Person or to any other Person from whom funds have been or are to be advanced by such Person;

"**Social Business**" means any business or operations conducted by the Guarantor or any of its Subsidiaries solely for the purpose of providing transportation of materials and supplies used in mining operations (including auto transport, marine transport and aviation); electricity generation and transmission; production of natural gas and the operation of natural gas heat generation plants; production and refining of oil; and other activities in support of the employees who work in the exploration, production and transport of diamonds, including pension services, housing, road maintenance and the renovation of various social assets, such as sports complexes and cultural facilities; and other support services facilitating the infrastructure and operations of the Group; in each case in connection with the operation by the Group of its business;

"**Subsidiary**" means, in relation to any Person (the "first person"), at any particular time, any other Person (the "second person") (i) which the first person controls or has the power to control and (ii) which is (or is required under IFRS to be) consolidated in or with the financial statements of the first person;

"**Trade Finance Indebtedness**" means any Indebtedness issued, borrowed or raised by any Subsidiary of the Guarantor to finance sales of diamonds or acquisitions of diamonds to be made for sale, from the Guarantor, any Subsidiary or any third party, or related activities, where:

(a) there is no recourse whatsoever for repayment thereof other than:

   (i) recourse to the cash flow or net cash flow of such Subsidiary that is generated by or arises out of the sale or sales of the particular diamonds that are being financed pursuant to the relevant transaction; and/or

   (ii) recourse, for the purpose only of enabling amounts to be claimed in respect of such Indebtedness, over the assets or income of such Subsidiary, provided, however, that the extent of such recourse is limited solely to the amounts of any recoveries made on any such enforcement, and may not exceed the amount actually received by such Subsidiary in consideration of the sale or sales of the particular diamonds that were financed by such Indebtedness; and

(b) such Subsidiary agrees that for so long as any Trade Finance Indebtedness is outstanding, if it purchases any diamonds or other assets from the Guarantor or any other Subsidiary of the Guarantor, it will pay the full consideration therefor prior to the delivery of such diamonds or other assets;

"**US Dollars**", "**dollars**" or the sign "**$**" means such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts;

"**Weighted Average Life to Maturity**" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(a) the sum of the products obtained by multiplying (i) the amount of each then remaining instalment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (ii) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(b) the then outstanding principal amount of such Indebtedness; and

"**Wholly Owned Subsidiary**" of any specified Person means a Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests of which shall at the time be owned by such Person or by one or more Wholly Owned Subsidiaries of such Person.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Regulation S Global Note and the Rule 144A Global Note contain provisions, which apply to the Notes in respect of which they are issued, some of which modify the effect of the Terms and Conditions set out in this Prospectus. The following is a summary of those provisions.

The Global Notes

The Notes sold in offshore transactions (as defined in Regulation S) in reliance on Regulation S will be evidenced on issue by the Regulation S Global Note deposited with, and registered in the nominee name of The Bank of New York Depository (Nominees) Limited as common depository for Euroclear and Clearstream, Luxembourg. Beneficial interests in the Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "— Book-Entry Procedures for the Global Notes". By acquisition of a beneficial interest in the Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a US person, and that prior to the expiration of the distribution compliance period it will not offer, sell, pledge or otherwise transfer such interest except to a non-US person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or to a person who takes delivery in the form of an interest in the Rule 144A Global Note. See "Plan of Distribution" and "Transfer Restrictions".

The Notes sold to QIBs (within the meaning of Rule 144A) will be evidenced on issue by the Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co., as nominee of DTC. Beneficial interests in the Rule 144A Global Note may only be held through DTC at any time. See "— Book-Entry Procedures for the Global Notes". By acquisition of a beneficial interest in the Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that if it is a US person (within the meaning of Regulation S), it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement relating to the Notes (the "**Agency Agreement**"). See "Plan of Distribution" and "Transfer Restrictions".

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to Rule 144A Global Notes, as set forth in Rule 144A, and the Rule 144A Notes will bear legends set forth thereon regarding such restrictions set forth under "Transfer Restrictions". A beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Note and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction meets the requirements of Rule 144A and is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made in an offshore transaction to a non-US person (as defined in Regulation S) in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive, registered form (the "**Definitive Notes**"). The Notes are not issuable in bearer form.

Amendments to Conditions

As noted above, each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above terms and conditions of the Notes. The following is a summary of those provisions. Terms defined in the Terms and Conditions have the same meanings in the paragraphs below.

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to the person who appears at the relevant time on the register of Noteholders as holder of the Global Note against presentation and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note, to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes. Such payments shall be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. No person shall however be entitled to receive any payment on the Global Note falling due after the Exchange Date, unless the exchange of the Global Notes for Definitive Notes is improperly withheld or refused by or on behalf of the Issuer.

Notices

So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the terms and conditions of such Notes; provided, however, that so long as the Notes are listed on the Irish Stock Exchange, notices shall also be given in accordance with the rules of such stock exchange.

Meetings

The holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each Note for which the relevant Global Note is exchangeable.

Trustee Powers

In considering the interests of Noteholders while the Global Notes are held on behalf of a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, have regard to, and may rely on, any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to each Global Note and may consider such interests as if such accountholders were the holders of any Global Note.

Cancellation

Cancellation of any Note required by the terms and conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

Record Date

Payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business in the place of the Registrar's specified office on the Clearing System Business Day before the relevant due date for payment, where "**Clearing System Business Day**" means (i) in respect of the Regulation S Global Note, a day when Euroclear and Clearstream, Luxembourg is open for business, and (ii) in respect of the Rule 144A Global Note, a day when DTC is open for business.

Redemption at the option of Noteholders upon a Change of Control

Exercise of the option of the holders provided for in Condition 7(e) will be subject to the normal rules and operating procedures of DTC and Euroclear and Clearstream, Luxembourg, as applicable.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Definitive Notes if: (i) in the case of a Rule 144A Global Note, DTC notifies the Issuer it is no longer willing or able to discharge properly its responsibilities as a depositary with respect to the Global Notes or ceases to be a "clearing agency" registered under the Exchange Act, or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of becoming aware of such eligibility on the part of DTC, by the holder giving notice to the Registrar or any Transfer Agent or (ii) in the case of a Regulation S Global Note, Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (iii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 9 which would not be suffered were the Notes in definitive form and a notice to such effect signed by two members of the board of directors of the Issuer or by any person(s) empowered by the board of directors of the Issuer to sign on behalf of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or the Transfer Agent and the Noteholders of its intention to exchange the relevant Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice or (iv) the Trustee has instituted or has been directed to institute any judicial proceeding in a court to enforce the rights of the Noteholders under the Notes and the Trustee has been advised by counsel that in connection with such proceeding it is necessary or appropriate for the Trustee to obtain possession of the Notes, by the Trustee giving notice to the Registrar or any Transfer Agent and the Noteholders.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will cause individual Definitive Notes to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Registrar for dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Definitive Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB in accordance with transfer restrictions set forth in the Agency Agreement. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "Transfer Restrictions".

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "Transfer Restrictions", or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Book-Entry Procedures for the Global Notes

Euroclear, Clearstream, Luxembourg and DTC

Custodial and depository links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "— Book-Entry Ownership — Settlement and Transfer of Notes".

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodian relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg, if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations, which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the US Federal Reserve System a, "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in the accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in a Rule 144A Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations, which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "— Exchange for Definitive Notes", DTC will surrender the relevant Rule 144A Global Notes in exchange for individual Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note will have an ISIN and a Common Code and will be deposited with, and registered in the name of the nominee for, the common depository for Euroclear and Clearstream, Luxembourg.

DTC

The Rule 144A Global Note will have a CUSIP number (as well as an ISIN and a Common Code) and will be deposited with a custodian for, and registered in the name of Cede & Co., as nominee of DTC. The custodian and DTC will electronically record the principal amount of the notes held within the DTC system.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of notes evidenced by a Global Note, the common depositary by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any agent thereof will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such notes on the clearing system's records. The ownership interest of each beneficial owner of each such Note will in turn be recorded on the Direct and Indirect participants' records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmation providing details of the transaction, as well as period statements of their holdings, from the direct or indirect participant through which such beneficial owner entered into the transaction. Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual beneficial owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC or otherwise take action in respect of such interest may be affected by the lack of a physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in US Dollars, or free of payment, if payment is not effected in US Dollars. Where payment is not effected in US Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in the Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interests in the Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg deliver free of payment instructions by 7:45 pm, Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any agent thereof will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective direct or indirect participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of the Notes will be made against payment thereof on the Closing Date thereof, which will be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days ("**T+3**"), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant closing date in respect of the sale of the Notes, will be required, by virtue of the fact that the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes between the date of pricing and the relevant closing date in respect of the sale of Notes, should consult with their own adviser.

TAXATION

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident of a purchase of Notes, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of Notes. The following is a general description of certain tax laws relating to the Notes, the Guarantee, as in effect on the date hereof, and does not purport to be a comprehensive discussion of the tax treatment of the Notes.

Certain U.S. Federal Income Tax Consideration

To ensure compliance with U.S. Treasury Department Circular 230, Noteholders are hereby notified that: (A) any discussion of United States Federal tax issues in this Prospectus is not intended or written to be relied upon by, and cannot be relied upon by, Noteholders for the purposes of avoiding penalties that may be imposed on Noteholders under the Internal Revenue Code; (B) such discussion is included herein by the Issuer in connection with the promotion or marketing (within the meaning of Circular 230) by the Issuer of the transactions or matters addressed herein; and (C) Noteholders should seek advice based on their particular circumstances from an independent tax advisor.

The following summary contains a description of certain U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes. This summary addresses only Noteholders that purchase Notes at their issue price as part of the initial offering and that hold Notes as capital assets for U.S. federal income tax purposes. This summary does not describe all of the tax consequences that may be relevant to a Noteholder in light of such Noteholder's particular circumstances. For example, it does not address considerations that may be relevant to Noteholders that are subject to special tax rules, such as a bank, thrift, real estate investment trust, regulated investment company, insurance company, tax-exempt organization, dealer in securities or currencies, trader in securities or commodities that elects mark-to market treatment, person that will hold the Notes as a hedge against currency risk or as a position in a "straddle" or conversion transaction, person subject to the alternative minimum tax, or person whose "functional currency" is not the U.S. Dollar. It does not include any description of any alternative minimum tax consequences or the tax laws of any state or local government or of any foreign government that may be applicable to the Notes.

If a partnership holds the Notes, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Notes should consult its own tax advisor with regard to the United States federal income tax treatment of an investment in the Notes.

This summary is based upon the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), Treasury regulations issued thereunder and judicial and administrative interpretations thereof, each as in effect on the date hereof, all of which are subject to change, possibly with retroactive effect. Furthermore, there can be no assurance that the U.S. Internal Revenue Service (the "**IRS**") will not assert a position contrary to those discussed herein.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS TO DETERMINE THE ANTICIPATED TAX CONSEQUENCES TO THEM OF HOLDING THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER U.S. FEDERAL, STATE, LOCAL, AND NON-U.S. TAX LAWS AND POSSIBLE CHANGES IN TAX LAWS.

As used herein, a "**U.S. holder**" means a beneficial owner of a Note that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States; (ii) a corporation, or any entity treated as a corporation for U.S. federal income tax purposes, created or organised in the United States or under the laws of the United States or of any political subdivision thereof; (iii) any estate the income of which is subject to U.S. federal income taxation regardless of its source; and (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. fiduciaries have the authority to control all substantial decisions of the trust, or if a valid election is in place to treat the trust as a United States person. A "**non-U.S. holder**" is a beneficial owner of the Notes (other than a partnership) that is not a U.S. holder.

Taxation of U.S. holders

Payments of Interest

Interest payments (including any foreign withholding tax imposed on, and additional amounts paid with respect to, such payments) on the notes generally will be taxable to a U.S. holder as ordinary interest income at the time that such payments accrue or are received, in accordance with the U.S. holder's method of accounting for U.S. federal income tax purposes.

Payments of interest on the Notes generally will constitute foreign-source income for U.S. federal income tax purposes and will be categorized as "passive category income" (or, in the case of certain U.S. holders, "general category income") for purposes of computing the foreign tax credit allowable under the U.S. federal income tax laws. A U.S. holder may be able, subject to certain generally applicable limitations, to claim a foreign tax credit (or, alternatively, a deduction if the U.S. holder has elected to deduct all foreign income taxes for that taxable year) for any Russian or Luxembourg withholding taxes imposed on payments of interest. The rules relating to foreign tax credits and the timing thereof are complex, and U.S. holders should consult their tax advisors with regard to the availability of foreign tax credits and the application of the foreign tax credit limitations to their particular situation.

Sale, Exchange, Redemption or Other Disposition

A U.S. holder will recognise taxable gain or loss upon the sale, exchange, redemption or other disposition of a Note in an amount equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received upon such sale, exchange, redemption or other disposition (except to the extent that such cash or property is attributable to accrued interest, which amount will be taxable as ordinary income to the extent not previously included in gross income) and (ii) the U.S. holder's adjusted tax basis therefor. A U.S. holder's adjusted tax basis in respect of a Note generally will be equal to its original price thereof. Such gain or loss will be U.S.-source capital gain or loss, and will be a long-term capital gain or loss if the U.S. holder held the Notes for more than one year. Long-term capital gains may be taxed at a lower rate than ordinary income for certain non-corporate U.S. holders. The deduction of capital losses is subject to limitations.

Gain or loss realized by a U.S. holder on the sale, exchange, retirement or other disposition of a note generally will be U.S.-source gain or loss for U.S. federal income tax purposes (unless it is attributable to an office or other fixed place of business outside the United States and certain other conditions are met). Accordingly, if Russian tax is imposed on the sale or disposition of the Notes, a U.S. holder may not be able to fully utilize its U.S. foreign tax credits in respect of such tax unless such U.S. holder has other foreign-source income. Prospective investors should consult their own tax advisors as to the U.S. tax and foreign tax credit implications of such sale, exchange, retirement or other disposition of a Note.

Substitution of Issuer

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. holder could be required to recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes), and the U.S. holder's tax basis in the Notes. U.S. holders should consult their tax advisors concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Notes.

Taxation of Non-U.S. Holders

A non-U.S. holder generally will not be subject to U.S. federal income tax (including withholding tax) on payments of interest on the Notes. In addition, a non-U.S. holder generally will not be subject to U.S. federal income tax on gain realized on the sale, exchange, redemption or other disposition of the Notes. U.S. federal income tax will apply to such interest and gain, however, to the extent that such income is effectively connected with the conduct of a U.S. trade or business by such non-U.S. holder (subject to the provisions of an applicable income tax treaty); furthermore, gain realized by an individual non-U.S. holder will be subject to U.S. federal income taxation if such holder is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met. A non-U.S. holder generally will not be subject to information reporting or backup withholding, but such a holder may have to comply with certification procedures to establish that it is not a United States Person as described below.

Information Reporting and Backup Withholding

Amounts paid to a U.S. holder in respect of the Notes, and payments of the proceeds of a sale of Notes, paid within the United States or through certain U.S.-related financial intermediaries, are subject to information reporting and may be subject to backup withholding unless the U.S. holder (i) is an exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. A Noteholder that is not a U.S. holder generally will not be subject to information reporting or backup withholding, but may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund.

Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes as well as taxation of payments under the Guarantee. The summary is based on the laws of Russia in effect on the date of this Prospectus. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia, nor does the summary seek to address the availability of double tax treaty relief in respect of the Notes, or practical difficulties involved in claiming such double tax treaty relief.

Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Russian tax consequences pertinent to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack of interpretive guidance resulting in inconsistent interpretations and application thereon. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and tax systems. In this regard, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

In practice, interpretation of tax laws and regulations by different tax inspectorates in Russia may be inconsistent or contradictory and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Similarly, in the absence of binding precedent, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a "**Non-Resident Noteholder**" means:

(i) an individual Noteholder who does not satisfy the criteria for being a Russian tax resident as defined below (the "**Non-Resident Noteholder — Individual**"); or

(ii) a legal entity or an organisation in each case not organised under Russian law, which purchases, holds and disposes the Notes otherwise than through its permanent establishment in Russia (the "**Non-Resident Noteholder — Legal Entity**").

For the purposes of this summary, a "**Resident Noteholder**" means:

(i) an individual Noteholder who satisfies the criteria for being a Russian tax resident. A "**Russian tax resident**" is an individual who is present in the Russian Federation in aggregate for 183 days or more in a period comprised of 12 consecutive months. Presence in the Russian Federation is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education purposes. The Tax Code is generally interpreted by both tax authorities and taxpayers such that days of arrival do not count and that days of departure do count when calculating the total number of days of presence in Russia, although there have been one or two isolated incidents of the Ministry of Finance suggesting a different methodology;

(ii) a Russian legal entity that purchases, holds and disposes the Notes; or

(iii) a legal entity or an organisation, in each case organised under a foreign law, that purchases, holds and disposes the Notes through its permanent establishment in the Russian Federation.

For the purposes of this summary, the definitions of "Resident Noteholder" and "Non-Resident Noteholder" in respect of individuals are taken at face value based on the wording of the tax law as currently written. In practice, however, the application of the above formal residency definition may differ based on the position of the tax authorities. The law is currently worded in a way that implies the potential for a split-year residency for individuals. However, the tax authorities have expressed the view that an individual should be either resident or non-resident in Russia for the full year and, consequently, even where the travel pattern dictates differing residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by amendments to other articles of the Tax Code dealing with taxation of individuals, and by provision of an applicable double tax treaty.

Russian tax treatment of payments made by the Guarantor to the Trustee, acting on behalf of the Noteholders, under the Guarantee may affect the holders of the Notes. See section "— Taxation of Payments under the Guarantee".

Taxation of the Notes — Non-Resident Noteholders

Payments of Interest and Repayments of Principal on the Notes

A Non-Resident Noteholder should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer.

Acquisition of the Notes

The acquisition of the Notes by Non-Resident Noteholders — Legal Entities should not constitute a taxable event and there should be no tax implications for the Non-Resident Noteholders — Legal Entities associated with acquisition of the Notes.

The acquisition of the Notes by Non-Resident Noteholders — Individuals may constitute a taxable event pursuant to the provisions of the Tax Code relating to the material benefit (deemed income) received by individuals as a result of the acquisition of securities. If the acquisition price of the Notes is below the "market price" decreased by the amount of the maximum permissible fluctuation rate, the difference may be subject to the Russian personal income tax at the rate of 30 per cent. The Russian tax legislation as currently in effect contains a specific procedure for the determination of market prices of securities and the maximum permissible fluctuation rate for tax purposes. It is expected that effective 1 January 2011 these rules will be amended.

Under the Russian tax legislation, taxation of income of Non-Resident Noteholders — Individuals depends on whether this income is received from Russian or non-Russian sources. Although the Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, the tax authorities may infer that such income should be considered as Russian source income, if the Notes are purchased "in Russia". In the absence of any additional guidance as to what should be considered as a purchase of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of the transaction for acquisition of the Notes, the location of the Issuer, or other similar criteria.

Sale or Other Disposition of the Notes

A Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of gain or other income realised on redemption, sale or other disposition of the Notes outside Russia, provided that the proceeds from such redemption, sale of other disposition are not received from a source within Russia. In the absence of a clear definition of what constitutes income from source within Russia in case of sale or other disposition of securities, there is a risk that income from such disposition of the Notes may be considered as received from Russian source.

Non-Resident Noteholder — Legal Entity

In the event that proceeds from sale or other disposition of the Notes are received from a source within Russia, a Non-Resident Noteholder — Legal Entity should not be subject to Russian withholding tax on any gain on sale or other disposition of the Notes, although there is some residual uncertainty regarding the treatment of the portion of the sales proceeds, if any, from disposition of the Notes that is attributable to accrued interest on the Notes. Therefore, subject to reduction or elimination under provisions of an applicable double tax treaty that are related to interest income, the portion of sales proceeds attributable to accrued interest may be subject to Russian withholding tax at a rate of 20 per cent., even if the disposal of the Notes results in a capital loss.

Non-Resident Noteholders — Legal Entities should consult their own tax advisers with respect to the tax consequences of the receipt of the sales proceeds from a source within Russia in respect of a disposition of the Notes.

Non-Resident Noteholders — Individuals

The Tax Code does not provide any clear-cut guidance on determination whether income from operations with securities is considered to be received from Russian source, other than such income should be viewed as Russian source income if the Notes are disposed "in Russia". In the absence of any additional guidance as to what should be considered as a disposal of securities "in Russia", the Russian tax authorities may use various methods in order to determine the source of the related income from securities, including looking at the place of conclusion of the transaction for disposition of the Notes, the residence or location of the purchaser, or other similar criteria.

If the receipt of proceeds by a Non-Resident Noteholder — Individual from a source within Russia in respect of the gain from a disposition of the Notes is treated as Russian-source income for personal income tax purposes, it will be subject to Russian personal income tax at a rate of 30 per cent. on the gross proceeds received less any available documented cost deduction (including the original purchase value). In certain circumstances if the disposal proceeds are paid by a licensed broker or an asset manager that is a Russian legal entity or organisation, or any other person, including a foreign company with a registered autonomous subdivision or any registered presence in the Russian Federation and by an individual entrepreneur located in Russia who carries out operations under an agency agreement, a commission agreement or another similar agreement for the benefit of the Non-Resident Noteholder — Individual, the applicable personal income tax at the rate of 30 per cent. should be withheld at source. The amount of tax withheld would be calculated after taking into account deductions for the purchase value and related expenses to the extent such deductions and expenses can be determined by the entity, which is the payer of income. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the Non-Resident Noteholder — Individual would be liable to file a tax return, report his or her Russian source income realised and apply for a deduction of acquisition expenses, based on the provision of supporting documentation. The applicable tax would then have to be paid by the Non-Resident Noteholder — Individual on the basis of the tax return.

There is some uncertainty regarding the treatment of the portion of proceeds, if any, from a disposition of the Notes that is attributable to accrued interest on the Notes. Subject to reduction or elimination of tax under provisions of an applicable tax treaty that are related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 30 per cent, even if the disposal of the Notes results in a capital loss.

Non-Resident Noteholders — Individuals should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposition of the Notes.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These tax treaties may contain provisions that allow for the reduction or elimination of Russian withholding tax due with respect to income received by a Non-Resident Noteholder from a source within Russia, including income from disposition of the Notes. To obtain the benefit of such tax treaty provisions, the Non-Resident Noteholder must comply with the certification, information, and reporting requirements in force in Russia.

Currently a Non-Resident Noteholder — Legal Entity would need to provide the payer of income with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income. The certificate should confirm that the respective Non-Resident Noteholder — Legal Entity is the tax resident of the relevant double tax treaty country in a particular calendar year during which the income is paid. This certificate should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate would be required. However, there can be no assurance that advance treaty relief will be available in practice, whilst obtaining a refund of the tax withheld can be difficult and time consuming.

Under Russian treaty clearance procedures in order to enjoy benefits of the applicable tax treaty a Non-Resident Noteholder — Individual must provide to the tax authorities a tax residency certificate issued by the competent authorities of his/her country of residence for tax purposes and appropriate evidence of income received and the tax payment made in such foreign jurisdiction on income with respect to which treaty benefits are claimed, as confirmed by the relevant foreign tax authorities. Technically, such requirements mean that a Non-Resident Noteholder — Individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. Because of uncertainties regarding the form and procedures for providing such evidence, individuals in practice would therefore generally not be able to obtain advance treaty relief on receipt of proceeds from a source within Russia; whilst obtaining a refund of the taxes withheld is theoretically possible, it can be extremely difficult, if not practically impossible.

If any brokers or other entities hold the Notes on behalf of the investors, it is possible that the requirement to provide confirmation of residence as referred to in the preceding paragraph could relate to the investors. This situation increases the risk of the application of a Russian withholding income tax. The possibility of the application of the double tax treaty in this situation is questionable.

Non-Resident Noteholders should consult their own tax advisers regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of proceeds received from a disposition of the Notes.

Refund of Tax Withheld

For a Non-Resident Noteholder — Legal Entity for which double tax treaty relief is available but Russian withholding taxes on income have nevertheless been withheld at the source, an application for the refund of the taxes withheld may be filed within three years from the end of the tax period in which the tax was withheld.

For a Non-Resident Noteholder — Individual for whom double taxation treaty relief is available but Russian taxes have nevertheless been withheld at the source, an application for the refund of the taxes withheld may be filed within one year after the end of the year to which the treaty benefit relates.

The Russian tax authorities may, in practice, request a wide range of documentation confirming a Noteholder's right to benefit under the applicable double tax treaty, even if such documentation is not explicitly required by the Tax Code.

Obtaining a refund of Russian taxes withheld at source is likely to be a time consuming and burdensome process, and therefore no assurance can be given that such refund will be granted in practice.

Taxation of the Notes — Resident-Noteholders

A Resident Noteholder will be subject to all applicable Russian taxes in respect of income derived in connection with the acquisition, ownership and disposal of the Notes and interest received on the Notes.

Resident Noteholders should consult their own tax advisers with respect to the effect that acquisition, holding and disposal of the Notes may have on their tax position.

Taxation of Payments under the Guarantee

In general, payments under the guarantee by a Russian entity to a Non-Resident Noteholder-Legal Entity should not be subject to Russian withholding tax to the extent such payments do not represent Russian source income. Payments under the Guarantee related to interest on the Notes are likely to be characterised as Russian source income. Accordingly, such payments should be subject to Russian withholding tax at a rate of 20 per cent., or such other rate as may be in force at the time of payment, in the event that a payment under the Guarantee is made to a Non-Resident Noteholder — Legal Entity. There is some residual uncertainty regarding the treatment of the payment under the Guarantee related to the principal amounts due under the Notes. There is a potential risk, albeit small, that such payments may be characterised as Russian source income taxed at a rate of 20 per cent. Russian withholding tax may be reduced or eliminated under the terms of the applicable double tax treaty. The treaty relief and refund procedures should generally be similar to the tax relief and refund procedures described above with respect to proceeds from disposal of the Notes.

Payments under the Guarantee, as the case may be, to a Non-Resident Noteholder — Individual, may be subject to Russian tax as Russian-source income. In this case, depending on how these payments would be effected, either the full amount of payments, or a part of such payments covering the interest on the Notes, would be subject to a 30 per cent. tax, which may be withheld at the source or payable on a self-assessed basis. This tax may be subject to relief under the terms of an applicable double tax treaty. The treaty relief and refund procedures should generally be similar to the tax relief and refund procedures described above with respect to proceeds from disposal of the Notes.

Pursuant to the Trust Deed payments under the Guarantee that relate to interest and principal on the Notes will be paid to the Trustee. It is not expected that the Trustee would be able to benefit from a double tax treaty between Russia and the country of residence of the Trustee in such case. In such cases, there can be no assurance that Non-Resident Noteholders will be able to obtain reduction of or relief from withholding tax under double taxation treaties entered into between their countries of residence and Russia as well, where such treaties exist and to the extent they are applicable given that the Noteholders will not be the immediate recipients of the payments under the Guarantee, . Moreover, because of uncertainties regarding the form and procedures for providing the documentary proof for treaty relief, Non-Resident Noteholder — Individual in practice would be unlikely to be able to obtain advance treaty relief, while obtaining a refund of the taxes withheld can be extremely difficult, if not impossible.

If payments under the Guarantee become subject to the Russian withholding tax (as a result of which the Guarantor would have to reduce payments made under the Guarantee by the amount of tax withheld), the Guarantor will be obliged (subject to certain conditions) to increase payments under the Guarantee as may be necessary so that the net payments received by the Trustee acting on behalf of the Noteholders will be equal to the amounts it would have received in the absence of such withholding.

It is currently unclear whether the provisions obliging the Guarantor to gross up payments under the Guarantee will be enforceable under the Russian law. There is a risk that gross up for withholding tax will not take place and that the payments made by the Guarantor under the Guarantee will be reduced by the amount of the Russian income tax withheld by the Guarantor at the rate of 20 per cent. (in case of Non-Resident Noteholders — Legal Entities) or at a rate of 30 per cent. (in case of Non-Resident Noteholders — Individuals), or such other rate as may be in force at the time of payment.

Payments under the Guarantee should not be subject to Russian VAT.

Luxembourg

General

The following information is of a general nature only and is based on the laws in force in Luxembourg as of the date of this Prospectus. It does not purport to be a comprehensive description of all tax implications that might be relevant to an investment decision. It is included herein solely for preliminary information purposes. It is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should consult their professional advisers with respect to particular circumstances, the effects of State, local or foreign laws to which they may be subject and as to their tax position.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg tax purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communa*l), a solidarity surcharge (*contribution au fonds pour l'emploi*), as well as personal income tax (*impôt sur le revenu*) generally. Corporate investors may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident in Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Luxembourg Tax Residence of the Noteholders

A Noteholder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of the Notes.

Withholding Tax

Under current Luxembourg tax law, payment of interest by the Issuer under the Notes will, with the possible exception of interest payments made to individual Noteholders and certain residual entities, be made free of withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein to the extent that such interest has been negotiated at arm's length and is not profit participating. There is also no Luxembourg withholding tax, with the possible exception of interest payments made to individual Noteholders and certain residual entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes by the Issuer.

Resident Investors

Under the Luxembourg law dated 23 December 2005 (hereafter, the "**Law**"), a 10 per cent. Luxembourg withholding tax is levied on interest payments made by Luxembourg based paying agents (within the meaning of the Savings Directive) to Luxembourg individual residents. This withholding tax also applies on accrued interest received upon disposal, redemption or repurchase of the Notes. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth.

Further, Luxembourg resident individuals who are the beneficial owners of interest payments made by a paying agent established outside Luxembourg in a Member State of the European Union ("**EU**") or the European Economic Area or in a jurisdiction having concluded an agreement with Luxembourg in connection with the Savings Directive may also opt for a final 10 per cent. levy. In such case, the 10 per cent. levy is calculated on the same amounts as for the payments made by Luxembourg resident paying agents. The option for the 10 per cent. final levy must cover all interest payments made by any paying agent (as defined in the Savings Directive) to the Luxembourg resident beneficial owner during the entire civil year.

Non-resident Investors

Under the law dated 21 June 2005, effective from 1 July 2005 implementing the Savings Directive, and several agreements concluded between Luxembourg and certain dependent or associated territories of the EU, and certain non-EU countries a Luxembourg based paying agent (within the meaning of the Savings Directive) is required since 1 July 2005 to withhold tax on interest and other similar income (including reimbursement premium received at maturity) paid by it to (or under certain circumstances, to the benefit of) an individual Noteholder resident in another Member State or in certain dependent or associated territories of the EU or a "Residual Entity" in the sense of article 4.2. of the Savings Directive resident or established in another Member State of the European Union unless the beneficiary of the interest payments elects for an exchange of information or for the tax certificate procedure. A Residual Entity is an entity established in a Member State or in certain EU dependent or associated territories without legal personality (except for (1) a Finnish *avoin yhtiö* and *kommandiittiyhtiö / öppet bolag* and *kommanditbolag* and (2) a Swedish *handelsbolag* and *kommanditbolag)*, and whose profits are not taxed under the general arrangements for the business taxation and that is not, or has not opted to be considered as, an Undertaking for Collective Investment in Transferable Securities recognised in accordance with the European Council Directive 85/611/EEC) or similar collective investment fund located in an EU dependent and associated territory and which has not opted to be treated as an UCITS recognised in accordance with the European Council Directive 85/611/EEC) ("**Residual Entities**"). Withholding tax or information exchange may also apply under agreements concluded by Luxembourg with certain non-EU countries.

The withholding tax rate is currently of 20 per cent. until 30 June 2011 increasing to 35 per cent. (as from 1 July 2011). The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain other countries.

In each case described here above, responsibility for the withholding of such tax will be assumed by the Luxembourg paying agent.

Income Tax

Resident Investors

Any investor who is a resident of Luxembourg for tax purposes or who has a permanent establishment or a permanent representative in Luxembourg to which the Notes are attributable, is subject to Luxembourg income tax in respect of the interest received or accrued on the Notes, as well as potential foreign exchange differences resulting from sale, redemption or exchange of the Notes. Specific exemptions may be available for certain taxpayers benefiting from a particular tax status.

Resident Individual Investors

A Luxembourg resident individual acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax in respect of interest received, redemption premiums or issue discounts under the Notes, except if a final withholding tax has been levied on such payments in accordance with the Law. Any potential foreign exchange gain could be taxable in the hands of the investors upon sale, redemption or exchange of the Notes.

Under Luxembourg domestic tax law, gains realised upon the sale, disposal or redemption of Notes, which do not constitute zero coupon Notes, by a Luxembourg resident who acts in the course of the management of his/her private wealth, are not subject to Luxembourg income tax, provided this sale or disposal took place at least six months after the acquisition of the Notes. A Luxembourg resident individual, who acts in the course of the management of his/her private wealth, has further to include the portion of the gain corresponding to accrued but unpaid income in respect of the Notes in his her taxable income, insofar as the accrued but unpaid interest is indicated separately in an agreement.

A gain realised upon a sale or disposal of zero coupon Notes before their maturity by Luxembourg resident individuals acting in the course of the management of their private wealth must be included in their taxable income for Luxembourg income tax assessment purposes.

Interest derived from as well as gains realized upon a sale or disposal, in any form whatsoever, of the Notes by a Luxembourg resident individual holder acting in the course of the management of a professional or business undertaking are subject to Luxembourg income taxes.

Resident Corporate Investors

Interest derived from as well as gains realised by a Luxembourg resident corporate entity, who is a resident of Luxembourg for tax purposes, on the sale or disposal, in any form whatsoever, of Notes are subject to Luxembourg income taxes.

Luxembourg resident corporate entities who benefit from a special tax regime, such as for example holding companies subject to the amended law of 31 July 1929, undertakings for collective investment subject to the amended law of 20 December 2002, specialized investment funds governed by the law of 13 February 2007 or family wealth management companies governed by the law of 11 May 2007 are exempt from income taxes in Luxembourg and thus income derived from the Notes, as well as gains realized thereon, are not subject to Luxembourg income taxes.

Non-resident Investors

A non-resident investor, not having a permanent establishment or a permanent representative in Luxembourg to which the Notes are attributable, is not subject to Luxembourg income tax on interest received or accrued on the Notes (except for the potential application of withholding tax based on the Savings Directive). A gain realised by such non-resident investor, on the sale or disposal, in any form whatsoever, of Notes is further not subject to Luxembourg income tax (including foreign exchange gains).

A non-resident corporate investor or an individual investor acting in the course of the management of a professional or business undertaking, who has a permanent establishment or a permanent representative in Luxembourg to which the Notes are attributable, is subject to Luxembourg income tax on interest accrued or received on the Notes and on any gains realised upon the sale or disposal, in any form whatsoever, on the Notes.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a Noteholder unless:

- the Noteholder is, or is deemed to be, a fully taxable company resident in Luxembourg (i.e., a company that is not (i) a holding company subject to the amended law of 31 July 1929, (ii) an undertaking for collective investment subject to the amended law of 20 December 2002, (iii) a securitization company governed by the law of 22 March 2004 on securitisation, (iv) a company governed by the law of 15 June 2004 on venture capital vehicles, (v) a specialized investment fund subject to the law of 13 February 2007 or (vi) a family wealth management company governed by the law of 11 May 2007; or
- such Noteholder is a non-resident company carrying out business activities through a permanent establishment or a permanent representative in Luxembourg and the Note is attributable to such permanent establishment.

Other Taxes

Luxembourg gift or inheritance taxes will not be levied on the transfer of a Note by way of gift by, or on the death of, a Noteholder unless:

- the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- the transfer is construed as an inheritance or as a gift made by or on behalf of a person who, at the time of death or gift is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- such Note is attributable to an enterprise or part thereof which is carried on by a non-resident through a permanent establishment or a permanent representative in Luxembourg; or
- the gift is registered in Luxembourg, which is not mandatory.

In principle, there is no Luxembourg registration tax, capital tax, stamp duty or any other similar tax or duty (other than nominal court fees and contributions for the registration with the Chamber of Commerce) payable in Luxembourg in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes or the performance of the Issuer's obligations under the Notes. However, in the case of court proceedings in a Luxembourg court or the presentation of the documents relating to the Notes to an "autorité constituée", such court or "autorité constituée" may require registration thereof. In this case the documents will be subject to registration duties depending on the nature of the documents and, in particular, a loan agreement will be subject ad valorem registration duty of 0.24 per cent. calculated on the amounts mentioned therein.

There is no Luxembourg VAT payable with respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of a Note. Luxembourg VAT may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg VAT purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from VAT does not apply with respect to such services.

PLAN OF DISTRIBUTION

J.P. Morgan Securities Ltd., UBS Limited and VTB Capital plc (together, the "**Managers**") have, pursuant to a Subscription Agreement dated 1 November 2010 (the "**Subscription Agreement**"), jointly and severally agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe and pay for the Notes at an issue price of 100 per cent. of their principal amount.

The Issuer and the Guarantor, have agreed to pay to the Managers a combined management, underwriting and selling commission in respect of the Notes. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer and the Guarantor have in the Subscription Agreement agreed to indemnify the Managers against certain liabilities incurred in connection with the issue of the Notes.

Each of the Managers and their respective affiliates may, from time to time in the ordinary course of their respective businesses, engage in further transactions with, and perform services for, the Issuer, the Guarantor and their respective affiliates. In particular, the Managers and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non public market financing for, and enter into derivative transactions with, the Issuer, the Guarantor or their respective affiliates (including their respective shareholders) and for which they will receive customary fees. An aggregate amount of US$886 million of the net proceeds of this Offering will be used to repay amounts due under a credit facility extended by and ECP issued to VTB Bank, an affiliate of VTB Capital plc, which is one of the Managers for the Offering.

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are being offered and sold outside of the United States to non-U.S. persons in offshore transactions in reliance on Regulation S. The Subscription Agreement provides that the Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue and sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russia

The Notes are securities of a foreign issuer under Russian law. The Notes are not eligible for initial offering and circulation in Russia and no sale, exchange or transfer of the Notes may take place in Russia or to any Russian person or entity. The information provided in this Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the Notes in Russia or to any Russian person or entity. The information contained in this Prospectus does not constitute an advertisement of the Notes in Russia and must not be passed on to third parties or otherwise be made publicly available in Russia.

Each Manager has severally represented, warranted and agreed that it has not offered, sold, exchanged or otherwise transferred, and will not offer, sell, exchange or otherwise transfer as part of its initial distribution or at any time thereafter, any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation, or to any person located within the territory of the Russian Federation, unless and to the extent otherwise permitted under Russian law.

General

Neither the Issuer nor the Guarantor nor any Manager has made any representation that any action will be taken in any jurisdiction by the Managers, the Issuer or the Guarantor that would permit a public offering of the Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Manager has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on the Issuer, the Guarantor or any other Manager in any such jurisdiction as a result of any of the foregoing actions.

TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby.

Rule 144A Notes

Each purchaser of Notes sold pursuant to Rule 144A (the "**Rule 144A Notes**") within the United States, by accepting delivery of this Prospectus and the Rule 144A Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB, (b) acting for its own account or for the account of another QIB and (c) aware, and each beneficial owner of such Rule 144A Notes has been advised, that the sale of such Rule 144A Notes to it is being made in reliance on Rule 144A.

2. It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except as permitted below.

3. It agrees that if it decides to offer, sell or otherwise transfer such Rule 144A Notes, it will do so only in compliance with the Securities Act and applicable securities laws of the United States and other relevant jurisdictions and only (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available).

4. The Notes sold pursuant to Rule 144A will bear the following legend:

THIS NOTE AND THE GUARANTEE IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF APPLICABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

THIS RULE 144A GLOBAL NOTE IS REGISTERED IN THE NAME OF A NOMINEE OF THE DEPOSITORY TRUST COMPANY. UNLESS THIS RULE 144A GLOBAL NOTE IS PRESENTED BY AN AUTHORISED REPRESENTATIVE OF DTC TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY RULE 144A DEFINITIVE NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORISED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORISED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL IN AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO. OR, AS THE CASE MAY BE, SUCH OTHER PERSON, HAS AN INTEREST HEREIN.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THIS NOTE SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE TRUST DEED (AS DEFINED BELOW).

5. It acknowledges that ALROSA, the Issuer, the Registrar, the Managers and its affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify ALROSA, the Issuer and the Managers. If it is acquiring any Rule 144A Notes as a fiduciary or agent for one or more investor accounts, it represents that it

has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

6. It understands that the Rule 144A Notes will be evidenced by a Rule 144A Global Note. Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

The Notes offered and sold hereby pursuant to Rule 144A will constitute "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and any sale pursuant to Rule 144 will be subject to the requirements of that rule, including its holding period requirements. No representations can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for the resale of the Notes.

Regulation S Notes

Each purchaser of Notes sold outside the United States pursuant to Regulation S (the "**Regulation S Notes**") and each subsequent purchaser of Regulation S Notes in resales prior to the expiration of the Distribution Compliance Period, by accepting delivery of this Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of ALROSA, the Issuer or a person acting on behalf of such an affiliate.

2. It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Regulation S Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB and to whom notice is given that such offer, sale, pledge or transfer is being made in reliance on Rule 144A or (b) to a non-U.S. person (and not acting for the account or benefit of a U.S. person) in an offshore transaction in accordance with Regulation S, in each case in accordance with Rule 903 or Rule 904 of the Securities Act and applicable securities laws of the United States and other relevant jurisdictions.

3. It understands that the Regulation S Notes will be evidenced by a Regulation S Global Note. Prior to the expiration of the distribution compliance period, before any interest in the Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, it will be required to provide a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

4. It acknowledges that ALROSA, the Issuer, the Registrar, the Managers and its affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Regulation S Notes is no longer accurate, it shall promptly notify ALROSA, the Issuer and the Managers. If it is acquiring any Regulation S Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

INDEPENDENT AUDITORS

The 2009/2008 Group Financial Statements and the 2008/2007 Group Financial Statements included in this Prospectus have been audited by ZAO PricewaterhouseCoopers Audit ("**PwC**"), independent accountants, of Butyrsky Val 10, White Square Office Centre, Moscow 125047, Russia, as stated in their report appearing herein. With respect to the Interim Financial Statements included in this Prospectus, PwC reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated 12 October 2010, appearing herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PwC is a member of the Russian Chamber of Auditors (*Auditorskaya Palata Rossii*) and the Institute of Professional Accountants of Russia (*Professionalnih Buhgalterov Rossii*).

The Issuer's Financial Statements included in this Prospectus have been audited by PricewaterhouseCoopers S.à r.l., a member of the *Institut des Réviseurs d'Entreprises;* with their registered office at 400, route d'Esch, L-1014, the Grand Duchy of Luxembourg.

LEGAL MATTERS

Certain legal matters in connection with the offering of the Notes will be passed on for ALROSA by Cleary Gottlieb Steen & Hamilton LLP, London, England, as to matters of English law, and Moscow, Russia, as to matters of US and Russian law. Certain legal matters in connection with the offering of the Notes will be passed on for the Issuer by Arendt & Medernach as to matters of Luxembourg law. Certain legal matters in connection with the offering of the Notes will be passed on for the Managers by Linklaters LLP, London, England and Linklaters CIS, Moscow, Russia.

GENERAL INFORMATION

1. The issue of the Notes has been authorised by a resolution dated 29 October 2010 of the board of directors of ALROSA Finance S.A. The Guarantee was authorised by Mr. Andreev, President of ALROSA, as will be evidenced by his execution of the Trust Deed on the date thereof.
2. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. It is expected that the listing of the Notes will be granted on or about 3 November 2010. ALROSA estimates the amount of expenses related to the listing of the Notes for trading on the regulated market of the Irish Stock Exchange to be US$6,991.
3. The Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg. The Common Code for the Regulation S Notes is 055549320 and the ISIN for the Regulation S Notes is XS0555493203. The CUSIP number for the Rule 144A Notes is 02109TAC6, the Common Code for the Rule 144A Notes is 055554609 and the ISIN for the Rule 144A Notes is US02109TAC62.
4. Except as disclosed in this Prospectus, there has been no significant change in the financial or trading position of the Group since 30 June 2010 and no material adverse change in the financial position or prospects of the Group since 31 December 2009.
5. Except as disclosed in this Prospectus, there has been no significant change in the financial or trading position of the Issuer since 31 December 2009 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2009.
6. The Issuer and ALROSA have appointed The Bank of New York Mellon (Ireland) Limited as their listing agent. The listing agent is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List of the Irish Stock Exchange or trading on its regulated market for the purposes of the Prospectus Directive.

   The Issuer and ALROSA have also appointed The Bank of New York Mellon, London Branch as principal paying agent and transfer agent in London, England and The Bank of New York Mellon as paying agent and transfer agent in New York, the United States of America. The Issuer and ALROSA reserve the right to vary such appointments. The Bank of New York Mellon (Ireland) Limited, the paying agent in Ireland, will act as intermediary between the Noteholders and the Issuer and ALROSA.
7. Except as disclosed in this Prospectus, ALROSA has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which ALROSA is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of ALROSA. The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which it is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer.
8. Each of the Issuer and ALROSA has agreed that, for so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act.
9. For so long as any Notes are outstanding, copies of the following will be available for inspection by physical means, and may be obtained free of charge, during normal business hours on any weekday, at the specified office of the Paying Agent in London:

   - the charter documents of the Issuer and ALROSA;
   - the Trust Deed to be entered into with the Trustee, which includes the Guarantee;
   - the Agency Agreement to be entered into with the paying agents and the Trustee; and
   - the Intercompany Loan.

   For so long as any Notes are outstanding, copies in English of the last two years' annual report and annual audited consolidated financial statements of ALROSA and the latest interim unaudited consolidated financial information of ALROSA, prepared according with IFRS, and the last two years' annual unconsolidated accounts of the Issuer, prepared in accordance with Luxembourg GAAP, will be available for inspection by physical means, and may be obtained free of charge, during normal business hours on any weekday, at the specified office of the Paying Agent in London.

ALROSA prepares and publishes annual consolidated financial statements in accordance with IFRS, which are audited in accordance with International Standards on Auditing, and prepares and publishes annual unconsolidated financial statements in accordance with IFRS. In addition, the Group prepares interim consolidated financial statements in accordance with IFRS. ALROSA also prepares, but does not publish, non-consolidated unaudited quarterly financial statements in accordance with Russian Accounting and Reporting Rules. ALROSA does not expect to prepare or publish any other financial statements.

The Issuer will only prepare and publish annual audited stand-alone financial statements in accordance with Luxembourg GAAP. The Issuer does not expect to prepare or publish any other financial statements.

10. The Guarantor was established for the purpose of generating profit and meeting the interests of its shareholders as set out in Clause 3.1 of its Charter. The Guarantor was included in the Unified State Register of Legal Entities maintained by the State Tax Service and certified by the Ministry of Taxes and Duties (now the Federal Tax Service) on 17 July 2002 under registration number 1021400967092.

11. No natural or legal person has an interest that is material to the issue of the Notes.

12. The address of Euroclear is 1 Boulevard du Roi Albert II, B 1210 Brussels, Belgium. The address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855 Luxembourg.

13. The yield of the Notes is 7.750 per cent *per annum*.

APPENDIX A — CERTIFICATION OF DIAMOND DEPOSITS

Ministry of Natural Resources of the Russian Federation (Minprirody of Russia)

FEDERAL SUBSOIL USE AGENCY

Russia, 123995, Moscow, B. Gruzinskaya str. 4/6
Tel: (495) 254 8388, Fax: (495) 254 8277
E-mail: rosnedra@rosnedra.com

To the Vice-President
of AK ALROSA (ZAO)

V.B. Grabtsevich

Address: 119017, Moscow
1st Kazachiy Per. 10-12

October 13, 2010 No. VB-04-28/9622

In reply to No. ____ date ________

On the status of reserves
of AK ALROSA (ZAO)

Dear Vasiliy Borisovich,

In connection with the decision of AK ALROSA (ZAO) to issue the company's Eurobonds, and the related process of issuance and listing of securities, the Federal Subsoil Use Agency (Rosnedra) hereby confirms that $B+C_1$ category diamond reserves of AK ALROSA (ZAO), as recorded in the Russian State Balance of Mineral Reserves as of January 1, 2010, will enable AK ALROSA (ZAO) to extract over the next 24 years, i.e., until December 31, 2034, an average annual volume of diamonds at least as great as that extracted during 2009, with the average quality of extracted diamonds continuing at the current level.

The Federal Subsoil Use Agency hereby agrees that this letter and the information and statements herein may be included in the Prospectus and other documents that will be prepared in connection with the proposed issuance of unsecured bonds guaranteed by AK ALROSA (ZAO), as well as that such information may be included in the Prospectus as an official statement made within the limits of its powers.

Nothing in this letter may be construed as a commitment by the Federal Subsoil Use Agency to guarantee the performance of any payment obligations with respect of the interest on, or the principal of, the securities of AK ALROSA (ZAO), and no such securities contain any obligations or guarantees of any such authority.

Deputy Head [signature] V.N. Bavlov

THE MINISTRY OF FINANCE OF THE RUSSIAN FEDERATION
(MINFIN OF RUSSIA)

To the President
of AK ALROSA (ZAO)

STATE SECRETARY —
DEPUTY MINISTER
F.B.Andreev

9 Ilyinka Street, Moscow, 109097
teletype: 112008, fax: 625-08-89
reception: 987-91-37, 987-01-38

119017, Moscow
1st Kazachiy Per. 10-12

October 15, 2010 No. *11-AA/90*
In reply to No. ______________

Dear Fyodor Borisovich,

In connection with the decision of AK ALROSA (ZAO) to issue the company's Eurobonds, preparation of the related prospectus, and listing of securities, the Ministry of Finance of the Russian Federation hereby confirms that AK ALROSA (ZAO)' approved reserves of rough diamonds (categories $A+B+C_1$), as of January 1, 2010, are sufficient to permit extraction over the next 24 years, i.e., until December 31, 2034, of an average annual volume of diamonds at least as great as that extracted during 2009.

The Ministry of Finance of the Russian Federation hereby agrees that this letter and the information and statements herein may be included in the prospectus and other documents that will be prepared in connection with the proposed issuance of unsecured bonds guaranteed by AK ALROSA (ZAO), as an official statement made within the limits of its powers.

Nothing in this letter may be construed as a commitment by the Ministry of Finance of the Russian Federation to guarantee the performance of any payment obligations with respect of the interest on, or the principal of, the securities of AK ALROSA (ZAO), and no such securities contain any obligations or guarantees of any such authority.

By: /s/ S.D.Shatalov
S.D.Shatalov

APPENDIX B — GLOSSARY OF TECHNICAL TERMS

Alluvial	Pertaining to material eroded from its primary source, transported by natural earth processes and deposited in stream sediments.
Carat	A unit of weight for diamonds, equivalent to 0.2 of a gram.
Dredge	A floating vessel used to recover valuable minerals from stream sediments.
Flush water	Water used to assist the flow of materials in chutes, such as in the process of gravitational separation.
Froth flotation	A water-borne stream of finely ground ore is discharged into a tank (cell) of water mixed with an oily reagent. Air is injected into the bottom of the cell to form bubbles, which rise to the surface. The diamonds adhere to the bubbles and are collected from the froth discharged from the top of the cell. Waste material is drawn off from the bottom of the cell.
Grainer	A unit of weight measurement with respect to diamonds of 1.8 carats or less. There are four grainers in one carat.
Ground subsidence	Where the ground sinks gradually, generally caused by draining underground water, natural gas and water for irrigation, and the settling of structures.
Jigs and jigging	The treatment of a stream of ore materials by passing it over a screen bed mounted near the top of a water bank (the jig) to which a vertical agitation of the water (jigging) can be applied. The jigging motion separates the stream into lighter minerals on the top and denser minerals (the concentrate) on the screen bed. Discharge of the waste and collection of the concentrate is continuous.
Kimberlite	A volcanic rock originating from the earth's mantle composed of olivine, phlogopite, diopside and minor accessory minerals, including the occasional diamond.
Lamproite	A volcanic rock originating from the earth's mantle composed of olivine, diopside, phlogopite, richterite, leucite, sanidine, wadeite and priderite, plus accessory minerals, including the occasional diamond.
Mantle	Intermediate zone of the earth, resting on the earth's core at a depth of about 2,900 kilometres, and surrounded by the earth's crust.
Mill	Industrial equipment used to grind ore finely after being crushed.
Mineral deposit	A mineralised ore body which has been identified by a sufficient number of closely spaced drill holes and/or underground sampling to contain sufficient tonnage and ore grade to warrant further exploration or development. Mineral deposits or mineralised materials do not qualify as commercially mineable ore body reserves, as prescribed under standards generally applied within the mining industry, until a final and comprehensive economic, technical and legal feasibility study based upon the test results has been concluded.
Ore	A deposit of rock containing a mineral or aggregate of minerals from which metals can be mined or extracted.
Ore dressing	The process of cleaning ore and removing waste material.
Overburden	The waste rock overlying and surrounding an ore body which in open-pit mining has to be removed to allow mining of the ore.
Pipe	A tabular or cylindrical rock body, usually vertical.
Placer deposit	A glacial or alluvial deposit of sand or gravel containing eroded particles of valuable minerals.

Probable reserves	That material for which tonnage and grade are computed partly from specific measurements, samples or production data, and partly from projection for a reasonable distance on geological evidence, and for which the sites available for inspection, measurement and sampling are too widely or otherwise inappropriately spaced to outline the material completely or to establish its grade throughout.
Production stockpile	A stockpile of ore, which is stored until it can be processed.
Proven reserves	That material for which tonnage is computed from dimensions revealed in outcrops or trenches or underground workings or drill holes and for which (i) the grade is computed from the results of adequate sampling; (ii) the sites for inspection, sampling and measurement are so spaced and the geological character so well-defined that the size, shape and mineral content are established; (iii) the computed tonnage and grade are judged to be accurate within limits which shall be stated; and (iv) it shall be stated whether the tonnage and grade of proven ore or measured ore are "in situ" or extractable.
Radiometric separation	A method of ore sorting, which involves the identification of diamonds through the detection of their indicative range of emitted isotopes.
Rock burst	Small earthquakes or other seismic events caused by stress to rock in mining operations.
Rock dump	An area in which overburden is stored.
Sinkhole	A hollow place or depression in which drainage collects.
Tailings	The waste material discarded from an ore treatment plant after the extraction of a valuable concentrate from the ore fed to the plant.
Ultramafic	Rock that is rich in magnesium and iron.
Wet x-ray sorting	A process, which allows wet ore emerging from sizing screens to be sorted immediately, without having to be dried.

INDEX TO FINANCIAL STATEMENTS

AK "ALROSA"

IFRS CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (UNAUDITED)

30 JUNE 2010

PRICEWATERHOUSECOOPERS

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Report on Review of Condensed Consolidated Interim Financial Information

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Closed Joint Stock Company AK "ALROSA" and its subsidiaries (the "Group") as of 30 June 2010, and the related condensed consolidated interim statements of comprehensive income for the three and six months periods then ended and condensed consolidated interim statements of cash flows and of changes in equity for the six months period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
12 October 2010

(In millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Financial Position (unaudited)

	Notes	30 June 2010	31 December 2009
Assets			
Non-current Assets			
Goodwill		1,439	1,439
Property, plant and equipment	6	165,774	167,932
Investments in associates	4	1,497	1,530
Available-for-sale investments	4	216	420
Long-term accounts receivable	8	2,559	2,231
Restricted cash	5	159	107
Total Non-current Assets		**171,644**	**173,659**
Current Assets			
Inventories	7	33,069	44,873
Prepaid income tax		91	196
Current accounts receivable	8	14,589	12,417
Cash and cash equivalents	5	12,948	5,094
Total Current Assets		**60,697**	**62,580**
Total Assets		**232,341**	**236,239**
Equity			
Share capital	9	12,473	12,473
Share premium		10,431	10,431
Treasury shares	9	(26)	(26)
Retained earnings and other reserves		63,719	59,020
Equity attributable to owners of AK "ALROSA"		**86,597**	**81,898**
Non-Controlling Interest in Subsidiaries	9	**(16)**	**(1,177)**
Total Equity		**86,581**	**80,721**
Liabilities			
Non-current Liabilities			
Long-term debt	10	68,830	23,581
Derivative financial instruments	12	4,629	6,502
Provision for pension obligations		4,096	3,096
Other provisions		348	326
Deferred tax liabilities		2,425	2,774
Total Non-current Liabilities		**80,328**	**36,279**
Current Liabilities			
Short-term loans and current portion of long-term debt	11	43,699	94,371
Derivative financial instruments	12	4,577	3,643
Trade and other payables	13	13,364	17,238
Income tax payable		240	318
Other taxes payable	14	3,191	3,511
Dividends payable		361	158
Total Current Liabilities		**65,432**	**119,239**
Total Liabilities		**145,760**	**155,518**
Total Equity and Liabilities		**232,341**	**236,239**

Signed on 12 October 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

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Comprehensive Income (unaudited)

		Three months ended		Six months ended	
	Notes	**30 June 2010**	**30 June 2009**	**30 June 2010**	**30 June 2009**
Sales	15	33,310	10,616	64,392	17,543
Cost of sales	16	(16,830)	(6,502)	(38,012)	(11,571)
Royalty	14	(878)	(878)	(1,755)	(1,755)
Gross profit		**15,602**	**3,236**	**24,625**	**4,217**
General and administrative expenses	17	(991)	(1,093)	(2,106)	(2,144)
Selling and marketing expenses		(351)	(204)	(641)	(505)
Net (loss) / gain from foreign exchange forward contracts	12	(2,761)	7,290	(255)	5,943
Other operating income	18	80	331	1,649	388
Other operating expenses	19	(5,451)	(2,217)	(7,396)	(4,978)
Operating profit		**6,128**	**7,343**	**15,876**	**2,921**
Finance income	20	111	7,800	185	1,600
Finance costs	21	(9,053)	(5,323)	(9,810)	(11,035)
Share of net profit of associates	4	166	(165)	526	151
Profit / (loss) before income tax		**(2,648)**	**9,655**	**6,777**	**(6,363)**
Income tax	14	(325)	(2,696)	(1,762)	(955)
Profit / (loss) for the period		**(2,973)**	**6,959**	**5,015**	**(7,318)**
Other comprehensive income					
Currency translation differences		31	(141)	51	170
Other comprehensive income / (loss) for the period		**31**	**(141)**	**51**	**170**
Total comprehensive income / (loss) for the period		**(2,942)**	**6,818**	**5,066**	**(7,148)**
Profit / (loss) attributable to:					
Owners of AK "ALROSA"		(3,015)	7,031	4,898	(7,186)
Non-controlling interest		42	(72)	117	(132)
Profit / (loss) for the period		**(2,973)**	**6,959**	**5,015**	**(7,318)**
Total comprehensive income / (loss) attributable to:					
Owners of AK "ALROSA"		(2,985)	6,874	4,949	(7,016)
Non-controlling interest		43	(56)	117	(132)
Total comprehensive income / (loss) for the period		**(2,942)**	**6,818**	**5,066**	**(7,148)**

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

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

	Notes	Six months ended 30 June 2010	Six months ended 30 June 2009
Net Cash Inflow / (Outflow) from Operating Activities	22	**26,010**	**(9,974)**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(4,903)	(5,285)
Proceeds from sales of fixed assets		416	355
Proceeds from sale of available-for-sale investments		20	-
Interest received		198	766
Dividends received from associates		383	108
Net Cash Outflow from Investing Activities		**(3,886)**	**(4,056)**
Cash Flows from Financing Activities			
Repayments of loans		(113,064)	(39,675)
Loans received		103,662	64,828
Interest paid		(4,977)	(10,137)
Dividends paid		(84)	(1,642)
Acquisition of non-controlling interest in subsidiaries		-	(9)
Net Cash (Outflow) / Inflow from Financing Activities		**(14,463)**	**13,365**
Net Increase / (Decrease) in Cash and Cash Equivalents		**7,661**	**(665)**
Cash and cash equivalents at the beginning of the period		5,094	7,569
Exchange gains (losses) on cash and cash equivalents		193	(71)
Cash and Cash Equivalents at the End of The Period		**12,948**	**6,833**

(in millions of Russian roubles, unless otherwise stated)

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

	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 2008	272,306	12, 473	10,431	(24)	(62)	55,631	78,449	(431)	78,018
Total comprehensive loss for the period		-	-	-	170	(7,186)	(7,016)	(132)	(7,148)
Purchase of non-controlling interest		-	-	-	-	-	-	(9)	(9)
Dividends paid by subsidiaries to minority shareholders (note 9)		-	-	-	-	-	-	(48)	(48)
Balance at 30 June 2009	272,306	12,473	10,431	(24)	108	48,445	71,433	(620)	70,813
Balance at 31 December 2009	272,173	12,473	10,431	(26)	54	58,966	81,898	(1,177)	80,721
Total comprehensive income for the period		-	-	-	51	4,898	4,949	117	5,066
Dividends (note 9)		-	-	-	-	(250)	(250)	-	(250)
Disposal of non-controlling interest as a result of deconsolidation of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" (note 9)		-	-	-	-	-	-	1,082	1,082
Dividends paid by subsidiaries to minority shareholders		-	-	-	-	-	-	(38)	(38)
Balance at 30 June 2010	272,173	12,473	10,431	(26)	105	63,614	86,597	(16)	86,581

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

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 30 June 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 valuation of inventories, investments, allowance for bad and doubtful accounts receivable, deferred taxation, reserve estimates used to calculate depreciation, valuation of derivative financial instruments, pension and other post-retirement benefit costs. Actual results could differ from these estimates.

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 31.20 and 30.24 as at 30 June 2010 and 31 December 2009, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 38.19 and 43.39 as at 30 June 2010 and 31 December 2009, respectively.

As at 30 June 2010 the Group's current liabilities exceeded its current assets by RR'mln 4,735 (as at 31 December 2009 – by RR'mln 56,659) principally as a result of loans and borrowings due to be repaid during one year after the end of the reporting period. The Group has a strategy to gradually reduce its amount of debt and increase the share of long-term loans and borrowings in total amount of the Group's indebtedness. As part of this strategy in June 2010 the Group issued long-term non-convertible bonds for RR'mln 26,000 to replace part of its current debt (see note 10). The Group is planning to continue issuing long-term debt instruments on Russian and international markets to replace a substantial portion of its existing short-term debt. Also the Group has access to short-term and medium-term financing provided by the banks controlled by the Government of the Russian Federation. In addition, management believes that due to improved economic situation on the world diamond market in 2010 and certain measures undertaken by the Group for reduction and optimisation of its expenses the Group will be able to generate enough profit and positive operating cash flows to repay a portion of its short-term borrowings in order to further reduce the amount of debt by the end of 2010. Management believes that the Group is able to continue its activity in the foreseeable future. Accordingly, management believes that a going concern basis for the preparation of these consolidated financial statements is appropriate. However, in the longer term the ability of the Group to continue as a going concern will continue depend on the economic conditions of the world diamonds market, ability to continue financing its capital investments program and refinance its debts.

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. The only exception is income tax expense which is recognised in this condensed consolidated interim financial information based on management's best estimate of the weighted average annual effective income tax rate expected for the full financial year.

Recent accounting pronouncements

In 2010 the Group 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 the 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 the Group's consolidated financial information.

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

(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	
			30 June 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
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 "Investment Group ALROSA"	Investing activity	Russia	100	100
OAO "Viluyskaya GES-3"	Electricity production	Russia	100	100
OAO "Severalmaz"	Diamonds production	Russia	95	95
OOO "MAK-Bank"	Banking activity	Russia	88	88
OAO "ALROSA-Nyurba"	Diamonds production	Russia	88	88
OAO "NNGK Sakhaneftegaz"	Oil & gas industry	Russia	-	50

As at 30 June 2010 and 31 December 2009 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

Deconsolidation of OAO "NNGK Sakhaneftegaz"

In November 2008 the state authorities initiated the bankruptcy procedures in relation to OAO "NNGK Sakhaneftegaz" in accordance with the legal claim of its major creditor - OAO "NK Rosneft". In February 2010 the bankruptcy administration procedure (last stage of bankruptcy procedure) was started in respect to OAO "NNGK Sakhaneftegaz" and in accordance with legislation since that date the Group lost its ability to control the financial and operating activity of OAO "NNGK Sakhaneftegaz". Accordingly the Group's management made a decision to deconsolidate OAO "NNGK Sakhaneftegaz" and its subsidiary OAO "Lenaneftegaz" since February 2010. The details of assets and liabilities of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" at the date of their deconsolidation 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
Net assets of disposed subsidiaries	**(1,427)**

Gain on deconsolidation of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" in the amount of RR'mln 1,427 was recognised within other operating income (see note 18).

(in millions of Russian roubles, unless otherwise stated)

Associates

Name	Country of incorporation	Percentage of ownership interest held as at		Carrying value of investment as at		Group's share of net profit / (loss) for the six months ended	
		30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	30 June 2009
"Catoca Mining Company Ltd"	Angola	33	33	1,228	1,278	517	151
OAO "Almazny Mir"	Russia	47	47	177	174	3	2
Other	Russia			92	78	6	(2)
				1,497	1,530	526	151

As at 30 June 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. In April 2010 "Catoca Mining Company Ltd" declared dividends for the year ended 31 December 2009; the Group's share of these dividends amounted to RR'mln 607. Currency translation income recognised in the condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2010 in respect of investment in "Catoca Mining Company Ltd" totalled RR'mln 40 (six months ended 30 June 2009: RR'mln 101).

Non-current available-for-sale investments

	Six months ended 30 June 2010	Six months ended 30 June 2009
Available-for-sale investments at the beginning of the period	420	512
Additions	10	3
Disposal as a result of deconsolidation of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz"	(195)	-
Other disposals	(19)	(7)
Available-for-sale investments at the end of the period	216	508

5. CASH AND CASH EQUIVALENTS

Restricted cash

Restricted cash included within non-current assets in the statement of financial position of RR'mln 159 and RR'mln 107 as at 30 June 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 30 June 2010 and 31 December 2009 the weighted average interest rate on the restricted cash balances is approximately nil percent.

Cash and cash equivalents

	30 June 2010	31 December 2009
Current accounts	12,711	4,567
Deposit accounts	237	527
	12,948	5,094

At 30 June 2010 the weighted average interest rate on the cash balances of the Group was 0.08 percent (31 December 2009: 0.43 percent).

(in millions of Russian roubles, unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	Operating assets	Assets under construction	TOTAL
As at 31 December 2008			
Cost	194,406	61,057	255,463
Accumulated depreciation and impairment losses	(76,776)	(613)	(77,389)
Net book value as at 31 December 2008	**117,630**	**60,444**	**178,074**
Six months ended 30 June 2009			
Net book value as at 31 December 2008	117,630	60,444	178,074
Foreign exchange differences	296	271	567
Additions	1,274	6,321	7,595
Transfers	5,209	(5,209)	-
Disposals – at cost	(1,638)	(70)	(1,708)
Disposals – accumulated depreciation	1,063	-	1,063
Change in estimate of provision for land recultivation	(9)	-	(9)
Impairment of property, plant and equipment	-	(42)	(42)
Depreciation charge for the period	(5,038)	-	(5,038)
Net book value as at 30 June 2009	**118,787**	**61,715**	**180,502**
As at 31 December 2009			
Cost	210,041	41,756	251,797
Accumulated depreciation and impairment losses	(83,101)	(764)	(83,865)
Net book value as at 31 December 2009	**126,940**	**40,992**	**167,932**
Six months ended 30 June 2010			
Net book value as at 31 December 2009	126,940	40,992	167,932
Foreign exchange differences	167	8	175
Additions	1,008	4,440	5,448
Transfers	2,536	(2,536)	-
Disposal as a result of deconsolidation of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" – at cost	(1,205)	(150)	(1,355)
Other disposals – at cost	(2,923)	(1)	(2,924)
Disposal as a result of deconsolidation of OAO "NNGK "Sakhaneftegaz" and OAO "Lenaneftegaz" – accumulated depreciation	165	-	165
Other disposals – accumulated depreciation	1,212	-	1,212
Change in estimate of provision for land recultivation	(4)	-	(4)
Reversal of impairment of property, plant and equipment	-	42	42
Depreciation charge for the period	(4,917)	-	(4,917)
Net book value as at 30 June 2010	**122,979**	**42,795**	**165,774**
As at 30 June 2010			
Cost	209,620	43,517	253,137
Accumulated depreciation and impairment losses	(86,641)	(722)	(87,363)
Net book value as at 30 June 2010	**122,979**	**42,795**	**165,774**

7. INVENTORIES

	30 June 2010	31 December 2009
Diamonds	13,486	19,844
Ores and concentrates	7,631	6,177
Mining and construction materials	10,586	12,509
Consumable supplies	1,340	746
Diamonds for resale	26	5,597
	33,069	44,873

(in millions of Russian roubles, unless otherwise stated)

8. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	30 June 2010	31 December 2009
Loans issued	1,651	1,324
Long-term VAT recoverable	582	576
Notes receivable	324	317
Other long-term receivables	2	14
	2,559	2,231

Current accounts receivable	30 June 2010	31 December 2009
Advances to suppliers	2,992	703
Loans issued	2,577	3,648
Trade receivables for supplied diamonds	1,597	638
Receivables from associates (see note 24)	714	478
Prepaid taxes, other than income tax	679	1,349
VAT recoverable	643	777
Notes receivable	297	641
Other trade receivables	5,090	4,183
	14,589	12,417

Trade and other receivables are presented net of impairment provision of RR'mln 5,218 and RR'mln 5,535 as at 30 June 2010 and 31 December 2009, respectively.

9. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 30 June 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 30 June 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 six months ended 30 June 2010 the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 2,959 (for the six months ended 30 June 2009 – loss of RR'mln 14,675). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation, and accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in this condensed consolidated interim financial information.

Treasury shares

At 30 June 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

	Six months ended 30 June 2010	Six months ended 30 June 2009
Non-controlling interest at the beginning of the period	(1,177)	(431)
Non-controlling interest share of net profit / (loss) of subsidiaries	117	(132)
Disposal of non-controlling interest as a result of deconsolidation of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" (note 4)	1,082	-
Purchase of non-controlling interest	-	(9)
Dividends paid by subsidiaries to minority shareholders	(38)	(48)
Non-controlling interest at the end of the period	(16)	(620)

Dividends

On 20 June 2009 the Company's annual shareholders' meeting decided not to pay dividends for the year ended 31 December 2008.

(in millions of Russian roubles, unless otherwise stated)

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

10. LONG-TERM DEBT

	30 June 2010	31 December 2009
Banks:		
US$ denominated floating rate	2,786	3,262
US$ denominated fixed rate	23,202	21,708
RR denominated floating rate	1,556	1,556
RR denominated fixed rate	290	44,480
	27,834	**71,006**
RR denominated non-convertible bonds	26,000	-
Eurobonds	15,576	15,099
Finance lease obligation	536	564
Commercial paper	297	359
Other US$ denominated fixed rate loans	29	123
Other RR denominated fixed rate loans	1,519	1,476
	71,791	**88,627**
Less: current portion of long-term debt (see note 11)	(2,961)	(65,046)
	68,830	**23,581**

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

As at 30 June 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:

	30 June 2010	31 December 2009
Banks:		
US$ denominated floating rate	5.2%	4.3%
US$ denominated fixed rate	7.2%	14.5%
RR denominated floating rate	10.6%	13.7%
RR denominated fixed rate	12.5%	15.3%
RR denominated non-convertible bonds	8.5%	-
Eurobonds	8.7%	8.7%
Finance lease obligation	7.6%	7.6%
Commercial paper	14.8%	21.7%
Other US$ denominated fixed rate	9.0%	9.0%
Other RR denominated fixed rate loans	9.9%	11.9%

Eurobonds

	Six months ended 30 June 2010	Six months ended 30 June 2009
Balance at the beginning of the period	15,099	14,681
Amortisation of discount	14	15
Exchange losses	463	923
Balance at the end of the period	15,576	15,619

(in millions of Russian roubles, unless otherwise stated)

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

	30 June 2010	31 December 2009
Banks:		
US$ denominated fixed rate	27,677	15,939
RR denominated fixed rate	89	5
	27,766	**15,944**
European commercial paper	10,848	11,237
Commercial paper	302	616
Other US$ denominated fixed rate loans	9	9
Other RR denominated fixed rate loans	1,813	1,519
	40,738	**29,325**
Add: current portion of long-term debt (see note 10)	2,961	65,046
	43,699	**94,371**

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

	30 June 2010	31 December 2009
Banks:		
US$ denominated fixed rate	7.8%	10.4%
RR denominated fixed rate	11.6%	14.4%
European commercial paper	9.5%	9.8%
Commercial paper	7.8%	7.8%
Other RR denominated fixed rate loans	1.5%	1.9%

European commercial paper

	Six months ended 30 June 2010	Six months ended 30 June 2009
Balance at the beginning of the period	11,237	1,366
Issued	-	12,083
Repayment	(697)	(1,468)
Exchange losses (gains)	308	(325)
Balance at the end of the period	10,848	11,656

As at 30 June 2010 and 31 December 2009 there were no short-term loans secured with the assets of the Group.

12. DERIVATIVE FINANCIAL INSTRUMENTS

Long-term derivative financial instruments (liabilities)

	30 June 2010	31 December 2009
Fair value of put options granted by the Group to the buyers of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company"	3,810	3,658
Fair value of foreign exchange forward contracts	819	2,657
Fair value of cross currency interest rate swaps contracts	-	187
	4,629	6,502

Short-term derivative financial instruments (liabilities)

	30 June 2010	31 December 2009
Fair value of foreign exchange forward contracts	4,277	3,643
Fair value of cross currency interest rate swaps contracts	300	-
	4,577	3,643

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

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

(in millions of Russian roubles, unless otherwise stated)

The Group determined the fair value of put options as at 30 June 2010 in the amount of RR'mln 3,810 (as at 31 December 2009 – RR'mln 3,658) using the option pricing model. The main inputs to this model are the fair value of the sold companies, which was assessed by the Group as at 30 June 2010 as RR'mln 32,105 (31 December 2009 - RR'mln 31,091) and its expected volatility, which was estimated by the Group at the level of 44 percent using historical data for comparable companies for the last 3 years. The net loss from change of fair value of put options over the six months ended 30 June 2010 totalling RR'mln 152 was recognised as other operating expense (see note 19).

Foreign exchange forward contracts

To reduce the Group's US$ / RR foreign exchange risk exposure, in 2006 the Group entered into US$ / RR forward sale transactions with five foreign banks under which it agreed to sell US$ for RR during a five-year period starting in September 2006 and ending in September 2011, at a strike price fixed at the exchange rates ranging from RR 26.56 to RR 26.84 per US$ 1, averaged on a quarterly basis. The transactions have varying maturities and amounts spread evenly over the five-year period in the aggregate amount of US$'mln 215 per quarter (US$'mln 4,300 in total over the five-year period). At 30 June 2010 the fair value of the forward foreign exchange contracts totalled RR'mln 5,096 (liability), including current portion in the amount of RR'mln 4,277 (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.

	Six months ended 30 June 2010	Six months ended 30 June 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	1,459	2,716
Net (loss) / gain from change of fair value of foreign exchange forward contracts	(255)	5,943
Fair value of foreign exchange forward contracts at the end of the period	(5,096)	(12,689)

Cross currency interest rate swap contracts

To reduce the Group's interest rate risk exposure associated with the RR denominated floating rate loans from "Bank VTB", in 2008 the Group entered into US$ / RR cross currency interest rate swap transactions with "VTB Bank Europe Plc". Under the swap transactions the Group agreed to convert into US$ the amount due to "Bank VTB" totalling RR'mln 4,518 at the exchange rate of RR 26.62 and pay fixed interest rates ranging from 9.55 to 9.88 percent in exchange of RR floating interest rates based on three months MosPrime interest rate. The transactions have varying maturities and amounts spread from October 2008 to May 2011. At 30 June 2010 the fair value of the cross currency interest rate swap transactions totalled RR'mln 300 (liability), at 31 December 2009 - RR'mln 187 (liability).

	Six months ended 30 June 2010	Six months ended 30 June 2009
Fair value of cross currency interest rate swap contracts at the beginning of the period	(187)	(1,096)
Net (proceeds) / payments from exercising of swap contracts	(15)	27
Net (loss) / gain from change of fair value of cross currency interest rate swap contracts	(98)	70
Fair value of cross currency interest rate swap contracts at the end of the period	(300)	(999)

The discount rate used to calculate the fair value of the forward foreign exchange contracts and cross currency interest rate swap transactions as at 30 June 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.

(in millions of Russian roubles, unless otherwise stated)

13. TRADE AND OTHER PAYABLES

	30 June 2010	31 December 2009
Accrual for employee flights and holidays	4,454	4,367
Trade payables	2,570	4,477
Advances from customers	1,769	1,055
Current accounts of third parties in OOO "MAK-Bank"	1,672	882
Wages and salaries	991	1,594
Interest payable	977	622
Payables to associates	48	48
Accounts payable of OAO "NNGK Sakhaneftegaz" to the companies of former "YUKOS" Group (see note 4)	-	3,719
Other payables and accruals	883	474
	13,364	17,238

14. INCOME AND OTHER TAX ASSETS AND LIABILITIES

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

	30 June 2010	31 December 2009
Payments to social funds	944	-
Property tax	761	811
Extraction tax	640	754
Value added tax	472	617
Personal income tax (employees)	193	324
Tax penalties	104	26
Unified social tax	-	750
Other taxes and accruals	77	229
	3,191	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		Six months ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Property tax	765	714	1,532	1,438
Tax penalties	1	40	1	99
Other taxes and accruals	127	56	270	156
	893	810	1,803	1,693

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 income 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 30 June 2010.

Income tax expense comprises the following:

	Three months ended		Six months ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Current tax expense	1,297	54	2,212	95
Adjustments recognised in the period for current tax of prior periods	(11)	(232)	(102)	(232)
Deferred tax (benefit) / expense	(961)	2,874	(348)	1,092
	325	2,696	1,762	955

(in millions of Russian roubles, unless otherwise stated)

15. SALES

	Three months ended		Six months ended	
	30 June 2010	**30 June 2009**	**30 June 2010**	**30 June 2009**
Revenue from diamond sales:				
Export	21,831	588	41,171	947
Domestic	7,301	7,258	12,174	10,436
Revenue from diamonds for resale	1,235	-	5,717	453
	30,367	7,846	59,062	11,836
Other revenue:				
Transport	1,034	1,052	1,692	1,882
Social infrastructure	484	448	1,084	983
Construction	427	270	785	501
Trading	267	294	393	393
Gas and gas condensate	-	31	-	65
Other	731	675	1,376	1,883
	33,310	10,616	64,392	17,543

Export duties totalling RR'mln 1,475 and RR'mln 2,882 for the three and six months ended 30 June 2010 (three and six months ended 30 June 2009: RR'mln 30 and RR'mln 32, respectively) were netted against revenues from export of diamonds.

16. COST OF SALES

	Three months ended		Six months ended	
	30 June 2010	**30 June 2009**	**30 June 2010**	**30 June 2009**
Wages, salaries and other staff costs	4,900	3,894	10,105	8,507
Cost of diamonds for resale	1,213	-	5,562	648
Depreciation	2,259	2,060	4,393	4,370
Fuel and energy	1,915	1,750	4,089	4,248
Extraction tax	1,792	1,705	3,477	3,480
Materials	1,348	938	2,612	1,875
Services	1,000	785	1,879	1,397
Transport	527	398	914	744
Other	34	64	77	172
Movement in inventory of diamonds, ores and concentrates	1,842	(5,092)	4,904	(13,870)
	16,830	6,502	38,012	11,571

Wages, salaries and other staff costs include payments to social funds in the amount of RR'mln 900 and RR'mln 1,767 for the three and six months ended 30 June 2010, respectively (unified social tax for the three and six months ended 30 June 2009 in the amount of RR'mln 775 and RR'mln 1,672, respectively).

Depreciation totalling RR'mln 524 (six months ended 30 June 2009: RR'mln 668) and staff costs totalling RR'mln 959 (six months ended 30 June 2009: RR'mln 1,429) were incurred by the Group's construction divisions and were capitalised in the respective periods.

17. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	30 June 2010	**30 June 2009**	**30 June 2010**	**30 June 2009**
Services and other administrative expenses	584	701	1,216	1,234
Wages, salaries and other staff costs	413	461	887	969
Impairment / (reversal of impairment) of accounts receivable	(6)	(69)	3	(59)
	991	1,093	2,106	2,144

(in millions of Russian roubles, unless otherwise stated)

18. OTHER OPERATING INCOME

	Three months ended		Six months ended	
	30 June 2010	**30 June 2009**	**30 June 2010**	**30 June 2009**
Gain on deconsolidation of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" (note 4)	-	-	1,427	-
Net gain from cross currency interest rate swap contracts (note 12)	-	231	-	70
Other	80	100	222	318
	80	331	1,649	388

19. OTHER OPERATING EXPENSES

	Three months ended		Six months ended	
	30 June 2010	**30 June 2009**	**30 June 2010**	**30 June 2009**
Taxes other than income tax, extraction tax and unified social tax (note 14)	893	810	1,803	1,693
Exploration expenses	1,608	309	2,379	1,209
Social costs	686	538	1,318	1,061
Loss on disposal of property, plant and equipment	1,256	101	1,296	290
Loss from change of fair value of put options granted by the Group to the buyers of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company" (note 12)	564	-	152	-
Net loss from cross currency interest rate swap contracts (note 12)	137	-	98	-
Impairment (reversal of impairment) of property, plant and equipment	69	9	(42)	42
Other	238	450	392	683
	5,451	2,217	7,396	4,978

Social costs consist of:

	Three months ended		Six months ended	
	30 June 2010	**30 June 2009**	**30 June 2010**	**30 June 2009**
Maintenance of local infrastructure	129	286	508	616
Hospital expenses	234	63	314	123
Charity	287	83	296	96
Education	15	25	24	41
Other	21	81	176	185
	686	538	1,318	1,061

20. FINANCE INCOME

	Three months ended		Six months ended	
	30 June 2010	**30 June 2009**	**30 June 2010**	**30 June 2009**
Interest income	111	951	185	1,600
Exchange gains	-	6,849	-	-
	111	7,800	185	1,600

(in millions of Russian roubles, unless otherwise stated)

21. FINANCE COSTS

	Three months ended		Six months ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Interest expense:				
Eurobonds	361	358	694	748
Bank loans	1,765	4,413	4,091	8,539
European commercial paper	254	216	512	277
Commercial paper	64	283	119	325
Other	407	39	438	42
Unwinding of discount of provision for land recultivation	10	14	19	28
Exchange losses	6,192	-	3,937	1,076
	9,053	5,323	9,810	11,035

22. CASH GENERATED FROM OPERATIONS

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

	Six months ended 30 June 2010	Six months ended 30 June 2009
Profit / (loss) before income tax	6,777	(6,363)
Adjustments for:		
Share of net profit of associates (note 4)	(526)	(151)
Interest income (note 20)	(185)	(1,600)
Interest expense (note 21)	5,873	9,959
Loss on disposal of property, plant and equipment (note 19)	1,296	290
(Reversal of impairment) / impairment of property, plant and equipment (note 19)	(42)	42
Gain on deconsolidation of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" (note 18)	(1,427)	-
Net loss / (gain) from foreign exchange forward contracts (note 12)	255	(5,943)
Net loss / (gain) from cross currency interest rate swap contracts (note 18, 19)	98	(70)
Loss from change of fair value of put options granted by the Group to the buyers of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company" (note 19)	152	-
Depreciation (note 16)	4,393	4,370
Adjustment for inventory used in construction	(488)	(1,169)
Adjustments for non-cash financing activity (note 25)	(339)	(16)
Net payments from exercising of foreign exchange forward contracts (note 12)	(1,459)	(2,716)
Net proceeds from exercising of cross currency interest rate swap contracts (note 12)	15	(27)
Payments to restricted cash account (note 5)	(52)	(13)
Unrealised foreign exchange effect on non-operating items	3,382	906
Net operating cash flow before changes in working capital	17,723	(2,501)
Net decrease / (increase) in inventories	11,061	(11,696)
Net increase in trade and other receivables, excluding dividends receivable	(2,619)	(1,568)
Net increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	2,247	2,490
Net (decrease) / increase in taxes payable, excluding income tax	(213)	3,356
Cash inflows / (outflows) from operating activity	**28,199**	**(9,919)**
Income tax paid	(2,189)	(55)
Net cash inflows / (outflows) from operating activities	**26,010**	**(9,974)**

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. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, in particular, concerning deduction of certain expenses for income tax purposes and certain operations of foreign subsidiaries, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

At 30 June 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 30 June 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 30 June 2010 no provision for the tax liabilities had been recorded.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 30 June 2010.

(d) Insurance

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

(e) Capital commitments

As at 30 June 2010 the Group has contractual commitments for capital expenditures of approximately RR'mln 4,524 (31 December 2009: RR'mln 3,496).

(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 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 expenses in the amount of RR'mln 348 as at 30 June 2010 (RR'mln 326 as at 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.

(in millions of Russian roubles, unless otherwise stated)

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 30 June 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 30 June 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 8 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 partially regulated by the Federal Tariffs Service.

As at 30 June 2010 the accounts payable to the parties under Governmental control totalled RR'mln 1,010 (31 December 2009: RR'mln 3,091). As at 30 June 2010 the accounts receivable from the parties under Governmental control totalled RR'mln 1,223 (31 December 2009: RR'mln 572). As at 30 June 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 the six months ended 30 June 2010 and 30 June 2009 the Group had the following significant transactions with parties under Governmental control:

	Three months ended		Six months ended	
	30 June 2010	**30 June 2009**	**30 June 2010**	**30 June 2009**
Sales of diamonds	2,293	6,878	4,817	10,680
Other sales	405	228	773	582
Electricity and heating expenses	866	726	2,527	2,057
Other purchases	285	196	519	418

As at 30 June 2010 the amount of loans received by the Group from entities under Governmental control totalled RR'mln 59,791 (31 December 2009: RR'mln 80,913). During the three and six months ended 30 June 2010 interest expense accrued in respect to the loans received by the Group from entities under Governmental control totalled RR'mln 1,873 and RR'mln 3,947, respectively (three and six months ended 30 June 2009: RR'mln 2,805 and RR'mln 5,356, respectively).

As at 30 June 2010 the amount of loans issued by the Group to the entities under Governmental control totalled RR'mln 970 (31 December 2009: RR'mln 726). During the three and six months ended 30 June 2010 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR'mln 19 and RR'mln 33, respectively (three and six months ended 30 June 2009: RR'mln 31 and RR'mln 67, respectively).

Key management compensation

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

(in millions of Russian roubles, unless otherwise stated)

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

Supervisory Council and Management committee members received benefits for the three and six months ended 30 June 2010 totalling RR'mln 65 and RR'mln 94, respectively (three and six months ended 30 June 2009: RR'mln 40 and RR'mln 79, respectively).

Associates

Significant transactions with associates are summarised as follows:

Current accounts receivable	30 June 2010	31 December 2009
"Catoca Mining Company Ltd.", dividends receivable	710	478
Other	30	26
Less: provision for bad debt	(26)	(26)
	714	478

As at 30 June 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

	Six months ended 30 June 2010	Six months ended 30 June 2009
Non-cash financing activities:		
Commercial paper issuance	-	343
Commercial paper and loans redemption	(339)	(359)
	(339)	(16)

26. SEGMENT INFORMATION

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

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

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

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

(in millions of Russian roubles, unless otherwise stated)

The following reportable segments were identified:

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

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

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

Six months ended 30 June 2009	**Diamonds segment**	**Transportation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Sales	11,868	1,926	984	501	730	1,105	2,059	19,173
Intersegment sales	-	(45)	-	-	(212)	(817)	(333)	(1,407)
Cost of sales, incl.	7,482	2,395	2,799	476	449	454	2,055	16,110
Depreciation	3,857	273	311	33	5	112	142	4,733
Gross margin	**4,386**	**(469)**	**(1,815)**	**25**	**281**	**651**	**4**	**3,063**

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

Three months ended 30 June 2009	**Diamonds segment**	**Transportation**	**Social infrastructure**	**Construction activity**	**Trading**	**Electricity production**	**Other activities**	**Total**
Sales	7,861	1,082	449	270	534	455	820	11,471
Intersegment sales	-	(31)	-	-	(145)	(312)	(95)	(583)
Cost of sales, incl.	4,434	1,322	1,183	260	310	232	970	8,711
Depreciation	1,815	135	152	16	3	58	64	2,243
Gross margin	**3,427**	**(240)**	**(734)**	**10**	**224**	**223**	**(150)**	**2,760**

Reconciliation of sales is presented below:

	Three months ended		**Six months ended**	
	30 June 2010	**30 June 2009**	**30 June 2010**	**30 June 2009**
Segment sales	**35,627**	**11,471**	**69,477**	**19,173**
Elimination of intersegment sales	(752)	(583)	(1,825)	(1,407)
Reclassification of export duties [1]	(1,475)	(30)	(2,882)	(32)
Other adjustment and reclassifications	(90)	(242)	(378)	(191)
Sales as per Statement of Comprehensive Income	**33,310**	**10,616**	**64,392**	**17,543**

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

(in millions of Russian roubles, unless otherwise stated)

Reconciliation of cost of sales including depreciation is presented below:

	Three months ended		Six months ended	
	30 June 2010	**30 June 2009**	**30 June 2010**	**30 June 2009**
Segment cost of sales	**15,916**	**8,711**	**35,342**	**16,110**
Adjustment for depreciation of property, plant and equipment	(243)	(183)	(606)	(363)
Elimination of intersegment purchases	(752)	(583)	(1,825)	(1,407)
Accrued provision for pension obligation [1]	740	272	1,000	543
Reclassification of extraction tax [2]	1,670	1,397	3,041	2,971
Adjustment for inventories [3]	515	(1,904)	2,377	(3,898)
Accrual for employee flights and holidays [4]	(282)	(599)	251	(418)
Other adjustments	(226)	(368)	(511)	(598)
Reclassification of exploration expenses [5]	(692)	(261)	(1,389)	(1,044)
Other reclassifications	184	20	332	(325)
Cost of sales as per Statement of Comprehensive Income	**16,830**	**6,502**	**38,012**	**11,571**

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

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

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

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

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

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

	Three months ended		Six months ended	
	30 June 2010	**30 June 2009**	**30 June 2010**	**30 June 2009**
Belgium	14,653	439	28,361	683
Russian Federation	10,084	9,778	19,377	15,669
India	2,919	91	6,577	398
Israel	3,129	71	5,840	174
China	1,203	45	1,565	72
United Arab Emirates	375	-	1,001	-
Angola	175	154	395	322
Switzerland	34	6	72	129
Other countries	738	32	1,204	96
Total	**33,310**	**10,616**	**64,392**	**17,543**

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

	30 June 2010	**31 December 2009**
Russian Federation	165,834	168,077
Angola	3,181	3,127
Israel	130	126
United Arab Emirates	142	142
Other countries	5	5
Total	**169,292**	**171,477**

AK "ALROSA"

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

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

1 We have audited the accompanying consolidated financial statements of Closed Joint Stock Company AK "ALROSA" and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
23 June 2010

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Financial Position

	Notes	31 December 2009	31 December 2008	1 January 2008
Assets				
Non-current Assets				
Goodwill	5	1,439	1,439	1,439
Property, plant and equipment	8	167,932	178,074	155,696
Deferred tax assets	17	-	90	-
Investments in associates	5	1,530	1,813	1,613
Derivative financial instruments	6	-	-	3,037
Available-for-sale investments	5	420	512	786
Long-term accounts receivable	10	2,231	5,933	5,902
Restricted cash	7	107	31	133
Long-term deposits	7	-	11,285	-
Total Non-current Assets		**173,659**	**199,177**	**168,606**
Current Assets				
Inventories	9	44,873	32,307	22,208
Prepaid income tax		196	513	483
Current accounts receivable	10	12,417	25,509	12,564
Derivative financial instruments	6	-	-	2,069
Available-for-sale investments		-	-	12
Cash and cash equivalents	7	5,094	7,569	21,887
Total Current Assets		**62,580**	**65,898**	**59,223**
Total Assets		**236,239**	**265,075**	**227,829**
Equity				
Share capital	11	12,473	12,473	11,491
Share premium		10,431	10,431	-
Treasury shares	11	(26)	(24)	(16)
Deferred capital contribution		-	-	11,063
Retained earnings and other reserves		59,020	55,569	98,552
Equity attributable to shareholders of AK "ALROSA"		**81,898**	**78,449**	**121,090**
Non-Controlling Interest in Subsidiaries	11	**(1,177)**	**(431)**	**1,190**
Total Equity		**80,721**	**78,018**	**122,280**
Liabilities				
Non-current Liabilities				
Long-term debt	12	23,581	80,331	32,296
Derivative financial instruments	6	6,502	16,174	-
Provision for pension obligations	15	3,096	2,902	1,963
Provision for land recultivation	14	326	369	543
Deferred tax liabilities	17	2,774	-	6,265
Total Non-current Liabilities		**36,279**	**99,776**	**41,067**
Current Liabilities				
Short-term loans and current portion of long-term debt	13	94,371	54,068	49,452
Derivative financial instruments	6	3,643	6,270	-
Trade and other payables	16	17,238	19,942	11,876
Income tax payable		318	132	273
Other taxes payable	17	3,511	4,932	2,474
Dividends payable		158	1,937	407
Total Current Liabilities		**119,239**	**87,281**	**64,482**
Total Liabilities		**155,518**	**187,057**	**105,549**
Total Equity and Liabilities		**236,239**	**265,075**	**227,829**

Signed on 23 June 2010 by the following members of management:

Fedor B. Andreev
President

Olga A. Lyashenko
Chief accountant

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

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Sales	18	77,949	91,082
Cost of sales	19	(43,689)	(52,555)
Royalty	17	(3,509)	(3,990)
Gross profit		**30,751**	**34,537**
General and administrative expenses	20	(8,316)	(6,379)
Selling and marketing expenses		(1,173)	(1,759)
Net gain / (loss) from foreign exchange forward contracts	6	10,686	(25,077)
Gain on disposal of subsidiaries	5	2,438	-
Other operating income	21	1,130	573
Other operating expenses	22	(12,135)	(15,992)
Operating profit / (loss)		**23,381**	**(14,097)**
Finance income	23	6,138	5,056
Finance costs	24	(23,417)	(27,638)
Share of net profit of associates	5	559	676
Profit / (loss) before income tax		**6,661**	**(36,003)**
Income tax (expense) / benefit	17	(3,198)	3,236
Profit / (loss) for the year		**3,463**	**(32,767)**
Other comprehensive income			
Net gains arising from change in fair value of available-for-sale investments		44	-
Currency translation differences		109	440
Other comprehensive income for the year		**153**	**440**
Total comprehensive income / (loss) for the year		**3,616**	**(32,327)**
Profit / (loss) attributable to:			
Owners of AK "ALROSA"		3,437	(32,598)
Non-controlling interest		26	(169)
Profit / (loss) for the year		**3,463**	**(32,767)**
Total comprehensive income / (loss) attributable to:			
Owners of AK "ALROSA"		3,594	(32,158)
Non-controlling interest		22	(169)
Total comprehensive income / (loss) for the year		**3,616**	**(32,327)**

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

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Net Cash Inflow from Operating Activities	25	**13,986**	**5,127**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(12,536)	(27,333)
Proceeds from sales of property, plant and equipment		1,509	402
Acquisition of available-for-sale investments		-	(42)
Proceeds from sale of available-for-sale investments		29	21
Proceeds from sale of gold mining operations		-	481
Net cash flow arising on disposal of subsidiaries	5	18,615	-
Acquisition of non-controlling interest in subsidiaries		(94)	(441)
Interest received		134	1,276
Receipts of cash from long-term deposit accounts	7	11,285	-
Transfer of cash on long-term deposit accounts	7	-	(11,285)
Dividends received from associates		615	660
Net Cash Inflow (Outflow) from Investing Activities		**19,557**	**(36,261)**
Cash Flows from Financing Activities			
Repayments of loans		(100,286)	(124,867)
Loans received		86,268	159,244
Distribution of retained earnings in favour of the Government of Russian Federation		-	(8,233)
Transaction costs relating to additional issue of shares		-	(170)
Interest paid		(20,408)	(9,010)
Purchase of treasury shares		(104)	(51)
Dividends paid		(1,916)	(959)
Net Cash (Outflow) / Inflow from Financing Activities		**(36,446)**	**15,954**
Net Decrease in Cash and Cash Equivalents		**(2,903)**	**(15,180)**
Cash and cash equivalents at the beginning of the year		7,569	21,887
Exchange gain on cash and cash equivalents		428	862
Cash and Cash Equivalents at the End of The Year		**5,094**	**7,569**

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Changes in Equity

	Attributable to shareholders of AK "ALROSA"								Non-controlling interest	Total equity
	Number of shares outstanding	Share capital	Share premium	Treasury shares	Deferred capital contribution	Other reserves	Retained earnings	Total		
Balance at 31 December 2007	**199,720**	**11,491**	**-**	**(16)**	**11,063**	**(193)**	**98,745**	**121,090**	**1,190**	**122,280**
Total comprehensive loss for the year		-	-	-	-	440	(32,598)	(32,158)	(169)	**(32,327)**
Additional issue of shares	72,726	982	10,431	-	(11,063)	-	-	350	-	**350**
Distribution of retained earnings in favor of the Government of Russian Federation		-	-	-	-	-	(8,233)	(8,233)	-	**(8,233)**
Dividends (note 11)		-	-	-	-	-	(2,240)	(2,240)	-	**(2,240)**
Purchase of treasury shares	(140)	-	-	(8)	-	-	(43)	(51)	-	**(51)**
Purchase of non-controlling interest in OAO "Viluyskaya GES-3" (note 11)		-	-	-	-	(309)	-	(309)	(135)	**(444)**
Non-controlling interest in acquired net assets of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" (note 5)		-	-	-	-	-	-	-	(1,068)	**(1,068)**
Dividends paid by subsidiaries to minority shareholders		-	-	-	-	-	-	-	(249)	**(249)**
Balance at 31 December 2008	**272,306**	**12,473**	**10,431**	**(24)**	**-**	**(62)**	**55,631**	**78,449**	**(431)**	**78,018**
Total comprehensive income for the year		-	-	-	-	157	3,437	3,594	22	**3,616**
Purchase of non-controlling interest in OAO "Viluyskaya GES-3" (note 11)		-	-	-	-	(41)	-	(41)	(53)	**(94)**
Purchase of treasury shares	(133)	-	-	(2)	-	-	(102)	(104)	-	**(104)**
Non-controlling interest in disposed subsidiaries (note 5)		-	-	-	-	-	-	-	(578)	**(578)**
Dividends paid by subsidiaries to minority shareholders		-	-	-	-	-	-	-	(137)	**(137)**
Balance at 31 December 2009	**272,173**	**12,473**	**10,431**	**(26)**	**-**	**54**	**58,966**	**81,898**	**(1,177)**	**80,721**

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 December 2009 and 31 December 2008 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, except for adoption of the new standards, amendments and interpretations which became effective since 1 January 2009 (see note 2b).

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 30.24 and 29.38 as at 31 December 2009 and 31 December 2008, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 43.39 and 41.44 as at 31 December 2009 and 31 December 2008, respectively.

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

As at 31 December 2009 the Group's current liabilities exceeded its current assets by RR'mln 56,659 principally as a result of loans and borrowings due to be repaid during one year after the end of the reporting period. The Group has a strategy to gradually reduce its amount of debt and increase the share of long-term loans and borrowings in total amount of the Group's indebtedness. The Group has access to short-term and medium-term financing provided by the banks controlled by the Government of the Russian Federation to repay the Group's existing loans. Also during 2010 the Group is planning to issue long-term debt instruments on Russian and international markets to replace a substantial portion of its existing short-term debt. In addition, management believes that due to improved economic situation on the world diamond market in 2010 and certain measures undertaken by the Group for reduction and optimisation of its expenses (reduction of certain social expenses and short-term employee's benefits, suspension of mining works at certain small diamond deposits with relatively low profitability, optimisation of procurement policy and construction plans) the Group will be able to generate enough profit and positive operating cash flows to repay a portion of its short-term borrowings in order to reduce the amount of debt by the end of 2010. Management believes that the Group is able to continue its activity in the foreseeable future. Accordingly, management believes that a going concern basis for the preparation of these consolidated financial statements is appropriate. However, in the longer term the ability of the Group to continue as a going concern will continue depend on the economic conditions of the world diamonds market, ability to continue financing its capital investments program and refinance its debts.

Reclassification of comparative information in the statement of financial position

As at 31 December 2008 the non-current portion of derivative financial instruments totalling RR'mln 16,174 was reclassified to non-current liabilities in accordance with the amendments to IAS 1 "Presentation of Financial Statements" adopted by the Group in 2009. Because of this reclassification, in accordance with the requirements of the amended IAS 1 the Group is presenting its statement of financial position also at the beginning of the earliest comparative period, i.e. at 1 January 2008. Also as at 1 January 2008 the non-current portion of derivative financial instruments totalling RR'mln 3,037 was reclassified to non-current assets.

(b) Recent accounting pronouncements

In 2009 the Group has adopted all IFRS, amendments and interpretations which were effective as at 1 January 2009 and which are relevant to its operations.

Amendment to IAS 1 "Presentation of Financial Statements" ("IAS 1"), which is effective for reporting periods beginning on or after 1 January 2009. The main change in IAS 1 is the replacement of the statement of income by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The consolidated financial statements have been prepared under the revised presentation requirements.

IFRS 8 "Operating Segments", which is effective for annual periods beginning on or after 1 January 2009. The Standard replaces IAS 14 "Segment reporting". IFRS 8 requires an entity to adopt the "management approach" to reporting of performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the statement of comprehensive income and statement of financial position. The IFRS therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the statement of comprehensive income and statement of financial position. Segment disclosures under IFRS 8 are presented in Note 29.

Amendment to IAS 23 "Borrowing costs" ("IAS 23"), which is effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 23 removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Following this amendment borrowing costs in the amount of RR'mln 128 were capitalised by the Group in property, plant and equipment in the year ended 31 December 2009 (see note 8).

Amendment to IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7"), which is effective for annual periods beginning on or after 1 January 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy:

- Level 1- based on quoted price in an active market;
- Level 2- based on valuation technique with inputs observable in markets; and
- Level 3- based on valuation technique with significant non-observable inputs.

The amendment clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity further has to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The group incorporated the amendments to IFRS 7 disclosure requirements in its consolidation financial statements.

Amendment to IAS 32 and IAS 1 ("Puttable financial instruments and obligations arising on liquidation"), which is effective from 1 January 2009. The amendment requires classification of puttable financial instruments and instruments that impose an obligation to deliver a pro rata share of the net asset on liquidation as equity. This amendment did not affect the Group's consolidated financial statements.

Amendment to IFRS 2 "Share-based Payment" ("Vesting Conditions and Cancellations"), which is effective for annual periods beginning on or after 1 January 2009. The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amended standard did not affect the Group's consolidated financial statements.

Amendment to IFRS 1 and IAS 27 ("Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"), which is effective for annual periods beginning on or after 1 January 2009. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendment did not have an impact on the Group's consolidated financial statements.

IFRIC 13 "Customer Loyalty Programmes" ("IFRIC 13"), which is effective for annual periods beginning on or after 1 July 2008. IFRIC 13 clarifies that where goods and services are sold with a customer loyalty incentive, the arrangement is a multi-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair value. The application of IFRIC 13 did not affect the Group's consolidated financial statements.

IFRIC 15 "Agreements for the Construction of Real Estate" ("IFRIC 15"), which is effective for annual periods beginning on or after 1 January 2009. IFRIC 15 addresses diversity in accounting for real estate sales as some entities recognise revenue in accordance with IAS 18 "Revenue" (when the risks and rewards in the real estate are transferred) and others recognise revenue as the real estate is developed in accordance with IAS 11 "Construction Contracts". The interpretation clarifies which standard (IAS 18 or IAS 11) should be applied to particular transactions. The application of IFRIC 15 did not affect the Group's consolidated financial statements.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" ("IFRIC 16"), which is effective for annual periods beginning on or after 1 October 2008. IFRIC 16 relates to the criteria required to apply hedge accounting in hedge of a net investment in a foreign operation in accordance with IAS 39 "Financial instruments: recognition and measurement" ("IAS 39"). The application of IFRIC 16 did not affect the Group's consolidated financial statements.

In 2009 the Group adopted improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes effective from 1 January 2009 relate to the following areas: possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. Improvements to International Financial Reporting Standards did not have any impact on the consolidated financial statements of the Group except for reclassification of the non-current portion of derivative financial instruments to non-current liabilities (see note 2a).

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

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 is not expected to have an impact on Group's consolidated financial statements.

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 is not expected to have an impact on Group's consolidated financial statements.

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 is not expected to have an impact on Group's consolidated financial statements.

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 Group does not expect the amendments to have any material effect on its consolidated financial statements.

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 is not expected to have an impact on Group's consolidated financial statements.

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 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 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 is not expected to materially affect the Group's consolidated financial statements.

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 is not expected to materially affect 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.

(c) Principles of consolidation

In 2008 the Group early adopted the revised IAS 27 "Consolidated and Separate Financial Statements" and the revised IFRS 3 "Business Combinations".

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 exercise control over the operations. 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 purchase 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 difference at the acquisition date between the fair value of any investment in the subsidiary held before acquisition, the consideration transferred and the net assets acquired represents goodwill. Any excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

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, over which the Group has a significant influence but not a control, are accounted for using the equity method. Significant influence is usually evidenced by the Group owning, directly or indirectly, between 20 percent and 50 percent of the voting share capital.

The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated profit or loss, and its share of other comprehensive income of associate is recognised in consolidated other comprehensive income. 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.

(d) 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 statement of comprehensive income 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 research and development expenses within operating expenses.

Gains and losses arising from the disposal of property, plant and equipment are included in the consolidated statement of comprehensive income 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 statement of comprehensive income. 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.

Interest 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 volumes of diamonds contained in ore reserves approved by the Ministry of Natural Resources of Russia. These quantities do not always correspond directly to generally accepted international categories of reserves but represent reserves for which geological and engineering data demonstrate with reasonable certainty to be recoverable in the future years from existing areas of interest under existing economic and operating conditions. Depreciation of assets not directly associated with production is calculated on a straight-line basis over their estimated useful life.

(in millions of Russian roubles, unless otherwise stated)

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
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 5.6 percent in the year ended 31 December 2009 (year ended 31 December 2008: 6.8 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 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.

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 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.

(e) Non-current assets classified as held for sale

Non-current assets are classified in the statement of financial position as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction within twelve months after the end of the year. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Held for sale property, plant and equipment are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated. Reclassified financial instruments are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

(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.

(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:

- financial assets at fair value through profit or loss,
- available-for-sale financial assets, and
- loans and receivables.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation which determines the method for measuring financial assets at the end of the subsequent reporting period: as either at amortised cost or at fair value.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading (including derivatives), and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are expected to be realised within 12 months after the end of the reporting period. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included within the profit and loss section of the consolidated statement of comprehensive income in the period in which they arise.

During the years ended 31 December 2009 and 31 December 2008, the Group did not hold any non-derivative financial assets at fair value through profit or loss.

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 profit or loss in the period in which they arise. Realised gains and losses from the disposal of available-for-sale investments or impairment losses, if any, are included in the Group's other comprehensive income 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 the Russian 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 and 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.

(i) Derivative financial instruments

As part of trading activities the Group is also party to derivative financial instruments, primarily forward foreign exchange contracts. 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) 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.

(k) 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 year. The income tax charge (benefit) comprises current tax and deferred tax and is recognised in the Group's profit and 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. 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 year 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 year 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 year.

(l) Foreign currencies

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at 31 December 2009 and 31 December 2008, are translated into functional currencies at the official exchange rate prevailing at that 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 and 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.

(m) Revenue recognition

Revenues are recognised when goods are shipped to the customer, 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 for "bill and hold" sales, in which delivery of goods is delayed at the buyer's request but the buyer takes title and accepts billing, is recognised, provided:

- it is probable that delivery will be made;
- the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognised;
- the buyer specifically acknowledges the deferred delivery instructions; and
- the usual payment terms apply.

Revenue is not recognised when there is simply an intention to acquire the goods in time for delivery.

Revenue from rendering of transport services is recognised in 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.

(n) Measurement of trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method.

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.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the statement of comprehensive income.

(o) 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 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.

(p) 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 added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(q) 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.

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 value of plan assets or 10 percent of the defined benefit obligations are charged or credited to the statement of comprehensive income over the employees' expected average remaining working lives.

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 year less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. The Group contributes funds to the Pension Fund "Almaznaya Osen", which invests them in governmental securities and other financial instruments. These investments, which represent the majority of assets of 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 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.

(r) Social costs

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

(s) 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.

(t) 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 year only if they are approved at the General Meeting of Shareholders on or before the end of the year.

(u) 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.

(v) 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 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 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.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (see note 26).

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 at insignificant additional costs. 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 2009, 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 706 (year ended 31 December 2008 – RR'mln 670) lower / higher.

Classification of production licenses. Management treats cost of production licenses as an integral part of acquisition cost of tangible mining properties, i.e. land where the respective area of interest is located; accordingly, production licenses are included in property, plant and equipment in these consolidated financial statements. As at 31 December 2009 the net book value of production licenses included in property, plant and equipment is RR'mln 9,067 (as at 31 December 2008: RR'mln 15,705), see also note 8.

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 in part 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 uses derivative financial instruments to manage its risk exposures (primarily foreign exchange risk).

Cash flow and fair value interest rate risk. As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. 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 2009 and 2008, the Group's borrowings were denominated in US dollars and Russian Roubles (see notes 12 and 13).

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 the Group entered into US$ / RR cross currency interest rate swap transactions (see note 6). The Group currently does not use derivative instruments to hedge its fair value interest rate risk.

(in millions of Russian roubles, unless otherwise stated)

At 31 December 2009, 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 20 (at 31 December 2008 - RR'mln 41) lower/higher, mainly as result of higher/lower interest expense on floating rate borrowings.

At 31 December 2009, if interest rates on Russian Roubles-denominated borrowings had been 30 percent higher/lower with all other variables held constant, post-tax profit for the year and equity would have been RR'mln 28 (at 31 December 2008 - RR'mln 91) lower/higher, mainly as result of higher/lower interest expense on floating rate borrowings and cross currency interest rate swap contracts.

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 6. The Group does not account for these derivative financial instruments as hedges.

The table below summarised the Group's exposure to foreign currency exchange rate risk at the end of the year:

	US Dollar		**Euro**		**Other foreign currency**	
	31 December		**31 December**		**31 December**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Assets						
Cash and cash equivalents	1,337	1,029	3	29	79	167
Trade and other receivables	895	5,325	366	367	2	1
	2,232	**6,354**	**369**	**396**	**81**	**168**
Liabilities						
Trade and other payables	690	870	23	32	-	-
Borrowings	67,377	63,055	212	181	-	-
Derivative financial instruments	10,145	22,444	-	-	-	-
	78,212	**86,369**	**235**	**213**	**-**	**-**

At 31 December 2009, if the Russian Rouble had weakened / strengthened by 20 percent against the US dollar with all other variables held constant, post-tax profit for the year would have been RR'mln 18,870 (at 31 December 2008 – RR'mln 19,138) lower / higher and equity would have been RR'mln 18,960 (at 31 December 2008 – RR'mln 19,296) 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 2009, if the Russian Rouble had weakened/strengthened by 20 percent against the Euro with all other variables held constant, post-tax profit for the year and equity would had been RR'mln 21 (at 31 December 2008 – RR'mln 56) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade and other receivables.

Equity investments price risk. The Group is exposed to movements in the equity securities prices because of available-for-sale investments held by the Group. The major part of available-for-sale investments held by the Group has no active market. To manage price risk arising from available-for-sale investments, the Group diversifies its investment portfolio.

At 31 December 2009, if the prices of available-for-sale investments held by the Group had been 20 percent higher/lower with all other variables held constant, its equity would have been RR'mln 84 (at 31 December 2008 – RR'mln 102) higher/lower and there would have been no impact on post-tax profit.

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.

(in millions of Russian roubles, unless otherwise stated)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position as well as by the amount of financial guarantees issued by the Group for third parties (see note 26f).

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 statement of financial position to contractual maturity date.

	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 2009					
Borrowings	5,900	247	99,438	11,199	18,252
Derivative financial instruments	56	757	3,027	6,876	-
Trade payables	4,477	-	-	-	-
Accounts payable of OAO "NNGK Sakhaneftegaz" to the companies of former "YUKOS" Group	3,719	-	-	-	-
Current accounts of third parties in OOO "MAK-Bank"	74	147	662	-	-
Interest payable	52	104	467	-	-
Payables to associates	48	-	-	-	-
Other payables and accruals	474	-	-	-	-
Financial guarantees	-	-	1,546	-	-
	14,800	**1,255**	**105,140**	**18,075**	**18,252**
31 December 2008					
Borrowings	3,837	5,189	57,959	63,501	33,288
Derivative financial instruments	83	1,010	5,778	21,751	-
Trade payables	6,749	-	-	-	-
Accounts payable of OAO "NNGK Sakhaneftegaz" to the companies of former "YUKOS" Group	3,688	-	-	-	-
Current accounts of third parties in OOO "MAK-Bank"	91	182	818	-	-
Interest payable	66	132	593	-	-
Payables to associates	91	-	-	-	-
Other payables and accruals	570	-	-	-	-
	15,175	**6,513**	**65,148**	**85,252**	**33,288**

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 on the 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 2009 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 a joint-stock company should 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 and long-term deposits. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt. During 2009, the Group's strategy, which was unchanged from 2008, was to reduce the gearing ratio.

(in millions of Russian roubles, unless otherwise stated)

The gearing ratios at 31 December 2009 and 31 December 2008 were as follows:

	31 December 2009	31 December 2008
Total borrowings	117,952	134,399
Less: cash and cash equivalents and long-term deposits	(5,094)	(18,854)
Net debt	112,858	115,545
Total equity	80,721	78,018
Total capital	193,579	193,563
Gearing ratio	58%	60%

4. FINANCIAL INSTRUMENTS BY CATEGORY

ASSETS	Loans and receivables		Available for sale		Total	
	31 December		31 December		31 December	
	2009	2008	2009	2008	2009	2008
Non-current assets						
Restricted cash	107	31	-	-	107	31
Long-term deposits	-	11,285	-	-	-	11,285
Available-for-sale investments	-	-	420	512	420	512
Receivables from associates	-	2,990	-	-	-	2,990
Loans issued	1,324	1,616	-	-	1,324	1,616
Notes receivable	317	636	-	-	317	636
Other long-term receivables	14	8	-	-	14	8
	1,762	16,566	420	512	2,182	17,078
Current assets						
Trade receivables for supplied diamonds	638	12,787	-	-	638	12,787
Loans issued	3,648	4,508	-	-	3,648	4,508
Receivables from associates	478	1,108	-	-	478	1,108
Notes receivable	641	168	-	-	641	168
Other receivables	4,183	3,606	-	-	4,183	3,606
Cash and cash equivalents	5,094	7,569	-	-	5,094	7,569
	14,682	29,746	-	-	14,682	29,746
	16,444	**46,312**	**420**	**512**	**16,864**	**46,824**

LIABILITIES	Liabilities at fair value through profit or loss-held for trading		Liabilities at amortised cost		Total	
	31 December		31 December		31 December	
	2009	2008	2009	2008	2009	2008
Non-current liabilities						
Long-term debt	-	-	23,581	80,331	23,581	80,331
Derivative financial instruments	6,502	16,174	-	-	6,502	16,174
	6,502	16,174	23,581	80,331	30,083	96,505
Current liabilities						
Short-term loans and current portion of long-term debt	-	-	94,371	54,068	94,371	54,068
Derivative financial instruments	3,643	6,270	-	-	3,643	6,270
Trade payables	-	-	4,477	6,749	4,477	6,749
Accounts payable of OAO "NNGK Sakhaneftegaz" to the companies of former "YUKOS" Group	-	-	3,719	3,688	3,719	3,688
Current accounts of third parties in OOO "MAK-Bank"	-	-	882	1,090	882	1,090
Interest payable	-	-	622	790	622	790
Payables to associates	-	-	48	91	48	91
Other payables and accruals	-	-	474	570	474	570
	3,643	6,270	104,593	67,046	108,236	73,316
	10,145	**22,444**	**128,174**	**147,377**	**138,319**	**169,821**

(in millions of Russian roubles, unless otherwise stated)

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 2009	31 December 2008
"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 "Investment Group ALROSA"	Investing activity	Russia	100	100
OAO "Viluyskaya GES-3"	Electricity production	Russia	100	98
OAO "Severalmaz"	Diamonds production	Russia	95	95
ZAO "Geotransgaz"	Gas production	Russia	-	90
OOO "Urengoyskaya Gazovaya Company"	Gas production	Russia	-	90
OOO "MAK Bank"	Banking activity	Russia	88	88
OAO "ALROSA-Nyurba"	Diamonds production	Russia	88	88
OAO "NNGK Sakhaneftegaz"	Oil & gas industry	Russia	50	50

As at 31 December 2009 and 31 December 2008 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

Disposal 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 Group determined the fair value of put options as at the date of the transaction in the amount of RR'mln 3,658 using the option pricing model (Level 3 in accordance the valuation hierarchy) and recognised the corresponding non-current liability in the statement of financial position. The main inputs to this model are the fair value of the sold companies, which was assessed by the Group at the date of transaction as RR'mln 31,091 ($US'mln 1,061) and its expected volatility, which was estimated by the Group at the level of 44 percent using historical data for comparable companies for the last 3 years. Management believes that the fair value of the put options as at 31 December 2009 did not change as compared to that determined at the date of transaction.

At 31 December 2009, 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 674 lower / higher as a result of losses / gains from revaluation of the put options.

Net assets of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company" at the date of disposal are as follows:

Property, plant and equipment	13,264
Inventories	98
Trade and other receivables and other assets	159
Deferred tax liability	(157)
Trade and other payables and other liabilities	(267)
Non-controlling interest in the subsidiaries	(578)
Net assets	**12,519**
Fair value of put options granted to the buyers	3,658
Gain on disposal of subsidiaries	2,438
Total consideration	**18,615**

(in millions of Russian roubles, unless otherwise stated)

Consolidation of OAO "NNGK Sakhaneftegaz"

In March 2008 the Company obtained control over 50.4 percent interest in OAO "NNGK Sakhaneftegaz", a holding oil and gas company operating in the Republic of Sakha (Yakutia). The major asset of OAO "NNGK Sakhaneftegaz" is 85 percent interest in OAO "Lenaneftegaz", a company providing drilling services and services of operator at Talakan oil deposit located in the Republic of Sakha (Yakutia). Details of fair values of the assets and liabilities of OAO "NNGK Sakhaneftegaz" as at the date when the Company obtained control over its financial and operating activity are as follows:

Property, plant and equipment	1,351
Available-for-sale investments	195
Inventories	702
Trade and other receivables	430
Cash and cash equivalents	8
Trade and other payables	(4,792)
Net assets	**(2,106)**
Non-controlling interest in fair value of the acquired net assets	**(1,068)**
Goodwill arising from the acquisition	1,531
Purchase consideration	**493**

The recoverable amount of goodwill arising from the acquisition was determined on the basis of the management's estimation of future cash flows of OAO "NNGK Sakhaneftegas" and OAO "Lenaneftegaz". The pre-tax discount rate used in the analysis was 20.1 percent, which presented the weighted average cost of capital for the Group as at 31 December 2008. Based on results of the analysis impairment loss totalling RR'mln 1,531 was recognised within other operating expenses in 2008 (see note 22).

Before 2006 OAO "NNGK Sakhaneftegaz" was controlled by OAO "NK YUKOS", since then the entity has significant amount of overdue accounts payable to the companies of "YUKOS" Group, most of which are now controlled by OAO "NK Rosneft", totalling as at 31 December 2009 to RR'mln 3,719 (payable on demand). In November 2008 the state authorities initiated the bankruptcy procedures in relation to OAO "NNGK Sakhaneftegaz" in accordance with the legal claim of OAO "NK Rosneft".

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 at 31 December 2009 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 2010-2019. The pre-tax discount rate used in the analysis was 19.5 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 2009. The impairment test involves making judgment about several key future business indicators. Management believes that their judgements 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 10 percent or US$ depreciates against Russian Rouble by 12 percent or discount rate increases by 16 percent, there will be no excess of value in use over carrying value of assets allocated to the respective cash generating unit.

Investment in OOO "KIT Finance Holding Company"

In order to support the process of normalisation of financial position of OAO "KIT Finance Investment bank", on 30 December 2008 the Group as part of syndicate of investors, which besides it included companies of "Russian Railroads" group, acquired a 45 percent interest in share capital of OOO "KIT Finance Holding Company", which at the date of transaction owned 87 percent of shares of OAO "KIT Finance Investment bank" and certain other assets. The amount of cash consideration paid under this transaction totalled RR 45. In accordance with the intention of the Group's management formed at the date of transaction and the plan of financial rehabilitation of OAO "KIT Finance Investment bank", developed by Deposit Insurance Agency of the Russian Federation and approved by Central Bank of the Russian Federation, it was anticipated that the share of the Group in OOO "KIT Finance Holding Company" would be transferred to "Russian Railroads" group during 2009 for a cash consideration also not exceeding RR 45. However, this transfer took place in April 2010 due to the delay caused by circumstances beyond the Company's control. Consequently, in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" the Group classified its investment in share capital of OOO "KIT Finance Holding Company" as at 31 December 2009 and 31 December 2008 as an asset held for sale at fair value totalling RR 45.

(in millions of Russian roubles, unless otherwise stated)

Associates

Name	Country of incorporation	Percentage of ownership interest held as at 31 December		Carrying value of investment as at 31 December		Group's share of net profit / (loss) for the year ended 31 December	
		2009	**2008**	**2009**	**2008**	**2009**	**2008**
"Catoca Mining Company Ltd"	Angola	33	33	1,278	1,558	561	670
"Escom-ALROSA Ltd"	United Kingdom	-	44	-	-	-	-
OAO "Almazny Mir"	Russia	47	47	174	173	2	3
Other	Russia			78	82	(4)	3
				1,530	1,813	559	676

As at 31 December 2009 and 31 December 2008 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. In June 2009 "Catoca Mining Company Ltd" declared dividends for the year ended 31 December 2008; the Group's share of these dividends amounted to RR'mln 887. Currency translation income recognised in the consolidated other comprehensive income for the year ended 31 December 2009 in respect of investment in "Catoca Mining Company Ltd" totalled RR'mln 46. In April 2008 "Catoca Mining Company Ltd" declared dividends for the year ended 31 December 2007; the Group's share of these dividends amounted to RR'mln 773. Currency translation income recognised in the consolidated other comprehensive income for the year ended 31 December 2008 in respect of investment in "Catoca Mining Company Ltd" totalled RR'mln 279.

"Escom-ALROSA Ltd" is a holding company, the only purpose of which is to own a 45 percent voting interest in "Camachia-Camagico", a development stage diamond-mining venture located in Angola, which is in the pilot stage of mining of the Luo diamond deposit. On 30 December 2009 the Company sold its interest in "Escom-ALROSA Ltd" to "Escom Mining Inc.", another shareholder of "Escom-ALROSA Ltd" for RR'mln 129 (US$'mln 4.3) payable in cash in December 2020. The amount of consideration receivable was adjusted to the fair value of RR'mln 14 using the discount rate of 25 percent per annum, which reflects the possible risk that this amount will not be recovered.

The Group has not recognised its share of net loss of "Camachia-Camagico" for the year ended 31 December 2009 in the amount of RR'mln 161 (year ended 31 December 2008: RR'mln 216).

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 (loss) for the year ended 31 December	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
"Catoca Mining Company Ltd"	9,764	11,302	5,867	6,553	13,270	14,524	1,710	2,043
"Camachia-Camagico"	-	6,139	-	9,278	642	695	(816)	(1,146)
OAO "Almazny Mir"	399	404	28	39	158	186	5	7
Other	82	157	19	45	69	102	(11)	1
	10,245	18,002	5,914	15,915	14,139	15,507	888	905

Non-current available-for-sale investments

	Year ended 31 December 2009	Year ended 31 December 2008
Available-for-sale investments at the beginning of the year	512	786
Additions	-	47
Additions through consolidation of OAO "NNGK Sakhaneftegaz"	-	195
Net changes in fair value	44	-
Derecognition of investment in OAO "NNGK Sakhaneftegaz"	-	(493)
Disposals	(136)	(23)
Available-for-sale investments at the end of the year	420	512

The non-current available-for-sale investments consist of two groups, which fair values are based on quoted prices in an active market (Level 1 in accordance the valuation hierarchy) and valuation technique with significant non-observable inputs (Level 3 in accordance the valuation hierarchy).

(in millions of Russian roubles, unless otherwise stated)

6. DERIVATIVE FINANCIAL INSTRUMENTS

Long-term derivative financial instruments (liabilities)

	31 December 2009	31 December 2008
Fair value of put options granted by the Group to the buyers of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company" (see note 5)	3,658	-
Fair value of foreign exchange forward contracts	2,657	15,644
Fair value of cross currency interest rate swaps	187	530
	6,502	16,174

Short-term derivative financial instruments (liabilities)

	31 December 2009	31 December 2008
Fair value of foreign exchange forward contracts	3,643	5,704
Fair value of cross currency interest rate swaps	-	566
	3,643	6,270

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 2009 under which it agreed to sell US$ for RR during a five-year period starting in September 2006 and ending in September 2011, at a strike price fixed at the exchange rates ranging from RR 26.56 to RR 26.84 per US$ 1, averaged on a quarterly basis. The transactions have varying maturities and amounts spread evenly over the five-year period in the aggregate amount of US$'mln 215 per quarter (US$'mln 4,300 in total over the five-year period). At 31 December 2009 the fair value of the forward foreign exchange contracts totalled RR'mln 6,300 (liability), including current portion in the amount of RR'mln 3,643 (as at 31 December 2008 - RR'mln 21,348 (liability), including current portion in the amount of RR'mln 5,704; as at 1 January 2008 – RR'mln 5,106 (asset), including current portion in the amount of RR'mln 2,069). 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.

	Year ended 31 December		
	2009	2008	2007
Fair value of foreign exchange forward contracts at the beginning of the year	(21,348)	5,106	902
Net payment / (proceeds) from exercising of foreign exchange forward contracts	4,362	(1,377)	(945)
Net gain / (loss) from change of fair value of foreign exchange forward contracts	10,686	(25,077)	5,149
Fair value of foreign exchange forward contracts at the end of the year	(6,300)	(21,348)	5,106

In the year ended 31December 2009 the net gain from change of fair value of foreign exchange forward contracts recognised in the Group's profit and loss includes realised gain in the amount of RR'mln 1,342 (year ended 31 December 2008: loss in the amount of RR'mln 692; year ended 31 December 2007: gain in the amount of RR'mln 308) related to instruments settled during the reporting period and unrealised gain in the amount of RR'mln 9,344 (year ended 31 December 2008: loss in the amount of RR'mln 24,385; year ended 31 December 2007: gain in the amount of RR'mln 4,841) related to instruments still held at the end of the reporting period.

At 31 December 2009, if the Russian Rouble had weakened / strengthened by 20 percent against the US dollar with all other variables held constant, post-tax profit and equity for the year would have been RR'mln 7,491 (at 31 December 2008 – RR'mln 5,726) lower / higher as a result of losses / gains from revaluation of foreign exchange forward contracts.

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 2009. Under the swap transactions the Group agreed to convert into US$ the amount due to "Bank VTB" totalling RR'mln 4,518 at the exchange rate of RR 26.62 and pay fixed interest rates ranging from 9.55 to 9.88 percent in exchange of RR floating interest rates based on three months MosPrime interest rate. The transactions have varying maturities and amounts spread from October 2008 to May 2011. At 31 December 2009 the fair value of the cross currency interest rate swap transactions totalled RR'mln 187 (liability), at 31 December 2008 - RR'mln 1,096 (liability), including current portion in the amount of RR'mln 566.

(in millions of Russian roubles, unless otherwise stated)

	Year ended 31 December 2009	Year ended 31 December 2008
Fair value of cross currency interest rate swap contracts at the beginning of the year	(1,096)	-
Net payment / (proceeds) from exercising of swap contracts	120	(56)
Net gain / (loss) from change of fair value of cross currency interest rate swap contracts	789	(1,040)
Fair value of cross currency interest rate swap contracts at the end of the year	(187)	(1,096)

In the year ended 31 December 2009 the net gain from change of fair value of cross currency interest rate swap contracts recognised in the Group’s profit and loss includes realised gain in the amount of RR’mln 448 (year ended 31 December 2008: gain in the amount of RR’mln 56) related to instruments settled during the reporting period and unrealised gain in the amount of RR’mln 341 (year ended 31 December 2008: loss in the amount of RR’mln 1,096) related to instruments still held at the end of the reporting period.

At 31 December 2009, if the Russian Rouble had weakened / strengthened by 20 percent against the US dollar with all other variables held constant, post-tax profit and equity for the year would have been RR’mln 208 (at 31 December 2008 – RR’mln 473) higher / lower as a result of gains / losses from revaluation of swap contracts.

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 December 2009 was 9 percent (as at 31 December 2008 – 15 percent), which represents the incremental interest rate on RR denominated borrowings applicable to the Group as at the end of the respective reporting period.

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

7. CASH AND CASH EQUIVALENTS

Restricted cash

Restricted cash included within non-current assets in the statement of financial position of RR’mln 107 and RR’mln 31 as at 31 December 2009 and 31 December 2008, 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 25).

At 31 December 2009 and 31 December 2008 the weighted average interest rate on the restricted cash balances is approximately nil percent.

Long-term deposits

As at 31 December 2008 the Group held RR’mln 11,285 on deposit accounts in OAO “KIT Finance Investment Bank”. The maturity of these deposits was on 29 November 2010. During August – September 2009 the Group early refunded this deposit.

Cash and cash equivalents

	31 December 2009	31 December 2008
Current accounts	4,567	3,952
Deposit accounts	527	2,102
Notes receivable	-	1,515
	5,094	7,569

As at 31 December 2008 cash and cash equivalents included non-interest bearing notes of OAO “Bank VTB” totalling RR’mln 1,515 with maturity at the date of inception less than three months.

At 31 December 2009 the weighted average interest rate on the cash balances of the Group was 0.43 percent (31 December 2008: 1.96 percent).

As at 31 December 2009 and 31 December 2008 all balances of cash and cash equivalents of the Group are neither past due nor impaired.

(in millions of Russian roubles, unless otherwise stated)

The table below analyses the credit quality of banks at which the Group holds cash and cash equivalents as at 31 December 2009:

	External credit rating	Rating agency	31 December 2009	31 December 2008
Current accounts of OOO "MAK Bank" in the Central Bank of the Russian Federation	Not applicable	Not applicable	2,039	1,044
OAO "Bank VTB"	Baa 1	Moody's	1,360	4,286
Cash of OOO "MAK Bank" on hand and in cash machines	Not applicable	Not applicable	625	441
OAO "Sberbank"	Baa 1	Moody's	174	141
ABN AMRO Bank	Aa 3	Moody's	148	25
HSBC	Aa 2	Moody's	121	32
Lloyds TSB Bank plc	Aa 3	Moody's	75	47
ZAO "UniCredit Bank"	BBB+	Fitch Ratings	64	137
OAO "AKB Bank of Moscow"	Baa 1	Moody's	34	323
OAO "KIT Finance Investment Bank"	Caa 2	Moody's	1	230
Other banks	Aa 2–Baa 2	Moody's	453	863
			5,094	7,569

8. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Land and Improvements	Plant and Equipment	Transport	Production Licenses	Assets under Construction	Other	TOTAL
Cost at 31 December 2007	**53,001**	**49,848**	**39,443**	**16,374**	**11,175**	**53,547**	**1,751**	**225,139**
Additions through consolidation of OAO "NNGK Sakhaneftegaz" (see note 5)	230	609	309	54	-	125	24	1,351
Additions	339	1,912	2,982	918	5,430	19,277	734	31,592
Transfers	3,192	6,407	2,406	64	-	(12,400)	331	-
Disposals	(419)	(1,423)	(967)	(511)	-	(160)	(529)	(4,009)
Foreign exchange differences	24	531	2	185	-	668	(2)	1,408
Change in estimate of provision for land recultivation (see note 14)	-	(18)	-	-	-	-	-	(18)
Cost at 31 December 2008	**56,367**	**57,866**	**44,175**	**17,084**	**16,605**	**61,057**	**2,309**	**255,463**
Additions	37	1,123	1,212	450	9	12,085	478	15,394
Transfers	4,071	17,737	3 336	198	-	(25,489)	147	-
Disposals	(2,236)	(238)	(1,161)	(586)	-	(246)	(146)	(4,613)
Disposal of subsidiaries (see note 5)	(28)	(1,509)	(34)	(2)	(7,322)	(5,765)	(6)	(14,666)
Foreign exchange differences	7	68	1	37	-	114	(3)	224
Change in estimate of provision for land recultivation (see note 14)	-	(5)	-	-	-	-	-	(5)
Cost at 31 December 2009	**58,218**	**75,042**	**47,529**	**17,181**	**9,292**	**41,756**	**2,779**	**251,797**
Accumulated depreciation and impairment losses at 31.12.2007	**(17,051)**	**(17,837)**	**(22,801)**	**(10,156)**	**(616)**	**(271)**	**(711)**	**(69,443)**
Charge for the year ended 31 December 2008	(1,609)	(2,913)	(3,815)	(1,270)	(284)	-	(252)	(10,143)
Disposals	98	1,157	919	479	-	-	64	2,717
Impairment of property, plant and equipment	(178)	-	-	-	-	(342)	-	(520)
Accumulated depreciation and impairment losses at 31.12.2008	**(18,740)**	**(19,593)**	**(25,697)**	**(10,947)**	**(900)**	**(613)**	**(899)**	**(77,389)**
Charge for the year ended 31 December 2009	(1,324)	(2,803)	(4,001)	(1,179)	(215)	-	(283)	(9,805)
Disposals	391	121	1 014	522	-	-	30	2,078
Disposal of subsidiaries (see note 5)	10	477	19	5	890	-	1	1,402
Impairment of property, plant and equipment	-	-	-	-	-	(151)	-	(151)
Accumulated depreciation and impairment losses at 31.12.2009	**(19,663)**	**(21,798)**	**(28,665)**	**(11,599)**	**(225)**	**(764)**	**(1,151)**	**(83,865)**
Net book value at 31 December 2008	**37,627**	**38,273**	**18,478**	**6,137**	**15,705**	**60,444**	**1,410**	**178,074**
Net book value at 31 December 2009	**38,555**	**53,244**	**18,864**	**5,582**	**9,067**	**40,992**	**1,628**	**167,932**

(in millions of Russian roubles, unless otherwise stated)

As at 31 December 2009 borrowing costs totalling RR'mln 128 were capitalised in property, plant and equipment and represent interest on loans and borrowings. The capitalisation rate was 16.44 percent for the year ended 31 December 2009.

Property, plant and equipment for the year ended 31 December 2009 includes an aircraft which the Group received under a finance lease agreement. As at 31 December 2009 the carrying value of this aircraft is RR'mln 896 (31 December 2008: RR'mln 905). Property, plant and equipment for the year ended 31 December 2009 includes also the mining equipment which OAO "Almazy Anabara", a subsidiary of the Group, received also under finance lease agreements. As at 31 December 2009 the carrying value of this equipment is RR'mln 279 (31 December 2008: RR'mln 343).

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 2009 there were no such indicators, accordingly the Group did not conduct an impairment test of its property plant and equipment as at that date.

As at 31 December 2008 the Group conducted an impairment test of its property plant and equipment as management believed there were certain indicators that these assets may be impaired. The recoverable amount used in the impairment tests was determined on the basis of the projected cash flows and the value in use of such asset or cash-generating units. The Group conducted an impairment test of its cash-generating units, for which the values in use have been calculated as the present values of projected future cash flows discounted by the Group's weighted average cost of capital, as adjusted, where applicable, to take into account any specific risks of business operations related to the cash-generating units. The Group used discount rate of 20.1 percent, which presented the weighted average cost of capital for the Group as at 31 December 2008. The cash flow projections covered periods commensurate with the production cycles and expected lives of the respective assets. The Group used steady growth rates of 3.5 percent to extrapolate cash flows beyond the period of 2009-2015, for which the Group prepared its budget. The Group's assessment of value in use of its property, plant and equipment as at 31 December 2008 substantially exceeded its carrying value.

The impairment loss of RR'mln 151 recognised for the year ended 31 December 2009 (year ended 31 December 2008: RR'mln 520) relates to certain frozen assets under construction and buildings, which, in accordance with recent management's plans, will not be used in production activity of the Group.

9. INVENTORIES

	31 December 2009	31 December 2008
Diamonds	19,844	11,105
Ores and concentrates	6,177	5,273
Mining and construction materials	12,509	13,518
Diamonds for resale	5,597	1,399
Consumable supplies	746	1,012
	44,873	32,307

At 31 December 2009 diamonds for resale are presented by the diamonds purchased back from OOO "Interdiam" in September 2009 (see note 10). The Company expects to sell these diamonds to third parties during 2010.

As at 31 December 2008 diamonds for resale are presented by the diamonds purchased by the Group from Angolan diamond producers for the purpose of the subsequent resale on the open market. During 2009 the whole amount of these diamonds was sold to third parties.

10. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 December 2009	31 December 2008
Loans issued	1,324	1,616
Long-term VAT recoverable	576	683
Notes receivable	317	636
Receivables from associates (see note 27)	-	2,990
Other long-term receivables	14	8
	2,231	5,933

(in millions of Russian roubles, unless otherwise stated)

Current accounts receivable	31 December 2009	31 December 2008
Loans issued	3,648	4,508
Prepaid taxes, other than income tax	1,349	945
VAT recoverable	777	1,564
Advances to suppliers	703	823
Trade receivables for supplied diamonds	638	12,787
Notes receivable	641	168
Receivables from associates (see note 27)	478	1,108
Receivables for sale of treasury shares	-	251
Other receivables	4,183	3,355
	12,417	25,509

At 31 December 2008 long-term and current receivables from associates included the loan issued to "Escom-ALROSA Ltd" in the amount of RR'mln 3,582 (including current portion of RR'mln 592) to finance development of Luo diamond deposit. The repayment period of this loan was June 2006 – June 2014 and it beared interest at LIBOR+2.5% per annum. In December 2009 the Company transferred the rights on this loan to "Escom Mining Inc.", another shareholder of "Escom-ALROSA Ltd". The parties agreed that the payment date for the whole amount of transferred loan would be on 31 March 2035 and that interest of 0.5 percent per annum would be accrued on this amount. Also the parties agreed that this amount will be paid to the Company only in case the Luo project generates free cash flow enough for repayment of the whole of the aggregate amount of the loan. At the date of the agreement the amount of the loan transferred to "Escom Mining Inc." was reclassified to long-term loans issued. Management believes it is probable that this loan will not be recovered, accordingly an impairment provision in respect to the full amount of the loan totalling RR'mln 3,763 was recognised in these consolidated financial statements.

As at 31 December 2008 trade receivables for supplied diamonds included accounts receivable from OOO "Interdiam", a third party wholesale diamonds customer, totalling RR'mln 12,513. The original maturity date for these receivables was 26 March 2009; subsequently it was prolonged till September 2009. The nominal value of these accounts receivable was RR'mln 13,231; it was adjusted to the fair value of RR'mln 12,513 using the discount rate of 25 percent per annum, which is applicable to the RR denominated loans issued by the Group to third parties with the similar credit quality, with a corresponding debit recorded as a reduction of the respective revenue figure for the year ended 31 December 2008. For the year ended 31 December 2009 the accretion of the discounted value of these receivables totalling RR'mln 718 was recognised as interest income in the statement of comprehensive income. The Group supplied diamonds for OOO "Interdiam" in December 2008 anticipating that it will subsequently resell them in the open market. OOO "Interdiam" failed to resell these diamonds; accordingly it failed to settle its debt to the Group within the contractual term. In September 2009 the Company repurchased the initially supplied diamonds back from this customer for RR'mln 13,231 (including VAT of RR'mln 2,018). Part of these diamonds with cost totalling RR'mln 5,075 was subsequently resold to third parties in 2009 (see note 18), another part with cost of RR'mln 541 was transferred to production of polished diamonds, the rest of these diamonds with cost of RR'mln 5,597 remained in stock as at 31 December 2009 (see note 9).

The average effective interest rates at the end of the year were as follows:

Long-term accounts receivable	31 December 2009	31 December 2008
Receivables from associates	-	5%
Loans issued	13%	17%
Notes receivable	10%	10%
Other long-term receivables	10%	10%

The carrying amounts and fair values of long-term accounts receivable are as follows:

	31 December 2009		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Receivables from associates	-	-	2,990	2,575
Loans issued	1,324	1,246	1,616	1,402
Notes receivable	317	245	636	507
Other long-term receivables	14	10	8	5

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 year. These market interest rates for each class of long-term accounts receivable at the end of the year were as follows:

(in millions of Russian roubles, unless otherwise stated)

	31 December 2009	31 December 2008
Receivables from associates	-	15.0%
Loans issued	16.0%	19.2%
Notes receivable	16.7%	20.0%
Other long-term receivables	15.0%	20.0%

The fair value of each class of short-term trade and other accounts receivable at 31 December 2009 and 31 December 2008 approximates their carrying value.

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

Long-term accounts receivable	31 December 2009	Bad debt write-off	Bad debt expense / (reversal of bad debt expense)	31 December 2008
Loans issued	3,789	-	3,763	26
	3,789	-	3,763	26
Current accounts receivable				
Receivables from associates (see note 27)	26	(162)	-	188
Notes receivable	80	-	-	80
Loans issued	118	-	(66)	184
Other receivables	1,522	(31)	219	1,334
	1,746	(193)	153	1,786

Long-term accounts receivable	31 December 2008	Bad debt write-off	Bad debt expense	31 December 2007
Loans issued	26	-	-	26
	26	-	-	26
Current accounts receivable				
Receivables from associates (see note 27)	188	-	-	188
Notes receivable	80	-	-	80
Loans issued	184	-	55	129
Other receivables	1,334	(114)	30	1,418
	1,786	(114)	85	1,815

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

	31 December 2009				31 December 2008			
	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	3,763	-	26	3,789	-	-	26	26
	3,763	-	26	3,789	-	-	26	26
Current accounts receivable								
Receivables from associates	-	-	26	26	-	-	188	188
Notes receivable	-	-	80	80	-	-	80	80
Loans issued	-	116	2	118	55	68	61	184
Other receivables	11	463	1,048	1,522	-	252	1,082	1,334
	11	579	1,156	1,746	55	320	1,411	1,786

As at 31 December 2009 and 31 December 2008, trade and other receivables totalling RR'mln 14,320 and RR'mln 31,035, respectively, were neither past due nor impaired and have no history of overdue payments. Most of these debtors have no individual external credit rating.

(in millions of Russian roubles, unless otherwise stated)

11. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 12,473 as at 31 December 2009 and 31 December 2008 and consists of 272,726 ordinary shares, including treasury shares, at RR 13,502.5 par value per share. In addition as at 31 December 2009 and 31 December 2008 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 2009 and 31 December 2008, the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 2,348 and RR'mln 1,574 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

At 31 December 2009 subsidiaries of the Group held 553 ordinary shares of the Company (at 31 December 2008: 420 ordinary shares). The Group management controls the voting rights of these shares.

Other reserves

	Currency translation	Purchase of non-controlling interest	Available-for-sale investments	Total
Balance at 31 December 2007	**(193)**	**-**	**-**	**(193)**
Currency translation differences	440	-	-	440
Purchase of non-controlling interest in OAO "Viluyskaya GES-3"	-	(309)	-	(309)
Balance at 31 December 2008	**247**	**(309)**	**-**	**(62)**
Currency translation differences	113	-	-	113
Purchase of non-controlling interest in OAO "Viluyskaya GES-3"	-	(41)	-	(41)
Net gains arising from change of fair value of available-for-sale investments, net of income tax	-	-	44	44
Balance at 31 December 2009	**360**	**(350)**	**44**	**54**

Dividends

On 20 June 2009 the Company's annual shareholders' meeting decided not to pay dividends for the year ended 31 December 2008.

On 21 June 2008 the Company's shareholders approved dividends for the year ended 31 December 2007 totalling RR'mln 2,240. Dividends per share amounted to RR 11,200.

Non-controlling interest in subsidiaries

	Year ended 31 December 2009	Year ended 31 December 2008
Non-controlling interest at the beginning of the year	(431)	1,190
Non-controlling interest share of net profit (loss) of subsidiaries	26	(169)
Non-controlling interest in acquired net assets of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" (see note 5)	-	(1,068)
Purchase of non-controlling interest	(53)	(135)
Translation difference	(4)	-
Disposal of non-controlling interest through disposal of subsidiaries (see note 5)	(578)	-
Dividends paid by subsidiaries to minority shareholders	(137)	(249)
Non-controlling interest at the end of the year	(1,177)	(431)

During the year ended 31 December 2009 non-controlling interest decreased by RR'mln 53 as a result of the acquisition of an additional 2 percent interest OAO "Viluyskaya GES-3". The difference between the carrying amount of the non-controlling interest and the amount paid to acquire it totalling RR'mln 41 was debited to equity within other reserves.

(in millions of Russian roubles, unless otherwise stated)

During the year ended 31 December 2008 non-controlling interest decreased by RR'mln 135 as a result of the acquisition of an additional 5 percent interest OAO "Viluyskaya GES-3". The difference between the carrying amount of the non-controlling interest and the amount paid to acquire it totalling RR'mln 309 was debited to equity within other reserves.

12. LONG-TERM DEBT

	31 December 2009	31 December 2008
Banks:		
US$ denominated floating rate	3,262	4,800
US$ denominated fixed rate	21,708	25,092
RR denominated floating rate	1,556	3,193
RR denominated fixed rate	44,480	44,484
	71,006	**77,569**
Eurobonds	15,099	14,681
Finance lease obligation	564	948
Commercial paper	359	466
Other US$ denominated fixed rate loans	123	213
Other RR denominated fixed rate loans	1,476	943
	88,627	**94,820**
Less: current portion of long-term debt (see note 13)	(65,046)	(14,489)
	23,581	**80,331**

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

The average effective interest rates at the end of the year were as follows:

	31 December 2009	31 December 2008
Banks:		
US$ denominated floating rate	4.3%	3.5%
US$ denominated fixed rate	14.5%	8.4%
RR denominated floating rate	13.7%	28.3%
RR denominated fixed rate	15.3%	15.3%
Eurobonds	8.7%	8.7%
Finance lease obligation	7.6%	7.6%
Commercial paper	21.7%	26.3%
Other US$ denominated fixed rate	9.0%	9.0%
Other RR denominated fixed rate loans	11.9%	13.6%

At 31 December 2009 long-term loans had the following maturity profile (based on the discounted 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	2,826	28	408	-	-	3,262
US$ denominated fixed rate	17,667	3,605	436	-	-	21,708
RR denominated floating rate	-	1,556	-	-	-	1,556
RR denominated fixed rate	44,173	290	7	10	-	44,480
Eurobonds	-	-	-	-	15,099	15,099
Finance lease obligation	57	26	28	453	-	564
Commercial paper	-	359	-	-	-	359
Other US$ denominated fixed rate loans	123	-	-	-	-	123
Other RR denominated fixed rate loans	200	1,276	-	-	-	1,476
	65,046	7,140	879	463	15,099	88,627

(in millions of Russian roubles, unless otherwise stated)

At 31 December 2008 long-term loans had the following maturity profile (based on the discounted 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	3,993	384	27	396	-	4,800
US$ denominated fixed rate	8,575	564	3,574	12,237	142	25,092
RR denominated floating rate	1,637	-	1,556	-	-	3,193
RR denominated fixed rate	-	44,173	290	9	12	44,484
Eurobonds	-	-	-	-	14,681	14,681
Finance lease obligation	169	57	26	27	669	948
Commercial paper	-	170	296	-	-	466
Other US$ denominated fixed rate loans	115	98	-	-	-	213
Other RR denominated fixed rate loans	-	802	141	-	-	943
	14,489	46,248	5,910	12,669	15,504	94,820

The carrying amounts and fair values of long-term debt are as follows:

	31 December 2009		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Banks				
US$ denominated floating rate	3,262	1,374	4,800	771
US$ denominated fixed rate	21,708	22,551	25,092	24,274
RR denominated floating rate	1,556	1,558	3,193	3,748
RR denominated fixed rate	44,480	45,033	44,484	43,495
Eurobonds	15,099	15,742	14,681	8,556
Finance lease obligation	564	551	948	825
Commercial paper	359	460	466	707
Other US$ denominated fixed rate loans	123	120	213	213
Other RR denominated fixed rate loans	1,476	1,448	943	643

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 year. These market interest rates for each class of long-term debt at the end of the year were as follows:

	31 December 2009	31 December 2008
Banks		
US$ denominated floating rate	5.3%	9.1%
US$ denominated fixed rate	8.8%	10.7%
RR denominated floating rate	13.8%	28.7%
RR denominated fixed rate	13.8%	15.5%
Eurobonds	7.8%	21.9%
Commercial paper	8.5%	19.3%
Finance lease obligation	8.9%	9.9%
Other US$ denominated fixed rate loans	8.8%	10.7%
Other RR denominated fixed rate loans	13.8%	15.5%

As at 31 December 2009 and at 31 December 2008 there were no long-term loans secured with the assets of the Group.

Eurobonds

	Year ended 31 December 2009	Year ended 31 December 2008
Balance at the beginning of the year	14,681	19,631
Amortisation of discount	25	23
Repayment	-	(7,094)
Exchange losses	393	2,121
Balance at the end of the year	15,099	14,681

(in millions of Russian roubles, unless otherwise stated)

Finance lease obligation

	Minimum lease payments 31 December 2009	Discounted value of minimum lease payments 31 December 2009	Minimum lease payments 31 December 2008	Discounted value of minimum lease payments 31 December 2008
Within 1 year	15	57	339	169
Between 2 and 4 years	607	507	293	110
5 years and thereafter	-	-	747	669
	622	564	1,379	948

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 8).

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

	31 December 2009	31 December 2008
Banks:		
US$ denominated floating rate	-	2,644
US$ denominated fixed rate	15,939	14,231
RR denominated floating rate	-	2,605
RR denominated fixed rate	5	15,528
	15,944	**35,008**
European commercial paper	11,237	1,366
Commercial paper	616	1,138
Other US$ denominated fixed rate loans	9	9
Other RR denominated fixed rate loans	1,519	2,058
	29,325	**39,579**
Add: current portion of long-term debt (see note 12)	65,046	14,489
	94,371	**54,068**

Commercial paper

Commercial paper comprises unsecured notes, denominated in RR, issued by the Group to provide short-term working capital facilities. The short-term commercial paper is typically a non-interest bearing instrument issued at a discount, with defined maturity dates ranging from 1 month to 1 year and is carried at amortised cost.

European commercial paper

In March 2005 "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 2009	Year ended 31 December 2008
Balance at the beginning of the year	1,366	3,510
Issued	22,782	13,428
Repayment	(12,254)	(17,736)
Exchange (gains) / losses	(657)	2,164
Balance at the end of the year	11,237	1,366

As at 31 December 2009 there were no short-term loans secured with the assets of the Group. As at 31 December 2008 short-term debt totalling RR'mln 226 was secured with the assets of the Group. As corresponding loan agreements stipulated that the respective debt "is secured with the assets of the Group" and do not specify individual pledged assets, the carrying amount of pledged assets as at 31 December 2008 is not disclosed.

(in millions of Russian roubles, unless otherwise stated)

The average effective interest rates at the end of year were as follows:

	31 December 2009	31 December 2008
Banks:		
US$ denominated floating rate	-	4.0%
US$ denominated fixed rate	10.4%	10.0%
RR denominated floating rate	-	27.8%
RR denominated fixed rate	14.4%	15.9%
European commercial paper	9.8%	7.4%
Commercial paper	7.8%	21.4%
Other US$ denominated fixed rate loans	-	3.7%
Other RR denominated fixed rate loans	1.9%	4.1%

The carrying amounts and fair values of short-term debt are as follows:

	31 December 2009		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Banks:				
US$ denominated floating rate	-	-	2,644	2,542
US$ denominated fixed rate	15,939	15,906	14,231	14,100
RR denominated floating rate	-	-	2,605	2,605
RR denominated fixed rate	5	4	15,528	15,564
European commercial paper	11,237	11,229	1,366	1,326
Commercial paper	616	691	1,138	1,155
Other US$ denominated fixed rate loans	9	8	9	11
Other RR denominated fixed rate loans	1,519	1,505	2,058	2,027

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. These market interest rates for each class of short-term debt at the end of year were as follows:

	31 December 2009	31 December 2008
Banks:		
US$ denominated floating rate	-	10.0%
US$ denominated fixed rate	9.9%	13.5%
RR denominated floating rate	-	27.8%
RR denominated fixed rate	14.7%	15.0%
European commercial paper	9.1%	14.4%
Commercial paper	9.4%	20.0%
Other US$ denominated fixed rate loans	9.9%	9.0%
Other RR denominated fixed rate loans	14.7%	12.0%

14. PROVISION FOR LAND RECULTIVATION

	Year ended 31 December 2009	Year ended 31 December 2008
At the beginning of the year	369	444
Change in estimate of provision for land recultivation	(5)	(18)
Unwinding of discount	57	14
Utilised	(95)	(71)
At the end of the year	326	369

In October 2006 Management Committee of the Company approved the "Program for improvement of environmental situation in the area of operating activity of the Company". In accordance with this Program the Company assumed an obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity during 2007-2010. The Company recognised a provision for these future expenses in its consolidated financial statements for the years ended 31 December 2009 and 31 December 2008 with a corresponding asset recognised within property, plant and equipment (see note 8). The discount rate used to calculate the net present value of the future cash outflows relating to land recultivation at 31 December 2009 was 19.5 percent (31 December 2008: 20.1 percent), which represents the weighted average cost of capital for the Group and is considered appropriate to the Group in the economic environment in the Russian Federation at the end of year.

(in millions of Russian roubles, unless otherwise stated)

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 2009	31 December 2008
Present value of obligations	11,650	9,581
Fair value of plan assets	(5,112)	(3,819)
Unrecognised actuarial losses	(3,252)	(2,775)
Unrecognised past service cost	(190)	(85)
Net liability	3,096	2,902

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 2009	Year ended 31 December 2008
Current service cost	310	263
Interest cost	824	757
Expected return on plan assets	(273)	(254)
Net actuarial losses	233	437
Recognised past service cost	26	-
Immediate recognition of vested prior service cost	27	471
Net expense recognised in the statement of comprehensive income	1,147	1,674

Movements in the pension liability and plan assets recognised in the consolidated statement of financial position in respect of the defined benefit plan are as follows:

	31 December 2009	31 December 2008
Benefit obligation at the beginning of the year	9,581	11,375
Current service cost	310	263
Interest cost	824	757
Actuarial loss / (gain)	1,327	(2,894)
Benefits paid	(551)	(475)
Past service cost	159	555
Benefit obligation at the end of the year	11,650	9,581

	31 December 2009	31 December 2008
Fair value of plan assets at the beginning of the year	3,819	3,555
Expected return on plan assets	273	254
Contributions made	954	735
Benefits paid	(551)	(475)
Actuarial gain / (loss)	617	(250)
Fair value of plan asset at the end of the year	5,112	3,819

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 2009 the actual return on plan assets was RR'mln 890 (year ended 31 December 2008: RR'mln 4).

The Group expects to contribute RR'mln 947 to the defined benefit plans during the year beginning 1 January 2010.

Principal actuarial assumptions used:

	31 December 2009	31 December 2008
Discount rate (nominal)	8.7%	8.9%
Expected return on plan assets	8.6%	7.1%
Future salary increases (nominal)	6.2%	5.8%
Future pension increases (nominal)	5.5%	5.8%
Estimated total service (years)	14	12
Employees average remaining working life (years)	10	16
Average period of vesting benefits (years)	9	9
Average period of vesting pensions (years)	3	6

(in millions of Russian roubles, unless otherwise stated)

Life expectancies are as follows:

	31 December 2009	31 December 2008
Male aged 57 (years)	15	15
Female aged 55 (years)	22	22

At 31 December 2009 sensitivity of provision for pension obligations to principal actuarial assumption is as follows:

	Change in assumption	Impact on provision for pension obligations
Discount rate	Increase / decrease by 0.5%	Decrease / increase by 8.8%
Expected return on plan assets	Increase / decrease by 0.5%	Decrease / increase by 5.8%
Future salary increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 2.1%
Future pension increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 9.5%
Employee turnover	Increase / decrease by 10%	Decrease / increase by 1.6%
Mortality level	Increase / decrease by 10%	Decrease / increase by 5.0%

Five-year defined benefit plan disclosure:

	31 December				
	2009	2008	2007	2006	2005
Present value of obligations	11,650	9,581	11,375	11,388	8,590
Fair value of plan assets	(5,112)	(3,819)	(3,555)	(3,120)	(2,648)
Deficit in plan	6,538	5,762	7,820	8,268	5,942

	Year ended 31 December				
	2009	2008	2007	2006	2005
Experience adjustments on plan liabilities	133	(278)	(653)	587	443
Experience adjustments on plan assets	617	(250)	(52)	(67)	115

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

	31 December 2009, %	31 December 2008, %
Russian corporate bonds	37.2	31.8
Bank deposits	36.3	21.9
Russian Government and municipal bonds	11.7	4.3
Equity securities of Russian issuers	8.2	13.3
Promissory notes of Russian issuers	4.9	14.1
Debt securities of Russian issuers	1.7	-
Current bank accounts	-	14.6
	100.0	100.0

16. TRADE AND OTHER PAYABLES

	31 December 2009	31 December 2008
Trade payables	4,477	6,749
Accrual for employee flights and holidays	4,367	4,697
Accounts payable of OAO "NNGK Sakhaneftegaz" to the companies of former "YUKOS" Group (see note 5)	3,719	3,688
Wages and salaries	1,594	1,374
Advances from customers	1,055	893
Current accounts of third parties in OOO "MAK-Bank"	882	1,090
Interest payable	622	790
Payables to associates	48	91
Other payables and accruals	474	570
	17,238	19,942

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 short-term trade and other payables at 31 December 2009 and 31 December 2008 approximates their carrying value.

(in millions of Russian roubles, unless otherwise stated)

17. INCOME AND OTHER TAX ASSETS AND LIABILITIES

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

	31 December 2009	31 December 2008
Property tax	811	934
Extraction tax	754	610
Unified social tax	750	841
Value added tax	617	1,748
Personal income tax (employees)	324	363
Tax penalties	26	179
Other taxes and accruals	229	257
	3,511	4,932

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

	Year ended 31 December 2009	Year ended 31 December 2008
Property tax	2,938	2,271
Other taxes and accruals	726	398
	3,664	2,669

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 in the amount of RR'mln 3,509 per annum. In addition, in accordance with the agreement dated 29 December 2006 and its subsequent amendments, the Company made fixed royalty payments to the Republic of Sakha (Yakutia) in the amount of RR'mln 481 in 2008.

During 2009, the Company accrued profit tax at the rate of 20 percent (year ended 31 December 2008: 24 percent). On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24 to 20 percent with effect from 1 January 2009. This tax rate was applied to determine the deferred tax balances as at 31 December 2009 and 31 December 2008.

Income tax expense / (benefit) comprise the following:

	Year ended 31 December 2009	Year ended 31 December 2008
Current tax expense	353	3,119
Deferred tax expense / (benefit)	3,020	(6,373)
Effect of reduction in tax rate	-	18
Adjustments recognised in the period for current tax of prior periods	(175)	-
	3,198	(3,236)

Profit / (loss) before taxation for financial reporting purposes is reconciled to tax expense / (benefit) as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Profit / (loss) before income tax	6,661	(36,003)
Theoretical tax charge / (benefit) at statutory rate of 20 percent thereon (31 December 2008: 24 percent)	1,332	(8,641)
Effect of reduction in tax rate to 20 percent	-	18
Tax effect of income not assessable for income tax purposes	(1,219)	(65)
Prior periods adjustments recognised in the current period	(175)	-
Unrecognised potential deferred tax assets relating to unused tax losses carry forwards (expiry date – 2019)	-	1,660
Tax effect of expenses and losses not deductible for income tax purposes	3,260	3,792
	3,198	(3,236)

(in millions of Russian roubles, unless otherwise stated)

Income not assessable for income tax purposes totalling RR'mln 6,096 for the year ended 31 December 2009 is presented by the difference between the amount of cash proceeds from disposal of ZAO "Geotransgaz" and OOO "Urengoyskaya Gazovaya Company" and the amount of net assets of the disposed entities at the date of transaction (see note 5). This transaction was performed by the Group's subsidiary registered at British Virgin Islands, where the profit tax rate is zero percent.

Expenses and losses not deductible for income tax purposes include mostly social expenses, non-deductible wages, salaries and other staff costs and impairment of goodwill arising from acquisition of OAO "NNGK Sakhaneftegaz" recognised in 2008 (see note 22).

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 2009	Tax effect of movement in temporary differences		31 December 2008	Tax effect of movement in temporary differences		31 December 2007
		Charged to profit or loss			Charged to profit or loss		
		Disposal of subsidiaries (see note 5)	At 20 percent		Effect from tax rate change	At 24 percent	
Deferred tax liabilities							
Property, plant and equipment	5,467	(207)	457	5,217	(1,044)	124	6,137
Inventories	4,115	-	1,877	2,238	(448)	598	2,088
Long-term investments	238	-	(39)	277	(55)	9	323
Deferred tax assets							
Derivative financial instruments	(2,035)	-	2,455	(4,490)	898	(6,613)	1,225
Accrual for employee benefits	(961)	-	71	(1,032)	207	59	(1,298)
Exploration costs written off	(370)	-	(17)	(353)	71	(20)	(404)
Provision for pension obligations	(619)	-	(39)	(580)	116	(225)	(471)
Write-down of inventories	(1,057)	50	(102)	(1,005)	201	(158)	(1,048)
Impairment of accounts receivable	(728)	-	(433)	(295)	59	(204)	(150)
Asset for tax losses carry-forwards	(1,240)	-	(1,240)	-	-	-	-
Other deductible temporary differences	(36)	-	31	(67)	13	57	(137)
Net deferred tax liability / (asset)	**2,774**	**(157)**	**3,021**	**(90)**	**18**	**(6,373)**	**6,265**

As at 31 December 2009 the Group recognised deferred tax assets for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. These tax losses carry-forwards expire in 2020.

At 31 December 2009 and 2008, the Group had not recorded a deferred tax liability in respect to taxable temporary differences of RR'mln 2,565 and RR'mln 2,510, 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 2009	Year ended 31 December 2008
Revenue from diamond sales:		
Export	33,425	38,880
Domestic	26,432	35,292
Revenue from diamonds for resale	6,483	4,072
	66,340	78,244
Other revenue:		
Transport	4,142	4,404
Social infrastructure	2,043	1,842
Construction	1,620	1,096
Trading	710	757
Gas and gas condensate	85	701
Other	3,009	4,038
	77,949	91,082

Export duties totalling RR'mln 2,184 for the year ended 31 December 2009 (year ended 31 December 2008: RR'mln 2,243) were netted against revenues from export of diamonds.

(in millions of Russian roubles, unless otherwise stated)

Revenue from diamonds for resale includes sales of diamonds purchased back from OOO "Interdiam" to third parties totalling RR'mln 5,187 (see note 10).

In the year ended 31 December 2009 sales of diamonds to the parties under control of the Government accounted for 38 percent of the Group's revenue (year ended 31 December 2008: 15 percent), see note 27. In the year ended 31 December 2008 the Group had one more customer accounted for more than 10 percent of the Group's revenue – OOO "Interdiam", see note 10.

19. COST OF SALES

	Year ended 31 December 2009	Year ended 31 December 2008
Wages, salaries and other staff costs	16,061	18,737
Depreciation	8,535	8,897
Fuel and energy	7,149	9,075
Cost of diamonds for resale	6,658	3,415
Extraction tax	6,618	5,924
Materials	3,870	5,766
Services	2,743	3,720
Transport	1,416	1,696
Other	282	158
Movement in inventory of diamonds, ores and concentrates	(9,643)	(4,833)
	43,689	52,555

Wages, salaries and other staff costs include unified social tax in the amount of RR'mln 2,244 (year ended 31 December 2008: RR'mln 2,844).

Depreciation totalling RR'mln 1,271 (year ended 31 December 2008: RR'mln 1,246) and staff costs totalling RR'mln 2,832 (year ended 31 December 2008: RR'mln 2,979) were incurred by the Group's construction divisions and were capitalised in the year.

Cost of diamonds for resale includes cost of diamonds purchased back from OOO "Interdiam" and subsequently sold to third parties totalling RR'mln 5,075 (see note 10).

20. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2009	Year ended 31 December 2008
Services and other administrative expenses	2,435	3,580
Wages, salaries and other staff costs	1,965	2,714
Impairment of accounts receivable (see note 10)	3,916	85
	8,316	6,379

Wages, salaries and other staff costs include unified social tax in the amount of RR'mln 112 (year ended 31 December 2008: RR'mln 163).

21. OTHER OPERATING INCOME

	Year ended 31 December 2009	Year ended 31 December 2008
Net income from cross currency interest rate swap contracts (see note 6)	789	-
Other	341	573
	1,130	573

(in millions of Russian roubles, unless otherwise stated)

22. OTHER OPERATING EXPENSES

	Year ended 31 December 2009	Year ended 31 December 2008
Taxes other than income tax, extraction tax and unified social tax (note 17)	3,664	2,669
Exploration expenses	2,844	4,520
Social costs	2,075	3,306
Loss on disposal of property, plant and equipment	1,026	890
Impairment of property, plant and equipment (see note 8)	151	520
Impairment of goodwill arising from the acquisition of OAO "NNGK Sakhaneftegaz" (see note 5)	-	1,531
Net loss from cross currency interest rate swap contracts (see note 6)	-	1,040
Other	2,375	1,516
	12,135	15,992

Social costs consist of:

	Year ended 31 December 2009	Year ended 31 December 2008
Maintenance of local infrastructure	1 095	1,620
Hospital expenses	351	227
Charity	227	774
Education	93	165
Other	309	520
	2,075	3,306

23. FINANCE INCOME

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	1,053	1,696
Exchange gains	5,085	3,360
	6,138	5,056

24. FINANCE COSTS

	Year ended 31 December 2009	Year ended 31 December 2008
Interest expense:		
Bank loans	16,577	7,397
Eurobonds	1,425	1,316
Commercial paper	847	272
European commercial paper	1,052	749
Other	122	78
Unwinding of discount of provision for land recultivation (see note 14)	57	14
Exchange loss	3,337	17,812
	23,417	27,638

(in millions of Russian roubles, unless otherwise stated)

25. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December 2009	Year ended 31 December 2008
Profit / (loss) before income tax	6,661	(36,003)
Adjustments for:		
Share of net profit of associates (note 5)	(559)	(676)
Interest income (note 23)	(1,053)	(1,696)
Interest expense (note 24)	20,080	9,826
Loss on disposal of property, plant and equipment (note 22)	1,026	890
Impairment of property, plant and equipment (note 22)	151	520
Net (gain) / loss from cross currency interest rate swap contracts (note 21,22)	(789)	1,040
Impairment of goodwill arising from the acquisition of OAO "NNGK Sakhaneftegaz" (note 22)	-	1,531
Gain on disposal of subsidiaries (note 5)	(2,438)	-
Net (gain) / loss from foreign exchange forward contracts (note 6)	(10,686)	25,077
Depreciation (note 19)	8,535	8,897
Adjustment for inventory used in construction	(1,744)	(2,031)
Adjustments for non-cash financing activity (note 28)	(16)	(141)
Net (payments) / proceeds from exercising of foreign exchange forward contracts (note 6)	(4,362)	1,377
Net (payments) / proceeds from exercising of cross currency interest rate swap contracts (note 6)	(120)	56
(Payments to) / receipts from restricted cash account (note 7)	(76)	102
Unrealised foreign exchange effect on non-operating items	(2,652)	15,958
Net operating cash flow before changes in working capital	11,958	24,727
Net increase in inventories	(12,663)	(9,398)
Net decrease / (increase) in trade and other receivables, excluding dividends receivable and receivables for sale of treasury shares	17,696	(12,746)
Net (decrease) / increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	(1,909)	3,376
Net (decrease) / increase in taxes payable other than income tax	(790)	2,459
Cash generated from operations	**14,292**	**8,418**
Income tax paid	(306)	(3,291)
Net cash inflows from operating activities	**13,986**	**5,127**

26. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment of the Russian Federation

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

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

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

(b) Taxes

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

At 31 December 2009 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 December 2009 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 December 2009 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 2009.

(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

At 31 December 2009, the Group has contractual commitments for capital expenditures of approximately RR'mln 3,496 (31 December 2008: RR'mln 10,622).

(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 December 2009 the amount of guarantee amounted to RR'mln 1,546 (US$'mln 45 plus 13.6 percent per annum). As at 31 December 2009 the maximum exposure of the Group to credit risk in relation to this financial guarantee is equal to the amount of the guarantee.

(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 December 2009 and 31 December 2008. 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.

27. 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 December 2009 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 December 2009 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 10 and 17. Tax transactions are disclosed in the statement of comprehensive income, cash flow statement and in notes 17, 18, 19, 22 and 25.

(in millions of Russian roubles, unless otherwise stated)

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 2009 the accounts payable to the parties under Governmental control totalled RR'mln 3,091 (31 December 2008: RR'mln 3,092). As at 31 December 2009 the accounts receivable from the parties under Governmental control (excluding loans issued to these parties) totalled RR'mln 572 (31 December 2008: RR'mln 383). As at 31 December 2009 and 31 December 2008 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 2009 and 31 December 2008 the Group had the following significant transactions with parties under Governmental control:

	Year ended 31 December 2009	Year ended 31 December 2008
Sales of diamonds	29,674	13,244
Other sales	1,769	1,333
Electricity and heating purchases	4,135	4,330
Other purchases	990	1,301

In the year ended 31 December 2009 sales of diamonds to the parties under control of the Government included sales to the State Depository for Precious Metals and Stones of the Russian Federation in the amount of RR'mln 27,060 (year ended 31 December 2008: RR'mln 6,831).

As at 31 December 2009 and 31 December 2008 the amount of loans received by the Group from banks under Governmental control was as follows:

	31 December 2009	31 December 2008
Long-term bank loans		
US$ denominated fixed rate	21,708	5,364
RR denominated floating rate	1,556	3,193
RR denominated fixed rate	44,190	44,992
	67,454	53,549
Short-term bank loans		
US$ denominated fixed rate	13,459	14,141
RR denominated floating rate	-	2,605
RR denominated fixed rate	-	600
	13,459	17,346
	80,913	**70,895**

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

	31 December 2009	31 December 2008
Long-term bank loans		
US$ denominated fixed rate	14.5%	10.9%
RR denominated floating rate	13.8%	28.3%
RR denominated fixed rate	15.3%	15.2%
Short-term bank loans		
US$ denominated fixed rate	9.9%	10.0%
RR denominated floating rate	-	27.1%
RR denominated fixed rate	-	18.5%

In the year ended 31 December 2009 interest expense accrued in respect to the loans received by the Group from entities under Governmental control totalled RR'mln 10,473 (year ended 31 December 2008: RR'mln 3,077).

As at 31 December 2009 the amount of loans issued by the Group to the entities under Governmental control totalled RR'mln 726 (31 December 2008: RR'mln 843). These loans are short-term, denominated in Russian Roubles, the average effective interest rate on these loans is 7.8 percent (31 December 2008: 15.0 percent). In the year ended 31 December 2009 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR'mln 51 (year ended 31 December 2008: RR'mln 141).

(in millions of Russian roubles, unless otherwise stated)

Key management compensation

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

The Management Committee consists of 20 members, two of whom are also members of the Supervisory Council. Management Committee members are entitled to salary, bonuses, voluntary medical insurance 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 year ended 31 December 2009 totalling RR'mln 202 (year ended 31 December 2008: RR'mln 520).

Associates

Significant transactions with associates are summarised as follows:

Long-term accounts receivable	31 December 2009	31 December 2008
"Escom-ALROSA Ltd", loan issued and interest receivable (see note 10)	-	2,990
	-	2,990

In the year ended 31 December 2009 the Group earned interest income in respect to the loan issued for "Escom-ALROSA Ltd" totalling RR'mln 157 (year ended 31 December 2008: RR'mln 188).

Current accounts receivable	31 December 2009	31 December 2008
"Catoca Mining Company Ltd.", dividends receivable	478	402
ZAO "PIC Orel Almaz", receivables for supplied diamonds	-	162
"LUO Camachia-Camagico"	-	73
"Escom-ALROSA Ltd", current portion of the loan issued (see note 10)	-	592
Other	26	67
Less: provision for bad debt	(26)	(188)
	478	1,108

As at 31 December 2009 and 31 December 2008 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.

28. SIGNIFICANT NON-CASH TRANSACTIONS

	Year ended 31 December 2009	Year ended 31 December 2008
Non-cash financing activities:		
Commercial paper issuance	343	401
Commercial paper and loans redemption	(359)	(542)
	(16)	(141)

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.

(in millions of Russian roubles, unless otherwise stated)

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

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

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.

Year ended 31 December 2009	Diamonds segment	Transportation	Social infrastructure	Construction activity	Trading	Electricity production	Other activities	Total
Sales	68,524	4,189	2,293	1,841	1,398	2,060	4,361	84,666
Intersegment sales	-	(105)	-	-	(419)	(1,546)	(399)	(2,469)
Cost of sales, incl.	29,987	4,387	5,471	1,597	573	1,006	5,040	48,061
Depreciation	7,087	528	591	63	2	312	225	8,808
Gross margin	**38,537**	**(198)**	**(3,178)**	**244**	**825**	**1,054**	**(679)**	**36,605**

Year ended 31 December 2008	Diamonds segment	Transportation	Social infrastructure	Construction activity	Trading	Electricity production	Other activities	Total
Sales	81,205	4,553	2,115	1,096	1,678	1,467	4,567	96,681
Intersegment sales	-	(148)	-	-	(625)	(1,099)	(366)	(2,238)
Cost of sales, incl.	31,137	4,446	6,059	921	924	717	5,671	49,875
Depreciation	6,261	379	477	83	1	173	358	7,732
Gross margin	**50,068**	**107**	**(3,944)**	**175**	**754**	**750**	**(1,104)**	**46,806**

Reconciliation of sales is presented below:

	Year ended 31 December 2009	Year ended 31 December 2008
Segment sales	**84,666**	**96,681**
Elimination of intersegment sales	(2,469)	(2,237)
Adjustment to fair value [1]	-	(718)
Reclassification of custom duties [2]	(2,184)	(2,243)
Other adjustment and reclassifications	(2,064)	(401)
Sales as per Statement of Comprehensive Income	**77,949**	**91,082**

[1] Adjustment to fair value – the discounting of receivables from OOO "Interdiam", with a corresponding debit recorded as a reduction of the respective revenue figure

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

(in millions of Russian roubles, unless otherwise stated)

Reconciliation of cost of sales including depreciation is presented below:

	Year ended 31 December 2009	Year ended 31 December 2008
Segment cost of sales	**48,061**	**49,875**
Adjustment for depreciation of property, plant and equipment	(273)	1,185
Elimination of intersegment purchases	(2,469)	(2,237)
Accrued provision for pension obligation [1]	193	939
Reclassification of extraction tax [2]	5,947	5,272
Adjustment for inventories [3]	(3,629)	1,466
Accrual for employee flights and holidays [4]	(356)	(389)
Other adjustments	(1,064)	(1,092)
Reclassification of exploration expenses [5]	(2,381)	(3,055)
Other reclassifications	(340)	591
Cost of sales as per Statement of Comprehensive Income	**43,689**	**52,555**

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

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

	Sales		Non-current assets	
	Year ended 31 December 2009	Year ended 31 December 2008	31 December 2009	31 December 2008
Russian Federation	42,667	47,821	170,259	194,633
Belgium	25,630	22,754	-	-
India	4,066	9,568	-	-
Israel	3,476	6,693	126	127
Switzerland	807	1,468	4	1,385
China	468	1,693	-	-
Angola	148	175	3,127	2,752
Other countries	687	910	143	190
Total	**77,949**	**91,082**	**173,659**	**199,087**

30. EVENTS AFTER THE REPORTING PERIOD

Borrowings

During the period 1 January–23 June 2010 the Group received US$ denominated fixed rate loans from several banks in the amount of RR'mln 76,554 (US$'mln 2,556), including part which should be repaid during more than one year in the amount of RR'mln 23,062 (US$'mln 770). During the same period the Group repaid bank loans (including US$ denominated fixed rate and floating rate and RR denominated fixed loans) and European commercial paper in the amount of RR'mln 78,534 in accordance with the repayment schedules established by the respective loan agreements.

Dividends

In May 2010 the Company's Supervisory Council decided to recommend the annual shareholders' meeting which is scheduled for 26 June 2010 to approve dividends for the year ended 31 December 2009 in the amount of RR'mln 250 (RR 916.3 per share).

AK "ALROSA"

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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INDEPENDENT AUDITOR'S REPORT

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

1 We have audited the accompanying consolidated financial statements of Closed Joint Stock Company AK "ALROSA" and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated statement of income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
14 July 2009

(in millions of Russian roubles, unless otherwise stated)

Consolidated Balance Sheet

	Notes	31 December 2008	31 December 2007
Assets			
Non-current Assets			
Goodwill	5	1,439	1,439
Property, plant and equipment	8	178,074	155,696
Deferred tax assets	17	90	-
Investments in associates	5	1,813	1,613
Available-for-sale investments	5	512	786
Long-term accounts receivable	10	5,933	5,902
Restricted cash	7	31	133
Long-term deposits	7	11,285	-
Total Non-current Assets		**199,177**	**165,569**
Current Assets			
Inventories	9	32,307	22,208
Prepaid income tax		513	483
Current accounts receivable	10	25,509	12,564
Derivative financial instruments	6	-	5,106
Available-for-sale investments		-	12
Cash and cash equivalents	7	7,569	21,887
Total Current Assets		**65,898**	**62,260**
Total Assets		**265,075**	**227,829**
Equity			
Share capital	11	12,473	11,491
Share premium	11	10,431	-
Treasury shares	11	(24)	(16)
Deferred capital contribution	11	-	11,063
Retained earnings and other reserves		55,569	98,552
Equity attributable to shareholders of AK "ALROSA"		**78,449**	**121,090**
Non-Controlling Interest in Subsidiaries	11	**(431)**	**1,190**
Total Equity		**78,018**	**122,280**
Liabilities			
Non-current Liabilities			
Long-term debt	12	80,331	32,296
Provision for pension obligations	15	2,902	1,963
Other provisions	14	369	543
Deferred tax liabilities	17	-	6,265
Total Non-current Liabilities		**83,602**	**41,067**
Current Liabilities			
Short-term loans and current portion of long-term debt	13	54,068	49,452
Derivative financial instruments	6	22,444	-
Trade and other payables	16	19,942	11,876
Income tax payable		132	273
Other taxes payable	17	4,932	2,474
Dividends payable		1,937	407
Total Current Liabilities		**103,455**	**64,482**
Total Liabilities		**187,057**	**105,549**
Total Equity and Liabilities		**265,075**	**227,829**

Signed by the following members of management:

РОССИЙСКАЯ ФЕДЕРАЦИЯ • РЕСПУБЛИКА САХА (ЯКУТИЯ) • г. МИРНЫЙ • Акционерная Компания "АЛРОСА" (Закрытое акционерное общество)

Sergey A. Vybornov
President

Olga A. Lyashenko
Chief accountant

10 July 2009

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

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Income

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Sales	18	91,082	90,734
Cost of sales	19	(52,555)	(51,441)
Royalty	17	(3,990)	(4,816)
Gross profit		**34,537**	**34,477**
General and administrative expenses	20	(6,379)	(5,266)
Selling and marketing expenses		(1,759)	(1,722)
Net (loss) / gain from foreign exchange forward contracts	6	(25,077)	5,149
Other operating income	21	573	3,912
Other operating expenses	22	(15,992)	(12,120)
Operating (loss) / profit		**(14,097)**	**24,430**
Finance income	23	5,056	6,093
Finance costs	24	(27,638)	(7,470)
Share of net profit of associates	5	676	936
(Loss) / profit before income tax		**(36,003)**	**23,989**
Income tax benefit / (expense)	17	3,236	(7,805)
(Loss) / profit for the year		**(32,767)**	**16,184**
Attributable to:			
Equity holders of AK “ALROSA”		(32,598)	15,981
Non-controlling interest		(169)	203
(Loss) / profit for the year		**(32,767)**	**16,184**

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Net Cash Inflow from Operating Activities	25	**5,127**	**25,271**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(27,333)	(24,153)
Proceeds from sales of fixed assets		402	562
Acquisition of available-for-sale investments		(42)	(93)
Proceeds from sale of available-for-sale investments		21	982
Acquisition of non-controlling interest in subsidiaries		(441)	(3,257)
Execution of the call option related to acquisition of "Rolant Investments Ltd."		-	(8,217)
Proceeds from sale of gold mining operations		481	977
Net cash flow arising on disposal of subsidiary	5	-	257
Interest received		1,276	1,259
Transfer of cash on long-term deposit accounts		(11,285)	-
Dividends received from associates		660	632
Net Cash Used in Investing Activities		**(36,261)**	**(31,051)**
Cash Flows from Financing Activities			
Repayments of loans		(124,867)	(49,767)
Loans received		159,244	81,587
Distribution of retained earnings in favour of the Government of Russian Federation	11	(8,233)	-
Transaction costs relating to additional issue of shares	11	(170)	-
Interest paid		(9,010)	(6,123)
Purchase of treasury shares		(51)	(31)
Proceeds from sales of treasury shares		-	85
Dividends paid		(959)	(2,293)
Net Cash Inflow from Financing Activities		**15,954**	**23,458**
Net (Decrease) / Increase in Cash and Cash Equivalents		**(15,180)**	**17,678**
Cash and cash equivalents at the beginning of the year		21,887	4,209
Exchange gain on cash and cash equivalents		862	**-**
Cash and Cash Equivalents at the End of The Year		**7,569**	**21,887**

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Changes in Equity

	Attributable to shareholders of AK "ALROSA"									Non-controlling interest	Total equity
	Number of shares outstanding	Share capital	Share premium	Treasury shares	Deferred capital contribution	Other reserves	Retained earnings	Total		
Balance at 31 December 2006	**197,733**	**11,491**	**-**	**(130)**	**-**	**279**	**84,813**	**96,453**	**4,610**	**101,063**
Net gains arising from change in fair value of available-for-sale investments, net of income tax		-	-	-	-	329	-	329	-	**329**
Gain on disposal of available-for-sale investments recognised in the statement of income, net of income tax		-	-	-	-	(514)	-	(514)	-	**(514)**
Currency translation differences		-	-	-	-	(287)	-	(287)	-	**(287)**
Net loss recognised directly in equity		-	-	-	-	(472)	-	(472)	-	**(472)**
Profit for the year		-	-	-	-	-	15,981	15,981	203	**16,184**
Total recognised income for the year		-	-	-	-	(472)	15,981	15,509	203	**15,712**
Dividends (note 11)		-	-	-	-	-	(2,240)	(2,240)	-	**(2,240)**
Repayment of Grant		-	-	-	7,537	-	-	7,537	-	**7,537**
Reversal of provision for restoration liability		-	-	-	3,526	-	-	3,526	-	**3,526**
Disposal of treasury shares	1,987	-	-	114	-	-	191	305	-	**305**
Other changes in non-controlling interest (note 11)		-	-	-	-	-	-	-	(3,287)	**(3,287)**
Dividends paid by subsidiaries to minority shareholders (note 11)		-	-	-	-	-	-	-	(336)	**(336)**
Balance at 31 December 2007	**199,720**	**11,491**	**-**	**(16)**	**11,063**	**(193)**	**98,745**	**121,090**	**1,190**	**122,280**
Currency translation differences		-	-	-	-	440	-	440	-	**440**
Net income recognised directly in equity		-	-	-	-	440	-	440	-	**440**
Loss for the year		-	-	-	-	-	(32,598)	(32,598)	(169)	**(32,767)**
Total recognised loss for the year		-	-	-	-	440	(32,598)	(32,158)	(169)	**(32,327)**
Additional issue of shares (note 11)	72,726	982	10,431	-	(11,063)	-	-	350	-	**350**
Distribution of retained earnings in favor of the Government of Russian Federation (note 11)		-	-	-	-	-	(8,233)	(8,233)	-	**(8,233)**
Dividends (note 11)		-	-	-	-	-	(2,240)	(2,240)	-	**(2,240)**
Purchase of treasury shares	(140)	-	-	(8)	-	-	(43)	(51)	-	**(51)**
Purchase of non-controlling interest in OAO "Viluyskaya GES-3" (note 11)		-	-	-	-	(309)	-	(309)	(135)	**(444)**
Non-controlling interest in acquired net assets of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" (note 5)		-	-	-	**-**	**-**	**-**	**-**	(1,068)	**(1,068)**
Dividends paid by subsidiaries to minority shareholders (note 11)		-	-	-	**-**	**-**	**-**	**-**	(249)	**(249)**
Balance at 31 December 2008	**272,306**	**12,473**	**10,431**	**(24)**	**-**	**(62)**	**55,631**	**78,449**	**(431)**	**78,018**

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). 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 2008 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). Information about the additional issue of shares of the Company is presented in note 11.

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

As a result of a significant downturn at the world diamonds market in the fourth quarter 2008 and depreciation of the Russian Rouble against US Dollar, the financial and liquidity position of the Group deteriorated. As at 31 December 2008 the Group's current liabilities exceeded its current assets by RR'mln 37,557 principally as a result of loans and borrowings due to be repaid during one year after the balance sheet date and decrease of fair value of foreign exchange forward contracts. In the year ended 31 December 2008 the Group incurred loss related to revaluation of foreign exchange forward contracts totalling RR'mln 25,077 (see note 6) and exchange loss totalling RR'mln 17,812 (see note 24). Also in the year ended 31 December 2008 the amount of the Group's net cash inflows from operating activity decreased by RR'mln 20,144 as compared with the year ended 31 December 2007.

The Government of the Russian Federation, which is a controlling shareholder of the Group, considers it as a strategic enterprise; accordingly, in December 2008 the Group was included in the list of 295 strategic entities to which the Government is going to provide support during the economic downturn. The Group has access to short-term and medium-term financing provided by the banks controlled by the Government to repay the Group's existing loans. In addition the State Depository for Precious Metals and Stones of the Russian Federation committed to purchase diamonds from the Group during 2009 for a total amount of up to US$'mln 1,000. Besides the measures of support undertaken by the Government, currently the Group is conducting negotiations and investigating opportunities to sell certain of its non-core assets; also in 2009 the Group implemented policy for reduction and optimisation of its expenses, which includes reduction of certain social expenses and short-term employee's benefits, suspension of mining works at certain small diamond deposits with relatively low profitability, optimisation of procurement policy and construction plans. Management believes that the Group is able to continue its activity in the foreseeable future. Accordingly, management believes that a going concern basis for the preparation of these consolidated financial statements is appropriate. However, in the longer term the ability of the Group to continue as a going concern will depend on the recovery of the world diamonds market, ability to continue financing its capital investments program and refinance its debts.

2. 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 revaluation of available-for-sale investments and financial assets held-for-trading. 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, except for early adoption of the revised IAS 27 and IFRS 3 (refer to notes 2 (b) and (c)).

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 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 balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS

29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 29.38 and 24.55 as at 31 December 2008 and 31 December 2007, respectively. The official Euro to RR exchange rates as determined by the Central bank of the Russian Federation were 41.44 and 35.93 as at 31 December 2008 and 31 December 2007, respectively.

(b) Recent accounting pronouncements

In 2008 the Group has adopted all standards, amendments and interpretations which were effective as at 1 January 2008 and which are relevant to its operations.

The adoption of new interpretations IFRIC 11 “IFRS 2 - Group and Treasury Share Transactions, IFRIC 12 “Service Concession Arrangements” and IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” did not have any impact on the consolidated financial statements of the Group.

In 2008 the Group adopted the amendment to IAS 39 “Financial instruments: Recognition and measurement”, which is effective from 1 July 2008. The amendment allows the reclassification of certain financial assets previously classified as “held for trading” or “available for sale” to another category under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as “at fair value through profit or loss” under the fair value option are not eligible for this reclassification. Reclassification cannot be applied retrospectively before 1 July 2008. This amendment did not have any impact on the consolidated financial statements of the Group.

In 2008 the Group early adopted the revised IAS 27 “Consolidated and Separate Financial Statements” and the revised IFRS 3 “Business Combinations”.

The revised IAS 27 requires an entity to attribute total recognised income and expense to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the previous version of the Standard required the excess losses to be allocated to the owners of the parent in most cases). The corresponding changes were made to the description of the “minority interest” category in these financial statements (see note 2 (c)). The revised Standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value.

The revised IFRS 3 allows entities to choose to measure non-controlling interests using the method prescribed by the previous version of IFRS 3 (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill should be measured as the difference at the acquisition date between the fair value of any investment in the business held before acquisition, the consideration transferred and the net assets acquired. Accordingly, goodwill acquired in a business combination achieved in stages was determined in these consolidated financial statements at the date of acquisition rather than at the date of each exchange transaction. Acquisition-related costs should be accounted for separately from the business combination and therefore recognised as expenses rather than being included in goodwill. An acquirer shall have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date should be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill.

The following new Standards and amendments to Standards are not yet effective and have not been applied in preparing these consolidated financial statements:

- IFRS 8 “Operating Segments”, which is effective for annual periods beginning on or after 1 January 2009. The Standard replaces IAS 14 “Segment reporting”. The Standard requires an entity to adopt the “management approach” to reporting of performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the income statement and balance sheet. The IFRS therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet. The Group is currently assessing the impact of the application of IFRS 8 on its consolidated financial statements.

- Amendment to IAS 23 “Borrowing costs”, which is effective for annual periods beginning on or after 1 January 2009. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing what impact the amendment to IAS 23 will have on its consolidated financial statements.

- Amendment to IAS 1 "Presentation of Financial Statements", which is effective for annual periods beginning on or after 1 January 2009. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements, but to have no impact on the recognition or measurement of specific transactions and balances.

- Amendment to IAS 32 and IAS 1 ("Puttable financial instruments and obligations arising on liquidation"), which is effective from 1 January 2009. The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. Management does not expect the amendment to materially affect the Group's consolidated financial statements.

- Amendment to IFRS 2 "Share-based Payment" ("Vesting Conditions and Cancellations"), which is effective for annual periods beginning on or after 1 January 2009. The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The application of the amended standard is not expected to materially affect the Group's financial statements.

- Amendment to IFRS 1 and IAS 27 ("Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"), which is effective for annual periods beginning on or after 1 January 2009. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognized in profit or loss rather than as a recovery of the investment. The amendments will not have a material impact on the Group's consolidated financial statements.

- 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 application of this amendment is not expected to materially affect the Group's consolidated financial statements.

- Amendment to IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7"), which is effective for annual periods beginning on or after 1 January 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

- Amendments to IFRIC 9 and IAS 39 "Embedded Derivatives", which are effective for annual periods ending 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.

- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements except for reclassification of a portion of forward foreign exchange contracts, which is expected to be settled after 12 months from the balance sheet date, to non-current liabilities or assets.

- 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 Group does not expect the amendments to have any material effect on its consolidated financial statements.
- 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 Group has not early adopted the following new interpretations:

- IFRIC 13 “Customer Loyalty Programmes” (“IFRIC 13”), which is effective for annual periods beginning on or after 1 July 2008. IFRIC 13 clarifies that where goods and services are sold with a customer loyalty incentive, the arrangement is a multi-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair value.
- IFRIC 15 “Agreements for the Construction of Real Estate” (“IFRIC 15”), which is effective for annual periods beginning on or after 1 January 2009. IFRIC 15 addresses diversity in accounting for real estate sales as some entities recognise revenue in accordance with IAS 18 “Revenue” (when the risks and rewards in the real estate are transferred) and others recognise revenue as the real estate is developed in accordance with IAS 11 “Construction Contracts”. The interpretation clarifies which standard (IAS 18 or IAS 11) should be applied to particular transactions and is likely to mean that IAS 18 will be applied to a wider range of transactions. Entities that have previously recognised revenue from residential real estate sales under IAS 11 will be the most significantly affected and will probably be required to apply IAS 18.
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (“IFRIC 16”) which is effective for annual periods beginning on or after 1 October 2008. This interpretation relates to the criteria required to apply hedge accounting in hedge of a net investment in a foreign operation in accordance with IAS 39.
- 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.
- 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 Group is currently assessing what impact the new interpretations will have on its 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 exercise control over the operations. 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 purchase 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 difference at the acquisition date between the fair value of any investment in the subsidiary held before acquisition, the consideration transferred and the net assets acquired represents goodwill. Any excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

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, over which the Group has a significant influence but not a control, are accounted for using the equity method. Significant influence is usually evidenced by the Group owning, directly or indirectly, between 20 percent and 50 percent of the voting share capital.

The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. 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.

(d) 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 statement of income 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 research and development expenses within operating expenses.

Gains and losses arising from the disposal of property, plant and equipment are included in the consolidated statement of income as incurred.

At each reporting date, 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 statement of income. 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.

(in millions of Russian roubles, unless otherwise stated)

Depreciation and amortisation

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

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 each reporting date management uses information with respect to volumes of diamonds containing ore reserves approved by the Ministry of Natural Resources of Russia. These quantities do not always correspond directly to generally accepted international categories of reserves but represent reserves for which geological and engineering data demonstrate with reasonable certainty to be recoverable in the future years from existing areas of interest under existing economic and operating conditions. Depreciation of assets not directly associated with production 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
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 6.8 percent in the year ended 31 December 2008 (year ended 31 December 2007: 7.6 percent).

Local infrastructure assets

Local infrastructure assets constructed or purchased by the Group are included in the 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.

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 statement of 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.

(e) *Non-current assets classified as held for sale*

Non-current assets are classified in the balance sheet as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period's balance sheet are not reclassified or re-presented in the comparative balance sheet to reflect the classification at the end of the current period.

Held for sale property, plant and equipment are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated. Reclassified financial instruments are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

(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 each balance sheet date.

(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) Investments

The Group classifies its investments into the following categories: trading, held-to-maturity or available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with a fixed maturity quoted in an active market that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets except for amounts maturing within twelve months from the reporting date. During the years ended 31 December 2008 and 31 December 2007, the Group did not hold any investments classified as held-to-maturity or trading (except for derivative financial instruments held for trading as described further below). Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has expressed the intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and reviews such designation on a regular basis.

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 fair value reserve in equity in the period in which they arise. Realised gains and losses from the disposal of available-for-sale investments or impairment losses, if any, are included in the consolidated statement of income in the period in which they arise.

Available-for-sale investments principally comprise non-marketable securities, which are not publicly traded or listed on the Russian 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 each balance sheet date. 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.

Sale and repurchase agreements

Sale and repurchase agreements are treated as secured financing transactions. Investments sold under sale and repurchase agreements are not derecognised. The corresponding liability is presented within amounts due to banks or other borrowed funds.

(i) Derivative financial instruments

As part of trading activities the Group is also party to derivative financial instruments, primarily forward foreign exchange contracts. The Group's policy is to measure these instruments at fair value, with resultant gains or losses being reported within the consolidated statement of income. Derivatives are not accounted for as hedges.

(j) 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.

(k) Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the balance sheet date. The income tax charge (benefit) comprises current tax and deferred tax and is recognised in the income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, 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. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date 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 balance sheet date. 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 balance sheet date 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 balance sheet date.

(l) Foreign currencies

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at 31 December 2008 and 31 December 2007, are translated into Russian Roubles at the official exchange rate prevailing at that 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 consolidated statement of income.

The balance sheets of foreign subsidiaries are translated into Russian Roubles at the exchange rate prevailing at the respective reporting dates. Statements of operations of foreign entities are translated at the average exchange rate for the operating period. Exchange differences arising from the translation of the net assets of foreign subsidiaries are recognised as translation differences and included in the translation reserve in equity.

(m) Revenue recognition

Revenues are recognised when goods are shipped to the customer, 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 for "bill and hold" sales, in which delivery of goods is delayed at the buyer's request but the buyer takes title and accepts billing, is recognised, provided:
- it is probable that delivery will be made;
- the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognised;
- the buyer specifically acknowledges the deferred delivery instructions; and
- the usual payment terms apply.

Revenue is not recognised when there is simply an intention to acquire the goods in time for delivery.

Revenue from rendering of transport services is recognised in 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.

(n) Measurement of trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method.

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.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the statement of income.

(o) 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 balance sheet 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.

(p) 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 maturity period of the borrowings. Borrowing costs (the interest) are expensed as incurred.

(q) 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.

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 income so as to spread the regular cost over the service lives of employees. 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 value of plan assets or 10 percent of the defined benefit obligations are charged or credited to the statement of income over the employees' expected average remaining working lives.

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 balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. The Group contributes funds to the Pension Fund "Almaznaya Osen", which invests them in governmental securities and other financial instruments. These investments, which represent the majority of assets of 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 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.

(r) Social costs

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

(s) 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 operating, investing and financing activities components in the accompanying consolidated statement of cash flows.

(t) 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. The gains (losses) arising from treasury share transactions are recognised as a movement in the consolidated statement of changes in equity, net of associated costs including taxation.

Dividends

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

(u) Segment reporting

Business segments (primary segments) provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments (secondary segments) provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

(v) 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 financial statements preparation and the reported amounts of revenues and expenses during the reporting year. Actual results may differ from such estimates. In particular, information about significant areas of estimation and critical judgments in applying accounting policies made by management in preparing these 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 on 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.

The information about impairment test of its property, plant and equipment conducted by the Group as at 31 December 2008 and the sensitivity of its results to assumptions used are disclosed in note 8.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (see note 26).

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 at insignificant additional costs. 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 2008, 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 670 (year ended 31 December 2007 – RR'mln 955) lower / higher.

Classification of production licenses. Management treats cost of production licenses as an integral part of acquisition cost of tangible mining properties, i.e. land where the respective area of interest is located; accordingly, production licenses are included in property, plant and equipment in these consolidated financial statements.

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 in part 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 uses derivative financial instruments to manage its risk exposures (primarily foreign exchange risk).

Cash flow and fair value interest rate risk. The Group's principal interest rate risk arises from interest-bearing long-term cash and cash equivalents and long-term and short-term borrowings. Borrowings issued at variable rates and cash deposits at the refinancing rate of the Central Bank of the Russian Federation expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2008 and 2007, the Group's borrowings at variable rates were denominated in US dollars and Russian Roubles (see notes 12 and 13).

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 the Group entered into US$ / RR cross currency interest rate swap transactions (see note 6). The Group currently does not use derivative instruments to hedge its fair value interest rate risk.

At 31 December 2008, if the refinancing rate of the Central Bank of the Russian Federation had been 30 percent higher/lower with all other variables held constant, post-tax profit for the year would have been RR'mln 276 (at 31 December 2007 - nil) higher/lower, as result of higher/lower interest income on long-term deposits.

(in millions of Russian roubles, unless otherwise stated)

At 31 December 2008, 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 would have been RR'mln 41 (at 31 December 2007 - RR'mln 36) lower/higher, mainly as result of higher/lower interest expense on floating rate borrowings.

At 31 December 2008, if interest rates on Russian Roubles-denominated borrowings had been 30 percent higher/lower with all other variables held constant, post-tax profit for the year would have been RR'mln 266 (at 31 December 2007 - RR'mln 14) 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. The Group manages its foreign exchange risk arising from future sale transactions adjusted for other transactions (foreign currency denominated borrowings and purchases) primarily using forward contracts (see note 6). The Group does not account for these derivative financial instruments as hedges.

The table below summarised the Group's exposure to foreign currency exchange rate risk at the balance sheet date:

	US Dollar		**Euro**		**Other foreign currency**	
	31 December		**31 December**		**31 December**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Assets						
Cash and cash equivalents	1,029	8,456	29	21	167	83
Trade and other receivables	5,325	4,692	367	386	1	-
Derivative financial instruments	-	5,106	-	-		-
	6,354	**18,254**	**396**	**407**	**168**	**83**
Liabilities						
Trade and other payables	870	510	32	95	-	-
Borrowings	63,055	72,568	181	287	-	-
Derivative financial instruments	22,444	-	-	-	-	-
	86,369	**73,078**	**213**	**382**	**-**	**-**

At 31 December 2008, if the Russian Rouble had weakened / strengthened by 20 percent against the US dollar with all other variables held constant, post-tax profit for the year would had been RR'mln 19,138 (at 31 December 2007 – RR'mln 19,964) 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 2008, if the Russian Rouble had weakened/strengthened by 20 percent against the Euro with all other variables held constant, post-tax profit for the year would had been RR'mln 56 (at 31 December 2007 – RR'mln 4) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade and other receivables.

Equity investments price risk. The Group is exposed to movements in the equity securities prices because of available-for-sale investments held by the Group. The major part of available-for-sale investments held by the Group has no active market. To manage price risk arising from available-for-sale investments, the Group diversifies its investment portfolio.

At 31 December 2008, if the prices of available-for-sale investments held by the Group had been 20 percent higher/lower with all other variables held constant, its equity would have been RR'mln 102 (at 31 December 2007 – RR'mln 157) higher/lower and there would have been no impact on post-tax profit.

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 issuing 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.

(in millions of Russian roubles, unless otherwise stated)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

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 balance sheet to contractual maturity date.

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 years and thereafter
31 December 2008					
Borrowings	66,985	54,344	9,157	15,083	18,205
Derivative financial instruments	6,872	10,782	10,969	-	-
Trade payables	6,749	-	-	-	-
Accounts payable of OAO "NNGK Sakhaneftegaz" to the companies of former "YUKOS" Group	3,688	-	-	-	-
Current accounts of third parties in OOO "MAK-Bank"	1,090	-	-	-	-
Interest payable	790	-	-	-	-
Payables to associates	91	-	-	-	-
Other payables and accruals	570	-	-	-	-
	86,835	**65,126**	**20,126**	**15,083**	**18,205**
31 December 2007					
Borrowings	52,273	13,713	2,499	2,679	22,148
Trade payables	3,728	-	-	-	-
Current accounts of third parties in OOO "MAK-Bank"	658	-	-	-	-
Interest payable	565	-	-	-	-
Payables to associates	89	-	-	-	-
Other payables and accruals	508	-	-	-	-
	57,821	**13,713**	**2,499**	**2,679**	**22,148**

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 on the balance sheet for borrowings and derivative financial instruments.

In order to meet the liquidity requirements of the Group increased as a result of the recent downturn at the world diamonds market, management relies on the ability of the Group to raise funds from the institution controlled by the Russian Government. Besides that management is also investigating opportunities to sell certain non-core assets of the Group and implementing policy for optimisation of its expenses (see note 1).

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.

The Group is subject to external capital requirements imposed by banks on certain loans, which require mostly maintaining the net debt / EBITDA, gearing and EBITDA / interest expense ratios at the specified levels. At 31 December 2008 the Group breached requirements relating to certain financial ratios of the long-term loan of RR'mln 3,966 (see note 12). During 2008 the Group complied with external capital requirements imposed by banks on all other loans and borrowings.

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 balance sheet, less cash and cash equivalents and long-term deposits. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

(in millions of Russian roubles, unless otherwise stated)

The gearing ratios at 31 December 2008 and 31 December 2007 were as follows:

	31 December 2008	31 December 2007
Total borrowings	134,399	81,748
Less: cash and cash equivalents and long-term deposits	(18,854)	(21,887)
Net debt	115,545	59,861
Total equity	78,018	122,280
Total capital	193,563	182,141
Gearing ratio	60%	33%

4. FINANCIAL INSTRUMENTS BY CATEGORY

ASSETS	Loans and receivables		Available for sale		Assets at fair value through the profit and loss-held for trading		Total	
	31 December		31 December		31 December		31 December	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Non-current assets								
Restricted cash	31	133	-	-	-	-	31	133
Long-term deposits	11,285	-	-	-	-	-	11,285	-
Available-for-sale investments	-	-	512	786	-	-	512	786
Receivables from associates	2,990	2,734	-	-	-	-	2,990	2,734
Loans issued	1,616	1,303	-	-	-	-	1,616	1,303
Notes receivable	636	654	-	-	-	-	636	654
Other long-term receivables	8	24	-	-	-	-	8	24
	16,566	4,848	512	786	-	-	17,078	5,634
Current assets								
Trade receivables for supplied diamonds	12,787	65	-	-	-	-	12,787	65
Loans issued	4,508	4,063	-	-	-	-	4,508	4,063
Receivables from associates	1,108	486	-	-	-	-	1,108	486
Notes receivable	168	922	-	-	-	-	168	922
Receivables for sale of gold mining operations	-	555	-	-	-	-	-	555
Receivables for sale of treasury shares	251	251	-	-	-	-	251	251
Other receivables	3,355	2,289	-	-	-	-	3,355	2,289
Derivative financial instruments	-	-	-	-	-	5,106	-	5,106
Available-for-sale investments	-	-	-	12	-	-	-	12
Cash and cash equivalents	7,569	21,887	-	-	-	-	7,569	21,887
	29,746	30,518	-	12	-	5,106	29,746	35,636
	46,312	**35,366**	**512**	**798**	**-**	**5,106**	**46,824**	**41,270**

LIABILITIES	Liabilities at fair value through the profit and loss-held for trading		Liabilities at amortised cost		Total	
	31 December		31 December		31 December	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Non-current liabilities						
Long-term debt	-	-	80,331	32,296	80,331	32,296
	-	-	80,331	32,296	80,331	32,296
Current liabilities						
Short-term loans and current portion of long-term debt	-	-	54,068	49,452	54,068	49,452
Derivative financial instruments	22,444	-	-	-	22,444	-
Trade payables	-	-	6,749	3,728	6,749	3,728
Accounts payable of OAO "NNGK Sakhaneftegaz" to the companies of former "YUKOS" Group	-	-	3,688	-	3,688	-
Current accounts of third parties in OOO "MAK-Bank"	-	-	1,090	658	1,090	658
Interest payable	-	-	790	565	790	565
Payables to associates	-	-	91	89	91	89
Other payables and accruals	-	-	570	508	570	508
	22,444	-	67,046	55,000	89,490	55,000
	22,444	**-**	**147,377**	**87,296**	**169,821**	**87,296**

(in millions of Russian roubles, unless otherwise stated)

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 2008	**31 December 2007**
"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 "Investment Group ALROSA"	Investing activity	Russia	100	100
OAO "Viluyskaya GES-3"	Electricity production	Russia	98	93
OAO "Severalmaz"	Diamonds production	Russia	95	95
ZAO "Geotransgaz"	Gas production	Russia	90	90
ZAO "Urengoyskaya Gazovaya Company"	Gas production	Russia	90	90
OOO "MAK Bank"	Banking activity	Russia	88	88
OAO "ALROSA-Nyurba"	Diamonds production	Russia	88	88
OAO "NNGK Sakhaneftegaz"	Oil & gas industry	Russia	50	50

As at 31 December 2008 and 31 December 2007 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

Consolidation of OAO "NNGK Sakhaneftegaz"

In February 2006 the Company acquired 50.4 percent of the voting shares of OAO "NNGK Sakhaneftegaz", a holding oil and gas company operating in the Republic of Sakha (Yakutia), for a total purchase consideration of RR'mln 493 (the cost of this investment represented a single payment in cash). The major asset of OAO "NNGK Sakhaneftegaz" is 85 percent interest in OAO "Lenaneftegaz", a company providing drilling services and services of operator at Talakan oil deposit located in the Republic of Sakha (Yakutia). After this acquisition, minority shareholders of OAO "NNGK Sakhaneftegaz" initiated claims against the Company and, as a result, the Arbitration Court of the Republic of Sakha (Yakutia) prohibited the Company to participate in the election of the Board of Directors of OAO "NNGK Sakhaneftegaz". Due to this court decision, the Company was not able to exercise control or significant influence over the financial and operating activity of OAO "NNGK Sakhaneftegaz". Accordingly OAO "NNGK Sakhaneftegaz" was not consolidated in the financial statements of the Group for the years ended 31 December 2006 and 31 December 2007. The investment of the Company in OAO "NNGK Sakhaneftegaz" was recognised at 31 December 2006 and 31 December 2007 within available-for-sale investments at cost. Management believed that the fair value of this investment could not be estimated on a reasonable basis because there was no active market for these shares; also management did not have the full information in respect to the legal status and physical conditions of assets controlled by OAO "NNGK Sakhaneftegaz" and was not able to reliably estimate its liabilities and contingent liabilities.

In March 2008 the Company resolved its conflict with minority shareholders of OAO "NNGK Sakhaneftegaz" and appointed new management to this company. Accordingly, as at that date the Company obtained control over the financial and operating activity of OAO "NNGK Sakhaneftegaz".

Details of fair values of the assets and liabilities of OAO "NNGK Sakhaneftegaz" as at the date when the Company obtained control over its financial and operating activity are as follows:

Property, plant and equipment	1,351
Available-for-sale investments	195
Inventories	702
Trade and other receivables	430
Cash and cash equivalents	8
Trade and other payables	(4,792)
Net assets	**(2,106)**
Non-controlling interest in fair value of the acquired net assets	**(1,068)**
Goodwill arising from the acquisition	**1,531**
Investment in OAO "NNGK Sakhaneftegaz"	**493**

(in millions of Russian roubles, unless otherwise stated)

Management believes that the fair value of investment in OAO "NNGK Sakhaneftegaz" at the date when the Company obtained control over its financial and operating activity approximates its cost.

The acquired entity was not preparing financial statements in accordance with IFRS. Therefore, it was impracticable to disclose IFRS carrying amounts of the assets and liabilities immediately before acquisition.

OAO "NNGK Sakhaneftegaz" contributed revenue of RR'mln 971 and net loss of RR'mln 237 to the Group for the period from the date of acquisition to 31 December 2008. If the Group would have obtained control over financial and operating activity of OAO "NNGK Sakhaneftegaz" on 1 January 2008, the acquired entity would have contributed revenue of RR'mln 1,015 and net loss of RR'mln 274 to the Group for the year ended 31 December 2008.

As at the date when the Company obtained control over financial and operating activity of OAO "NNGK Sakhaneftegaz" the gross contractual amounts receivable in OAO "NNGK Sakhaneftegaz" totalled RR'mln 1,560, including loans issued totalling RR'mln 193 and trade and other receivables totalling RR'mln 1,367. Receivables in the amount of RR'mln 1,130 were not expected to be collected.

Before 2006 OAO "NNGK Sakhaneftegaz" was controlled by OAO "NK YUKOS", since then the entity has significant amount of overdue accounts payable to the companies of "YUKOS" Group, most of which are now controlled by OAO "NK Rosneft", totalling RR'mln 3,688 (payable on demand). In November 2008 the state authorities initiated the bankruptcy procedures in relation to OAO "NNGK Sakhaneftegaz" in accordance with the legal claim of OAO "NK Rosneft". At the date of these consolidated financial statements the supervision procedure (the first stage of bankruptcy procedure) is conducted in OAO "NNGK Sakhaneftegaz". At this stage management of OAO "NNGK Sakhaneftegaz" continues to control the financial and operating activity of the entity. Currently management of OAO "NNGK Sakhaneftegaz" performs analysis of the entity's debts and started negotiations with creditors in respect of their restructuring. The future financial position and performance of OAO "NNGK Sakhaneftegaz" depend significantly on the result of these negotiations.

The recoverable amount of goodwill arising from the acquisition was determined on the basis of the management's estimation of future cash flows of OAO "NNGK Sakhaneftegas" and OAO "Lenaneftegaz". The pre-tax discount rate used in the analysis was 20.1 percent, which presented the weighted average cost of capital for the Group as at 31 December 2008. Based on results of the analysis impairment loss totalling RR'mln 1,531 was recognised within other operating expenses (see note 22).

Disposal of OAO "Yakutskgeofizika"

In October 2007 the Group sold 75 percent of the voting shares of OAO "Yakutskgeofizika" for a total cash consideration of RR'mln 264. Net assets of OAO "Yakutskgeofizika" at the date of disposal were as follows:

Property, plant and equipment	335
Trade and other receivables and other assets	120
Cash and cash equivalents	7
Trade and other payables and other liabilities	(252)
Minority interest in subsidiary of "Yakutskgeofizika"	(50)
Net assets	**160**
Gain on disposal	104
Total consideration	**264**
Net cash flow arising on disposal:	
Cash consideration received	264
Cash and cash equivalents disposed of	(7)
	257

Associates

Name		Country of incorporation	Percentage of ownership interest held as at 31 December		Carrying value of investment as at 31 December		Group's share of net profit (loss) for the year ended 31 December	
			2008	**2007**	**2008**	**2007**	**2008**	**2007**
"Catoca Mining Company Ltd"	(1)	Angola	33	33	1,558	1,382	670	934
"Escom-ALROSA Ltd"	(2)	United Kingdom	44	44	-	-	-	-
OAO "Almazny Mir"		Russia	47	47	173	174	3	3
Other		Russia			82	57	3	(1)
					1,813	1,613	676	936

(in millions of Russian roubles, unless otherwise stated)

As at 31 December 2008 and 31 December 2007 the percentage ownership interest of the Group in its associates is equal to the percentage of voting interest.

(1) "Catoca Mining Company Ltd" is a diamond-mining venture located in Angola. In April 2008 "Catoca Mining Company Ltd" declared dividends for the year ended 31 December 2007; the Group's share of these dividends amounted to RR'mln 773. Currency translation income recognised in the consolidated statement of changes in equity for the year ended 31 December 2008 in respect of investment in "Catoca Mining Company Ltd" totalled RR'mln 279. In May 2007 "Catoca Mining Company Ltd" declared dividends for the year ended 31 December 2006; the Group's share of these dividends amounted to RR'mln 796. Currency translation loss recognised in the consolidated statement of changes in equity for the year ended 31 December 2007 in respect of investment in "Catoca Mining Company Ltd" totalled RR'mln 111.

(2) "Escom-ALROSA Ltd" is a holding company, the only purpose of which is to own a 45 percent voting interest in "Camachia-Camagico", a development stage diamond-mining venture located in Angola, which is in the pilot stage of mining of the Luo diamond deposit. In October 2005 the Company issued a US$ denominated loan to "Escom-ALROSA Ltd"; the repayment period of this loan is June 2006 – June 2014 and it bears interest at LIBOR+2.5% per annum. "Escom-ALROSA Ltd", which acts as a holding company, in its turn lent the funds to "Camachia-Camagico" to finance construction of the main processing plant at the Luo deposit. The amount of loan outstanding at 31 December 2008 is RR'mln 3,582, including current portion of RR'mln 592 (31 December 2007: RR'mln 2,809, including current portion of RR'mln 75). The Group has not recognised its share of net loss of "Camachia-Camagico" for the year ended 31 December 2008 in the amount of RR'mln 216 (year ended 31 December 2007: RR'mln 320). The accumulated losses of "Camachia-Camagico" not recognised by the Group in its consolidated financial statements as at 31 December 2008 were RR'mln 641 (31 December 2006: RR'mln 425).

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 (loss) for the year ended 31 December**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
"Catoca Mining Company Ltd"	11,302	9,192	6,553	4,986	14,524	11,080	2,043	2,847
"Camachia-Camagico"	6,139	6,323	9,278	8,260	695	858	(1,146)	(1,616)
OAO "Almazny Mir"	404	395	39	35	186	254	7	6
Other	157	156	45	37	102	70	1	(3)
	18,002	16,066	15,915	13,318	15,507	12,262	905	1,234

Non-current available-for-sale investments

	Year ended 31 December 2008	**Year ended 31 December 2007**
Available-for-sale investments at the beginning of the year	786	1,285
Additions	47	103
Additions through consolidation of OAO "NNGK Sakhaneftegaz"	195	-
Net changes in fair value	-	433
Derecognition of investment in OAO "NNGK Sakhaneftegaz"	(493)	-
Disposals	(23)	(1,035)
Available-for-sale investments at the end of the year	512	786

Acquisition of a 45 percent interest in OOO "KIT Finance Holding Company"

In order to support the process of normalisation of financial position of OAO "KIT Finance Investment bank", on 30 December 2008 the Group as part of syndicate of investors, which besides it included companies of "Russian Railroads" group, acquired a 45 percent interest in share capital of OOO "KIT Finance Holding Company", which at the date of transaction owned 87 percent of shares of OAO "KIT Finance Investment bank". The amount of cash consideration paid under this transaction totalled RR 45. In accordance with the intention of the Group's management formed at the date of transaction and the plan of financial rehabilitation of OAO "KIT Finance Investment bank", developed by Deposit Insurance Agency of the Russian Federation and approved by Central Bank of the Russian Federation, it is anticipated that the share of the Group in OOO "KIT Finance Holding Company" will be transferred to "Russian Railroads" group during 2009 for a cash consideration also not exceeding RR 45. Consequently, in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" the Group classified its investment in share capital of OOO "KIT Finance Holding Company" as at 31 December 2008 as an asset held for sale at fair value totalling RR 45.

(in millions of Russian roubles, unless otherwise stated)

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 at 31 December 2008 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 2009-2019. The pre-tax discount rate used in the analysis was 20.1 percent, which presents the weighted average cost of capital for the Group. Based on results of the analysis management concluded that there is no impairment for goodwill as at 31 December 2008. The impairment test involves making judgment about several key future business indicators. Management believes that their judgements 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 10 percent or US$ depreciates against Russian Rouble by 16 percent or discount rate increases by 13 percent, there will be no excess of value in use over carrying value of assets allocated to the respective cash generating unit.

6. DERIVATIVE FINANCIAL INSTRUMENTS

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 under which it agreed to sell US$ for RR during a five-year period starting in September 2006 and ending in September 2011, at a strike price fixed at the exchange rates ranging from RR 26.56 to RR 26.84 per US$ 1, averaged on a quarterly basis. The transactions have varying maturities and amounts spread evenly over the five-year period in the aggregate amount of US$'mln 215 per quarter (US$'mln 4,300 in total over the five-year period). At 31 December 2008 the fair value of the forward foreign exchange contracts totalled RR'mln 21,348 (liability), at 31 December 2007 - RR'mln 5,106 (asset). 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 reporting dates and forward exchange rates fixed by the forward sales contracts concluded by the Company over the five-years period.

	Year ended 31 December 2008	Year ended 31 December 2007
Fair value of foreign exchange forward contracts at the beginning of the year	5,106	902
Net proceeds from exercising of foreign exchange forward contracts	(1,377)	(945)
Net (loss) / gain from change of fair value of foreign exchange forward contracts	(25,077)	5,149
Fair value of foreign exchange forward contracts at the end of the year	(21,348)	5,106

Additionally, 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. 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 evenly from October 2008 to May 2011. At 31 December 2008 the fair value of the cross currency interest rate swap transactions totalled RR'mln 1,096 (liability).

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 December 2008 was 15 percent, which represents the incremental interest rate on RR denominated borrowings applicable to the Group as at that date. The discount rate used to calculate the fair value of the forward foreign exchange contracts as at 31 December 2007 was 7 percent, which represented the average cost of borrowing by the counterparty banks.

As at 31 December 2008 and 31 December 2007 derivative financial instruments are not past due. Derivative financial instruments are classified as current assets and current liabilities in these consolidated financial statements as they present financial instruments held for trading, but a portion of derivative financial instruments totalling RR'mln 16,174 (liability) as at 31 December 2008 and totalling RR'mln 3,037 (asset) as at 31 December 2007 is expected to be settled after 12 months from the balance sheet date.

7. CASH AND CASH EQUIVALENTS

Restricted cash

Restricted cash included within non-current assets in the balance sheet of RR'mln 31 and RR'mln 133 as at 31 December 2008 and 31 December 2007, respectively, is represented by mandatory reserve deposits held with the Central Bank of the

(in millions of Russian roubles, unless otherwise stated)

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 25).

At 31 December 2008 and 31 December 2007 the weighted average interest rate on the restricted cash balances is approximately nil percent.

Long-term deposits

As at 31 December 2008 the Group held RR'mln 11,285 on deposit accounts in OAO "KIT Finance Investment Bank" (credit rating of this bank is Caa 2 as assessed by Moody's rating agency). The maturity of these deposits is on 29 November 2010. The Group has the right for early refund of these deposits in case of the liquidity requirements. Annual interest rate is floating and equals to the refinancing rate of the Central Bank of the Russian Federation (as at 31 December 2008 – 13 percent). In order to guarantee the refund of these deposits the bank pledged certain assets to the Group.

Since September 2008 due to significant decline in financial markets the liquidity position and quality of assets of OAO "KIT Finance Investment Bank" significantly deteriorated. In order to improve the financial position of the bank the Russian Government undertook certain measures, including its acquisition by a syndicate of the companies controlled by the Government, which included the Group and companies of "Russian Railroads" group (see note 5), and provision of financial support by the banks controlled by the Government. In June 2009 the Central Bank of the Russian Federation approved the plan of financial rehabilitation of OAO "KIT Finance Investment Bank", which was developed by Deposit Insurance Agency of the Russian Federation. This plan includes transfer of control over the bank's operating and financial activity to "Russian Railroads" group, further provision of financial support, refinancing of certain liabilities and buyout of certain assets. Management of the Group believes that these measures will be sufficient for improvement of financial position and liquidity of OAO "KIT Finance Investment Bank", accordingly, it believes that the amounts held by the Group on deposit accounts in OAO "KIT Finance Investment Bank" are not impaired and will be withdrawn not later than on the contractual date of maturity of the respective deposit agreements.

Cash and cash equivalents

	31 December 2008	**31 December 2007**
Current accounts	3,952	14,235
Deposit accounts	2,102	288
Notes receivable	1,515	-
Special accounts	-	7,364
	7,569	21,887

As at 31 December 2008 cash and cash equivalents included non-interest bearing notes of OAO "Bank VTB" totalling RR'mln 1,515 with maturity at the date of inception less than three months.

At 31 December 2008 the weighted average interest rate on the cash balances of the Group was 1.96 percent (31 December 2007: 4.81 percent).

The table below analyses the credit quality of banks at which the Group holds cash and cash equivalents as at 31 December 2008:

	External credit rating	**Rating agency**	**31 December 2008**	**31 December 2007**
OAO "Bank VTB"	Baa 1	Moody's	4,286	10,386
Current accounts of OOO "MAK Bank" in the Central Bank of the Russian Federation	Not applicable	Not applicable	1,044	1,032
Cash of OOO "MAK Bank" on hand and in cash machines	Not applicable	Not applicable	441	479
OAO "AKB Bank of Moscow"	Baa 1	Moody's	323	235
OAO "KIT Finance Investment Bank"	Caa 2	Moody's	230	8,296
OAO "Sberbank"	Baa 1	Moody's	141	11
ZAO "UniCredit Bank"	BBB+	Fitch Ratings	137	200
ZAO "Bank Societe Generale Vostok"	Aa 2	Moody's	97	-
Other banks	Aa 2–Baa 2	Moody's	870	1,248
			7,569	21,887

As at 31 December 2008 and 31 December 2007 all balances of cash and cash equivalents of the Group are neither past due nor impaired.

(in millions of Russian roubles, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Land and Improvements	Plant and Equipment	Transport	Production Licenses	Assets under Construction	Other	TOTAL
Cost at 31 December 2006	**53,582**	**47,138**	**36,477**	**16,334**	**10,626**	**39,663**	**1,449**	**205,269**
Additions	284	1,027	2,873	1,374	549	22,355	425	28,887
Transfers	2,439	3,500	1,506	61	-	(7,764)	258	-
Disposals	(778)	(818)	(1,122)	(918)	-	(462)	(409)	(4,507)
Foreign exchange differences	(1)	-	(57)	(230)	-	(202)	49	(441)
Disposal of OAO “Yakutskgeofizika”	(51)	(38)	(43)	(220)	-	(43)	(16)	(411)
Change in estimate of provision for restoration liability	112	41	8	1	-	-	-	162
Reversal of provision for restoration liability	(2,586)	(977)	(199)	(28)	-	-	(5)	(3,795)
Change in estimate of provision for land recultivation (see note 14)	-	(25)	-	-	-	-	-	(25)
Cost at 31 December 2007	**53,001**	**49,848**	**39,443**	**16,374**	**11,175**	**53,547**	**1,751**	**225,139**
Additions through consolidation of OAO “NNGK Sakhaneftegaz” (note 5)	230	609	309	54	-	125	24	1,351
Additions	339	1,912	2,982	918	5,430	19,277	734	31,592
Transfers	3,192	6,407	2,406	64	-	(12,400)	331	-
Disposals	(419)	(1,423)	(967)	(511)	-	(160)	(529)	(4,009)
Foreign exchange differences	36	795	5	516	-	665	(3)	2,014
Change in estimate of provision for land recultivation (see note 14)	-	(18)	-	-	-	-	-	(18)
Cost at 31 December 2008	**56,379**	**58,130**	**44,178**	**17,415**	**16,605**	**61,054**	**2,308**	**256,069**
Accumulated depreciation and impairment losses at 31.12.2006	**(16,114)**	**(16,018)**	**(20,364)**	**(10,016)**	**(345)**	**(429)**	**(525)**	**(63,811)**
Charge for the year ended 31 December 2007	(1,613)	(2,676)	(3,588)	(1,190)	(272)	-	(208)	(9,547)
Disposals	273	664	1,056	860	-	-	32	2,885
Reversal of provision for restoration liability	399	183	49	4	1	-	2	638
Foreign exchange differences	-	-	33	144	-	-	(19)	158
Reversal of impairment of property, plant and equipment	-	-	-	-	-	158	-	158
Disposal of OAO “Yakutskgeofizika”	4	10	13	42	-	-	7	76
Accumulated depreciation and impairment losses at 31.12.2007	**(17,051)**	**(17,837)**	**(22,801)**	**(10,156)**	**(616)**	**(271)**	**(711)**	**(69,443)**
Charge for the year ended 31 December 2008	(1,609)	(2,913)	(3,815)	(1,270)	(284)	-	(252)	(10,143)
Disposals	98	1,157	919	479	-	-	64	2,717
Foreign exchange differences	(12)	(264)	(3)	(331)	-	3	1	(606)
Impairment of property, plant and equipment	(178)	-	-	-	-	(342)	-	(520)
Accumulated depreciation and impairment losses at 31.12.2008	**(18,752)**	**(19,857)**	**(25,700)**	**(11,278)**	**(900)**	**(610)**	**(898)**	**(77,995)**
Net book value at 31 December 2007	**35,950**	**32,011**	**16,642**	**6,218**	**10,559**	**53,276**	**1,040**	**155,696**
Net book value at 31 December 2008	**37,627**	**38,273**	**18,478**	**6,137**	**15,705**	**60,444**	**1,410**	**178,074**

Additions to property, plant and equipment include licenses for exploration and production activities at four iron ore fields located in the Republic of Sakha (Yakutia) acquired by the Group in April 2008 for consideration of RR’mln 5,403.

Property, plant and equipment for the year ended 31 December 2008 includes an aircraft which the Group received under a finance lease agreement (see note 12). As at 31 December 2008 the carrying value of this aircraft is RR’mln 905 (31 December 2007: RR’mln 940). Property, plant and equipment for the year ended 31 December 2008 includes the mining equipment which OAO “Almazy Anabara”, a subsidiary of the Group, received under finance lease agreements (see note 12). As at 31 December 2008 the carrying value of this equipment is RR’mln 343 (31 December 2007: RR’mln 407).

The Group conducted an impairment test of its property plant and equipment when there were indicators that these assets may be impaired. The recoverable amount used in the impairment tests has been determined on the basis of the projected cash flows and the value in use of such asset or cash-generating units. The Group conducted an impairment test of its cash-generating units, for which the values in use have been calculated as the present values of projected future cash flows discounted by the Group’s weighted average cost of capital, as adjusted, where applicable, to take into account any specific risks of business operations related to the cash-generating units. The Group used discount rate of 20.1 percent, which presents the weighted average cost of capital for the Group as at 31 December 2008. The cash flow projections cover periods commensurate with the production cycles and expected lives of the respective assets. The Group used steady growth rates of 3.5 percent to extrapolate cash flows beyond the period of 2009-2015, for which the Group prepared its budget.

(in millions of Russian roubles, unless otherwise stated)

The Group's assessment of value in use of its property, plant and equipment as at 31 December 2008 substantially exceeds its carrying value. The impairment test involves making judgment about several key future business indicators. Management believes that their judgements 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 12 percent or US$ depreciates against Russian Rouble by 11 percent or discount rate increases by 9 percent, there would be no excess of value in use over carrying amount of respective assets for cash-generating units.

Apart from an impairment test results, the Group recognised an impairment loss of RR'mln 520 for certain frozen assets under construction and lie idle buildings, which, in accordance with recent management's plans, will not be used in production activity of the Group.

9. INVENTORIES

	31 December 2008	31 December 2007
Diamonds	11,105	7,815
Ores and concentrates	5,273	3,730
Mining and construction materials	13,518	9,490
Diamonds for resale	1,399	535
Consumable supplies	1,012	638
	32,307	22,208

Diamonds for resale represent the diamonds purchased by the Group from Angolan diamond producers for the purpose of the subsequent resale on the open market.

10. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 December 2008	31 December 2007
Receivables from associates (see notes 5 and 27)	2,990	2,734
Loans issued	1,616	1,303
Long-term VAT recoverable	683	1,187
Notes receivable	636	654
Other long-term receivables	8	24
	5,933	5,902

Current accounts receivable	31 December 2008	31 December 2007
Trade receivables for supplied diamonds	12,787	65
Loans issued	4,508	4,063
VAT recoverable	1,564	930
Receivables from associates (see note 27)	1,108	486
Prepaid taxes, other than income tax	945	1,846
Advances to suppliers	823	1,157
Notes receivable	168	922
Receivables for sale of treasury shares	251	251
Receivables for sale of gold mining operations	-	555
Other receivables	3,355	2,289
	25,509	12,564

As at 31 December 2008 trade receivables for supplied diamonds include accounts receivable from OOO "Interdiam", a third party wholesale diamonds customer, totalling RR'mln 12,513. The original maturity date for these receivables was 26 March 2009. The nominal value of these accounts receivable is RR'mln 13,231; it was adjusted to the fair value of RR'mln 12,513 using the discount rate of 25 percent per annum, which is applicable to the RR denominated loans issued by the Group to third parties with the similar credit quality, with a corresponding debit recorded as a reduction of the respective revenue figure. The Group supplied diamonds for this company in December 2008 anticipating that it will subsequently resell them in the open market. OOO "Interdiam" failed to resell these diamonds; accordingly it failed to settle its debt to the Group within the contractual term. Management of the Group does not consider these receivables as impaired as it expects to recover them substantially by means of repurchasing of the initially supplied diamonds back from this customer during the second half of 2009 at prices not exceeding net realisable value of these diamonds.

(in millions of Russian roubles, unless otherwise stated)

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

Long-term accounts receivable	31 December 2008	31 December 2007
Receivables from associates	5%	7%
Loans issued	17%	14%
Notes receivable	10%	10%
Other long-term receivables	10%	10%

The carrying amounts and fair values of long-term accounts receivable are as follows:

	31 December 2008		31 December 2007	
	Carrying value	Fair value	Carrying value	Fair value
Receivables from associates	2,990	2,575	2,734	2,896
Loans issued	1,616	1,402	1,303	1,251
Notes receivable	636	507	654	641
Other long-term receivables	8	5	24	22

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 Group at the balance sheet dates. These market interest rates for each class of long-term accounts receivable at the balance sheet dates were as follows:

	31 December 2008	31 December 2007
Receivables from associates	15.0%	6.5%
Loans issued	19.2%	12.2%
Notes receivable	20.0%	11.5%
Other long-term receivables	20.0%	11.9%

The fair value of each class of short-term trade and other accounts receivable at 31 December 2008 and 31 December 2007 approximates their carrying value.

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

Long-term accounts receivable	31 December 2008	Bad debt write-off	Bad debt expense	31 December 2007
Loans issued	26	-	-	26
	26	-	-	26
Current accounts receivable				
Receivables from associates (see note 27)	188	-	-	188
Notes receivable	80	-	-	80
Loans issued	184	-	55	129
Other receivables	1,334	(114)	30	1,418
	1,786	(114)	85	1,815

Long-term accounts receivable	31 December 2007	Bad debt write-off	Bad debt expense (reversal)	31 December 2006
Loans issued	26	-	-	26
	26	-	-	26
Current accounts receivable				
Receivables from associates (see note 27)	188	(78)	-	266
Notes receivable	80	(143)	-	223
Loans issued	129	-	(8)	137
Receivables for sale of gold mining operations	-	(378)	378	-
Other receivables	1,418	(108)	219	1,307
	1,815	(707)	589	1,933

(in millions of Russian roubles, unless otherwise stated)

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

	31 December 2008				31 December 2007			
	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	-	-	26	26	-	-	26	26
	-	-	26	26	-	-	26	26
Current accounts receivable								
Receivables from associates	-	-	188	188	-	99	89	188
Notes receivable	-	-	80	80	-	-	80	80
Loans issued	55	68	61	184	25	43	61	129
Other receivables	-	252	1,082	1,334	86	261	1,071	1,418
	55	320	1,411	1,786	111	403	1,301	1,815

As at 31 December 2008 and 31 December 2007, trade and other receivables totalling RR'mln 31,035 and RR'mln 18,134, respectively, were neither past due nor impaired and have no history of overdue payments. Most of these debtors have no individual external credit rating.

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

31 December 2008	Large customers	Medium and small customers	Entities controlled by the Government	Individuals	Total
Long-term accounts receivable					
Receivables from associates	2,990	-	-	-	2,990
Loans issued	530	780	-	306	1,616
Notes receivable	636	-	-	-	636
Other long-term receivables	-	-	8	-	8
	4,156	780	8	306	5,250
Current accounts receivable					
Trade receivables for supplied diamonds	233	12,554	-	-	12,787
Loans issued	1,121	2,086	843	458	4,508
Receivables from associates	1,067	41	-	-	1,108
Receivables for sale of treasury shares	-	251	-	-	251
Notes receivable	88	80	-	-	168
Other receivables	182	2,494	383	296	3,355
	2,691	17,506	1,226	754	22,177

31 December 2007	Large customers	Medium and small customers	Entities controlled by the Government	Individuals	Total
Long-term accounts receivable					
Receivables from associates	2,734	-	-	-	2,734
Loans issued	530	482	-	291	1,303
Notes receivable	654	-	-	-	654
Other long-term receivables	18	-	6	-	24
	3,936	482	6	291	4,715
Current accounts receivable					
Loans issued	917	1,579	1,121	446	4,063
Notes receivable	70	852	-	-	922
Receivables for sale of gold mining operations	555	-	-	-	555
Receivables from associates	417	69	-	-	486
Receivables for sale of treasury shares	-	251	-	-	251
Trade receivables for supplied diamonds	17	48	-	-	65
Other receivables	248	1,406	433	202	2,289
	2,224	4,205	1,554	648	8,631

(in millions of Russian roubles, unless otherwise stated)

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 2008 accounts receivable in the amount of RR’mln 407 (as at 31 December 2007: RR’mln 332) were past due but were not considered impaired. They include only other receivables and relate to a number of independent medium and small customers for whom there is no recent history of default.

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

	31 December 2008	**31 December 2007**
Up to 3 months	37	134
3 to 6 months	46	17
6 to 12 months	82	112
More than 1 year	242	69
	407	332

As at 31 December 2008 7 individual debtors of the Group (31 December 2007: 17 individual debtors) had the outstanding balance with the Group exceeding RR’mln 100. As at 31 December 2008 total amount of such accounts receivable was RR’mln 13,712 (31 December 2007: RR’mln 7,704).

11. SHAREHOLDERS’ EQUITY

Share capital

Share capital authorised, issued and paid in totals RR’mln 12,473 as at 31 December 2008 (as at 31 December 2007: RR’mln 11,491) and consists of 272,726 ordinary shares (as at 31 December 2007: 200,000 ordinary shares), including treasury shares, at RR 13,502.5 par value per share. In addition as at 31 December 2008 and 31 December 2007 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.

Mineral Lease Agreement and an additional issue of shares

On 19 January 1993, the Company entered into a Mineral Lease Agreement (the “Lease Agreement”) with the Republic of Sakha (Yakutia) for the “transfer of rights to use and exploit land, diamond deposits, main production and non-production facilities”. This agreement had a term of 25 years and provided the Company with the right to use certain production and non-production assets for exploring, mining and operating diamond deposits. The agreement required the Company to return the assets in 2017 and reimburse the Government of Republic of Sakha (Yakutia) for depreciation of the assets. Production assets received from the Republic of Sakha (Yakutia) under the terms of the Lease agreement are recorded in accordance with IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”, at historical cost adjusted for the effects of inflation, with, prior to 10 November 2007, a corresponding credit reflected as a Grant in the Group’s balance sheet. The Grant was amortised in line with the reduction in the carrying value of the underlying assets, with the amortised portion recorded as an increase in other operating income. Management estimated the restoration liability based upon their interpretation of the Lease Agreement. The provision for restoration liability represented the net present value of the estimated future obligation, upon termination of the Lease Agreement, to return certain property, plant and equipment to the Republic of Sakha (Yakutia) under the terms of the Lease Agreement.

On 19 December 2006 the Governments of the Russian Federation and the Republic of Sakha (Yakutia) signed an Amicable Agreement in respect of the property, plant and equipment subject to the Lease Agreement. The parties agreed to do the following:

- the parties should establish the mutual property right of the Russian Federation and the Republic of Sakha (Yakutia) for the property, plant and equipment, which were subject to the Lease Agreement;
- the Company should issue new shares and the Russian Federation and the Republic of Sakha (Yakutia) should contribute this property, plant and equipment to the share capital of the Company in agreed proportions as payment for these new shares.

Following the Amicable Agreement on 29 December 2006 the Company signed an agreement with the Republic of Sakha (Yakutia) in accordance with which:

- the parties agreed to terminate the Lease Agreement early;
- the Republic of Sakha (Yakutia) agreed to transfer the property, plant and equipment, which were subject to the Lease Agreement, to the Company under a new medium-term lease until the new shares are issued.

On 10 November 2007 the extraordinary shareholders' meeting of the Company approved the issue of 72,726 new shares and their placement among the Governments of the Russian Federation and the Republic of Sakha (Yakutia) and its districts. The Governments of the Russian Federation and the Republic of Sakha (Yakutia) and its districts should contribute the property, plant and equipment, which were subject to the Lease Agreement, to the share capital of the Company as payment for these shares.

Management believes that since the date of official approval of the new share issue and the conditions of this transaction, the assets received from the Republic of Sakha (Yakutia) in 1993 under the terms of the Lease Agreement no longer meet the criteria for granted assets and the issue of shares in favour of governments of the Russian Federation and the Republic of Sakha (Yakutia) and its districts in the exchange of these assets should be treated as a repayment of the previously recognised Grant. Accordingly, the unamortised amount of the Grant as at 10 November 2007 totalling RR'mln 7,537 was reclassified to equity as a deferred capital contribution. Management also believes that the additional issue of shares has no effect on recognised amounts of property, plant and equipment, which were subject to the Lease Agreement, as cash flows attributable to these assets as well as their operational and physical conditions will not change as a result of the transaction.

Management also believes that since the date of official approval of the new shares issue the Company has no longer an obligation to return the property, plant and equipment, which were subject to the Lease Agreement, to the Republic of Sakha (Yakutia) and, accordingly the amount of provision for restoration liability was reversed in the consolidated financial statements for the year 2007. Management considers this reversal as an inflow of economic benefits to the Company resulting from the contribution of shareholders, so the amount of provision for restoration liability as at 10 November 2007 (RR'mln 7,659) net of unamortised amount of the related asset (RR'mln 3,157) and the corresponding amount of deferred tax benefit (RR'mln 976) was recognised as at 31 December 2007 in equity as a deferred capital contribution.

On 18 June 2008 the Company agreed to transfer 43,635 newly issued shares to the Government of the Russian Federation and 29,091 newly issued shares to the Government of the Republic of Sakha (Yakutia) and its districts. The Governments of the Russian Federation and the Republic of Sakha (Yakutia) and its districts, in their turn, contributed the property, plant and equipment, which were subject to the Lease Agreement, to the share capital of the Company as payment for these shares. These property, plant and equipment included plots of land, which were not previously recognised on the balance sheet of the Company. These plots of land were initially recognised within property plant and equipment as at the date of transaction at fair value totalling RR'mln 520, with a corresponding credit reflected in equity within a deferred capital contribution.

On 30 October 2008 the Federal Service on Financial Markets of the Russian Federation registered the results of additional issue of shares and the increase of share capital of the Company. At the same time the number of authorised shares of the Company increased to 272,726 shares. Accordingly, on 30 October 2008 the Company reclassified the deferred capital contribution totalling RR'mln 11,583 between the share capital and share premium. Transaction costs totalling RR'mln 170 relating to additional issue of shares were deducted from share premium.

In June 2008, prior to above described transaction, OAO "Bank VTB", which owned 10.6 percent of shares of the Company, transferred these shares to the Government of Russian Federation in the exchange for part of property, plant and equipment, which were subject to the Lease Agreement. On 20 June 2008 OAO "Bank VTB" sold these property, plant and equipment to the Company for a total cash consideration of RR'mln 8,233. Management believes that, as in case of transactions with the Governments of Russian Federation and the Republic of Sakha (Yakutia) and its districts, the transaction with OAO "Bank VTB" has no effect on recognised amounts of property, plant and equipment, which were subject to the Lease Agreement, as cash flows attributable to these assets as well as their operational and physical conditions will not change as a result of the transaction. Management believes that by its substance the transaction with OAO "Bank VTB" should be treated as a distribution of retained earnings in favour of the Government of Russian Federation. Accordingly payment made to OAO "Bank VTB" totalling RR'mln 8,233 was recorded as a reduction of retained earnings of the Company.

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 2008 and 31 December 2007, the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 1,574 and RR'mln 14,133 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.

(in millions of Russian roubles, unless otherwise stated)

Other reserves

	Available-for-sale investments	Currency translation	Purchase of non-controlling interest	Total
Balance at 31 December 2006	**185**	**94**	**-**	**279**
Net gains arising from change in fair value of available-for-sale investments, net of income tax	329	-	-	329
Gain on disposal of available-for-sale investments recognised in statement of income, net of income tax	(514)	-	-	(514)
Currency translation differences	-	(287)	-	(287)
Balance at 31 December 2007	**-**	**(193)**	**-**	**(193)**
Currency translation differences	-	440	-	440
Purchase of non-controlling interest in OAO "Viluyskaya GES-3"	-	-	(309)	(309)
Balance at 31 December 2008	**-**	**247**	**(309)**	**(62)**

Treasury shares

At 31 December 2008 and 31 December 2007 OOO "MAK Bank", a subsidiary of the Group, held 420 and 280 ordinary shares of the Company, respectively. The Group management controls the voting rights of these shares.

Dividends

On 23 June 2007 the Company's shareholders approved dividends for the year ended 31 December 2006 totalling RR'mln 2,240. Dividends per share amounted to RR 11,200.

On 21 June 2008 the Company's shareholders approved dividends for the year ended 31 December 2007 totalling RR'mln 2,240. Dividends per share amounted to RR 11,200.

Non-controlling interest in subsidiaries

	Year ended 31 December 2008	Year ended 31 December 2007
Non-controlling interest at the beginning of the year	1,190	4,610
Non-controlling interest share of net (loss) / profit of subsidiaries	(169)	203
Non-controlling interest in acquired net assets of OAO "NNGK Sakhaneftegaz" and OAO "Lenaneftegaz" (note 5)	(1,068)	-
Purchase of non-controlling interest	(135)	(3,237)
Disposal of non-controlling interest through disposal of subsidiary	-	(50)
Dividends paid by subsidiaries to minority shareholders	(249)	(336)
Non-controlling interest at the end of the year	(431)	1,190

During the year ended 31 December 2008 non-controlling interest decreased by RR'mln 135 as a result of the acquisition of an additional 4.83 percent interest OAO "Viluyskaya GES-3". The difference between the carrying amount of the non-controlling interest and the amount paid to acquire it totalling RR'mln 309 was recorded in equity within other reserves.

During the year ended 31 December 2007 non-controlling interest decreased as a result of the acquisition of an additional 49 percent interest in OAO "Almazy Anabara" (for RR'mln 864), an additional 49.99 percent interest in OAO "Investment Group ALROSA" (for RR'mln 2,217), an additional 8 percent interest in OAO "Viluyskaya GES-3" (for RR'mln 150) and an additional 1 percent interest in OAO "ALROSA-Nyurba" (for RR'mln 6).

(in millions of Russian roubles, unless otherwise stated)

12. LONG-TERM DEBT

	31 December 2008	31 December 2007
Banks:		
US$ denominated floating rate	4,800	468
US$ denominated fixed rate	25,092	21,372
RR denominated floating rate	3,193	-
RR denominated fixed rate	44,484	305
	77,569	**22,145**
Eurobonds	14,681	19,631
Finance lease obligation	948	945
Commercial paper	466	545
Other US$ denominated fixed rate loans	213	227
Other RR denominated fixed rate loans	943	1,036
	94,820	**44,529**
Less: current portion of long-term debt (see note 13)	(14,489)	(12,233)
	80,331	**32,296**

At 31 December 2008 the Group breached covenants relating to certain financial ratios of the long-term loan of RR'mln 3,966. As a result, at the balance sheet date, the lender had the option to call this loan. The loan was classified as current at 31 December 2008 because the lender waived its right to request immediate redemption only after the balance sheet date.

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

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

	31 December 2008	31 December 2007
Banks:		
US$ denominated floating rate	3.5%	6.8%
US$ denominated fixed rate	8.4%	7.7%
RR denominated floating rate	28.3%	-
RR denominated fixed rate	15.3%	12.6%
Eurobonds	8.7%	8.7%
Finance lease obligation	7.6%	7.6%
Commercial paper	26.3%	24.9%
Other US$ denominated fixed rate	9.0%	9.0%
Other RR denominated fixed rate loans	13.6%	10.6%

At 31 December 2008 long-term loans had the following maturity profile (based on the discounted 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	3,993	384	27	396	-	4,800
US$ denominated fixed rate	8,575	564	3,574	12,237	142	25,092
RR denominated floating rate	1,637	-	1,556	-	-	3,193
RR denominated fixed rate	-	44,173	290	9	12	44,484
Eurobonds	-	-	-	-	14,681	14,681
Finance lease obligation	169	57	26	27	669	948
Commercial paper	-	170	296	-	-	466
Other US$ denominated fixed rate loans	115	98	-	-	-	213
Other RR denominated fixed rate loans	-	802	141	-	-	943
	14,489	46,248	5,910	12,669	15,504	94,820

(in millions of Russian roubles, unless otherwise stated)

At 31 December 2007 long-term loans had the following maturity profile (based on the discounted 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	-	-	-	135	333	468
US$ denominated fixed rate	4,335	10,580	471	524	5,462	21,372
RR denominated fixed rate	2	2	2	2	297	305
Eurobonds	7,365	-	-	-	12,266	19,631
Finance lease obligation	133	151	58	21	582	945
Commercial paper	-	160	125	260	-	545
Other US$ denominated fixed rate loans	-	179	48	-	-	227
Other RR denominated fixed rate loans	398	498	-	-	140	1,036
	12,233	11,570	704	942	19,080	44,529

The carrying amounts and fair values of long-term debt are as follows:

	31 December 2008		31 December 2007	
	Carrying value	Fair value	Carrying value	Fair value
Banks				
US$ denominated floating rate	4,800	771	468	459
US$ denominated fixed rate	25,092	24,274	21,372	19,592
RR denominated floating rate	3,193	3,748	-	-
RR denominated fixed rate	44,484	43,495	305	361
Eurobonds	14,681	8,556	19,631	21,029
Finance lease obligation	948	825	945	851
Commercial paper	466	707	545	1,190
Other US$ denominated fixed rate loans	213	213	227	227
Other RR denominated fixed rate loans	943	643	1,036	1,028

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 balance sheet date. These market interest rates for each class of long-term debt at the balance sheet dates were as follows:

	31 December 2008	31 December 2007
Banks		
US$ denominated floating rate	9.1%	6.9%
US$ denominated fixed rate	10.7%	11.0%
RR denominated floating rate	28.7%	-
RR denominated fixed rate	15.5%	10.7%
Eurobonds	21.9%	5.4%
Commercial paper	19.3%	7.8%
Finance lease obligation	9.9%	9.8%
Other US$ denominated fixed rate loans	10.7%	11.0%
Other RR denominated fixed rate loans	15.5%	10.7%

As at 31 December 2008 and at 31 December 2007 there were no long-term loans secured with the assets of the Group.

Eurobonds

	Year ended 31 December 2008	Year ended 31 December 2007
Balance at the beginning of the year	19,631	21,005
Amortisation of discount	23	34
Repayment	(7,094)	-
Exchange loss / (gain)	2,121	(1,408)
Balance at the end of the year	14,681	19,631

(in millions of Russian roubles, unless otherwise stated)

Finance lease obligation

	Minimum lease payments 31 December 2008	Discounted value of minimum lease payments 31 December 2008	Minimum lease payments 31 December 2007	Discounted value of minimum lease payments 31 December 2007
Within 1 year	339	169	203	133
Between 2 and 4 years	293	110	402	231
5 years and thereafter	747	669	658	581
	1,379	948	1,263	945

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

	31 December 2008	31 December 2007
Banks:		
US$ denominated floating rate	2,644	3,682
US$ denominated fixed rate	14,231	23,012
RR denominated floating rate	2,605	543
RR denominated fixed rate	15,528	3,509
	35,008	**30,746**
European commercial paper	1,366	3,510
Commercial paper	1,138	791
Other US$ denominated fixed rate loans	9	6
Other RR denominated fixed rate loans	2,058	2,166
	39,579	**37,219**
Add: current portion of long-term debt (see note 12)	14,489	12,233
	54,068	**49,452**

Commercial paper

Commercial paper comprises unsecured notes, denominated in RR, issued by the Group to provide short-term working capital facilities. The short-term commercial paper is typically a non-interest bearing instrument issued at a discount, with defined maturity dates ranging from 1 month to 1 year and is carried at amortised cost.

European commercial paper

In March 2005 “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 2008	Year ended 31 December 2007
Balance at the beginning of the year	3,510	-
Issued	13,428	10,979
Repayment	(17,736)	(7,027)
Exchange loss / (gain)	2,164	(442)
Balance at the end of the year	1,366	3,510

As at 31 December 2008, short-term debt totalling RR’mln 226 (31 December 2007: RR’mln 1,028) was secured with the assets of the Group. As separate loan agreements stipulate that the respective debt “is secured with the assets of the Group” and do not specify individual pledged assets, the carrying amount of pledged assets is not disclosed.

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

	31 December 2008	31 December 2007
Banks:		
US$ denominated floating rate	4.0%	5.6%
US$ denominated fixed rate	10.0%	9.1%
RR denominated floating rate	27.8%	11.7%
RR denominated fixed rate	15.9%	11.0%
European commercial paper	7.4%	9.6%
Commercial paper	21.4%	22.3%
Other US$ denominated fixed rate loans	3.7%	3.7%
Other RR denominated fixed rate loans	4.1%	2.4%

(in millions of Russian roubles, unless otherwise stated)

The carrying amounts and fair values of short-term debt are as follows:

	31 December 2008		31 December 2007	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Banks:				
US$ denominated floating rate	2,644	2,542	3,682	3,780
US$ denominated fixed rate	14,231	14,100	23,012	22,884
RR denominated floating rate	2,605	2,605	543	544
RR denominated fixed rate	15,528	15,564	3,509	3,511
European commercial paper	1,366	1,326	3,510	3,803
Commercial paper	1,138	1,155	791	864
Other US$ denominated fixed rate loans	9	11	6	5
Other RR denominated fixed rate loans	2,058	2,027	2,166	2,150

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 balance sheet date. These market interest rates for each class of short-term debt at the balance sheet dates were as follows:

	31 December 2008	**31 December 2007**
Banks:		
US$ denominated floating rate	10.0%	5.0%
US$ denominated fixed rate	13.5%	9.0%
RR denominated floating rate	27.8%	10.5%
RR denominated fixed rate	15.0%	10.9%
European commercial paper	14.4%	8.0%
Commercial paper	20.0%	19.1%
Other US$ denominated fixed rate loans	9.0%	4.3%
Other RR denominated fixed rate loans	12.0%	4.0%

14. OTHER PROVISIONS

	Year ended 31 December 2008	**Year ended 31 December 2007**
Provision for land recultivation	369	444
Legal claim provision	-	99
	369	543

Provision for land recultivation

	Year ended 31 December 2008	**Year ended 31 December 2007**
At the beginning of the year	444	484
Change in estimate of provision for land recultivation	(18)	(25)
Unwinding of discount	14	62
Utilised	(71)	(77)
At the end of the year	369	444

In October 2006 Management Committee of the Company approved the "Program for improvement of environmental situation in the area of operating activity of the Company". In accordance with this Program the Company assumed an obligation to perform recultivation of certain disturbed lands and tailing pits in the areas of its operating activity during 2007-2010. The Company recognised a provision for these future expenses in its consolidated financial statements for the years ended 31 December 2008 and 31 December 2007 with a corresponding asset recognised within property, plant and equipment (see note 8). The discount rate used to calculate the net present value of the future cash outflows relating to land recultivation at 31 December 2008 was 20.1 percent (31 December 2007: 12.4 percent), which represents the weighted average cost of capital for the Group and is considered appropriate to the Group in the economic environment in the Russian Federation at the balance sheet date.

(in millions of Russian roubles, unless otherwise stated)

Legal claim provision

	Year ended 31 December 2008	Year ended 31 December 2007
At the beginning of the year	99	229
Utilised	(90)	(104)
Foreign exchange gain	(9)	(26)
At the end of the year	-	99

15. PROVISION FOR PENSION OBLIGATIONS

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

	31 December 2008	31 December 2007
Present value of obligations	9,581	11,375
Fair value of plan assets	(3,819)	(3,555)
Unrecognised actuarial losses	(2,775)	(5,857)
Unrecognised past service cost	(85)	-
Net liability	2,902	1,963

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

	Year ended 31 December 2008	Year ended 31 December 2007
Current service cost	263	301
Interest cost	757	762
Expected return on plan assets	(254)	(228)
Net actuarial losses	437	468
Immediate recognition of vested prior service cost	471	-
Net expense recognised in the statement of income	1,674	1,303

Total expenses associated with pension obligations are included within wages, salaries and other staff costs within cost of sales in the consolidated statement of income.

Movements in the pension liability and plan assets recognised in the consolidated balance sheet in respect of the defined benefit plan are as follows:

	31 December 2008	31 December 2007
Benefit obligation at the beginning of the year	11,375	11,388
Current service cost	263	301
Interest cost	757	762
Actuarial gain	(2,894)	(653)
Benefits paid	(475)	(423)
Past service cost	555	-
Benefit obligation at the end of the year	9,581	11,375

	31 December 2008	31 December 2007
Fair value of plan assets at the beginning of the year	3,555	3,120
Expected return on plan assets	254	228
Contributions made	735	682
Benefits paid	(475)	(423)
Actuarial loss	(250)	(52)
Fair value of plan asset at the end of the year	3,819	3,555

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 balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

In the year ended 31 December 2008 the actual return on plan assets was RR'mln 4 (year ended 31 December 2007: RR'mln 176).

(in millions of Russian roubles, unless otherwise stated)

The Group expects to contribute RR'mln 945 to the defined benefit plans during the year beginning 1 January 2009.

Principal actuarial assumptions used:

	31 December 2008	31 December 2007
Discount rate (nominal)	8.9%	6.8%
Future salary and pension increases (nominal)	5.8%	8.2%
Expected return on plan assets	7.1%	6.8%
Employees average remaining working life (years)	16	13
Estimated total service (years)	12	15
Average period of vesting pensions (years)	6	6

Life expectancies are as follows:

	31 December 2008	31 December 2007
Male aged 57 (years)	15	14
Female aged 55 (years)	22	23

Five-year defined benefit plan disclosure:

	31 December				
	2008	2007	2006	2005	2004
Present value of obligations	9,581	11,375	11,388	8,590	7,513
Fair value of plan assets	(3,819)	(3,555)	(3,120)	(2,648)	(1,544)
Deficit (surplus) in plan	5,762	7,820	8,268	5,942	5,969

	Year ended 31 December				
	2008	2007	2006	2005	2004
Experience adjustments on plan liabilities	(278)	(653)	587	443	1,332
Experience adjustments on plan assets	(250)	(52)	(67)	115	223

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

	31 December 2008, %	31 December 2007, %
Russian corporate bonds	31.8	54.5
Bank deposits	21.9	18.9
Current bank accounts	14.6	1.1
Promissory notes of Russian issuers	14.1	5.5
Equity securities of Russian issuers	13.3	12.4
Russian Government and municipal bonds	4.3	7.6
	100.0	100.0

16. TRADE AND OTHER PAYABLES

	31 December 2008	31 December 2007
Trade payables	6,749	3,728
Accrual for employee flights and holidays	4,697	4,393
Accounts payable of OAO "NNGK Sakhaneftegaz" to the companies of former "YUKOS" Group (see note 5)	3,688	-
Wages and salaries	1,374	1,657
Current accounts of third parties in OOO "MAK-Bank"	1,090	658
Advances from customers	893	278
Interest payable	790	565
Payables to associates	91	89
Other payables and accruals	570	508
	19,942	11,876

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 short-term trade and other payables at 31 December 2008 and 31 December 2007 approximates their carrying value.

(in millions of Russian roubles, unless otherwise stated)

17. INCOME AND OTHER TAX ASSETS AND LIABILITIES

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

	31 December 2008	31 December 2007
Value added tax	1,748	289
Property tax	934	88
Unified social tax	841	829
Extraction tax	610	713
Personal income tax (employees)	363	232
Tax penalties	179	178
Other taxes and accruals	257	145
	4,932	2,474

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

	Year ended 31 December 2008	Year ended 31 December 2007
Property tax	2,271	1,544
Other taxes and accruals	398	288
	2,669	1,832

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 in the amount of RR'mln 3,509 per annum. In addition, in accordance with the agreement dated 29 December 2006 and its subsequent amendments, the Company made fixed royalty payments to the Republic of Sakha (Yakutia) in the amounts of RR'mln 481 in 2008 and RR'mln 1,307 in 2007.

During 2008, the Company accrued profit tax at the rate of 24 percent (year ended 31 December 2007: 24 percent). On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24 to 20 percent with effect from 1 January 2009. This tax rate was applied to determine the deferred tax balances as at 31 December 2008.

Income tax (benefit) / expense comprise the following:

	Year ended 31 December 2008	Year ended 31 December 2007
Current tax expense	3,119	6,422
Deferred tax (benefit) / expense	(6,373)	1,383
Effect of reduction in tax rate	18	-
	(3,236)	7,805

Loss / profit before taxation for financial reporting purposes is reconciled to tax (benefit) / expense as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
(Loss) / profit before income tax	(36,003)	23,989
Theoretical tax (benefit) / charge at statutory rate of 24 percent thereon	(8,641)	5,757
Effect of reduction in tax rate to 20 percent	18	-
Income not assessable for income tax purposes	(65)	(633)
Unrecognised potential deferred tax assets relating to unused tax losses carry forwards (expiry date – 2019)	1,660	-
Expenses and losses not deductible for income tax purposes	3,792	2,681
	(3,236)	7,805

Expenses and losses not deductible for income tax purposes include mostly social expenses, impairment of goodwill arising from acquisition of OAO "NNGK Sakhaneftegaz" (see note 22) 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 (2007: 24 percent).

(in millions of Russian roubles, unless otherwise stated)

	31 December 2008	**Tax effect of movement in temporary differences**		**31 December 2007**	**Tax effect of movement in temporary differences**			**31 December 2006**
		Charged to statement of income			**Disposal of subsidiary**	**Charged to statement of changes in equity**	**Charged to statement of income**	
		Effect from tax rate change	At 24 percent					
Deferred tax liabilities								
Property, plant and equipment	5,217	(1,044)	124	6,137	(27)	976	624	4,564
Inventories	2,238	(448)	598	2,088	-	-	55	2,033
Long-term investments	277	(55)	9	323	-	(58)	189	192
Deferred tax assets								
Derivative financial instruments	(4,490)	898	(6,613)	1,225	-	-	1,008	217
Accrual for employee benefits	(1,032)	207	59	(1,298)	-	-	(97)	(1,201)
Exploration costs written off	(353)	71	(20)	(404)	-	-	(97)	(307)
Provision for pension obligations	(580)	116	(225)	(471)	-	-	(106)	(365)
Write-down of inventories	(1,005)	201	(158)	(1,048)	-	-	(78)	(970)
Impairment of accounts receivable	(295)	59	(204)	(150)	-	-	(24)	(126)
Other deductible temporary differences	(67)	13	57	(137)	-	-	(91)	(46)
Net deferred tax (asset) / liability	**(90)**	**18**	**(6,373)**	**6,265**	**(27)**	**918**	**1,383**	**3,991**

At 31 December 2008 and 2007, the Group had not recorded a deferred tax liability in respect to taxable temporary differences of RR'mln 2,510 and RR'mln 2,450, 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 2008	**Year ended 31 December 2007**
Revenue from diamond sales:		
Export	38,880	47,477
Domestic	35,292	27,716
Revenue from diamonds for resale	4,072	4,578
	78,244	79,771
Other revenue:		
Transport	4,404	3,878
Social infrastructure	1,842	1,790
Construction	1,096	803
Trading	757	513
Gas and gas condensate	701	1,148
Other	4,038	2,831
	91,082	90,734

Export duties totalling RR'mln 2,243 for the year ended 31 December 2008 (year ended 31 December 2007: RR'mln 3,014) were netted against revenues from export of diamonds.

19. COST OF SALES

	Year ended 31 December 2008	**Year ended 31 December 2007**
Wages, salaries and other staff costs	18,737	16,135
Fuel and energy	9,075	8,402
Depreciation	8,897	8,611
Extraction tax	5,924	6,509
Materials	5,766	4,882
Services	3,720	2,764
Cost of diamonds for resale	3,415	3,904
Transport	1,696	1,397
Other	158	140
Movement in inventory of diamonds, ores and concentrates	(4,833)	(1,303)
	52,555	51,441

(in millions of Russian roubles, unless otherwise stated)

Wages, salaries and other staff costs include unified social tax in the amount of RR'mln 2,844 (year ended 31 December 2007: RR'mln 2,482).

Depreciation totalling RR'mln 1,246 (year ended 31 December 2007: RR'mln 937) and staff costs totalling RR'mln 2,979 (year ended 31 December 2007: RR'mln 2,649) were incurred by the Group's construction divisions and were capitalised in the year.

20. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2008	Year ended 31 December 2007
Services and other administrative expenses	3,580	2,936
Wages, salaries and other staff costs	2,714	1,741
Bad debt expense (see note 10)	85	589
	6,379	5,266

Wages, salaries and other staff costs include unified social tax in the amount of RR'mln 163 (year ended 31 December 2007: RR'mln 139).

21. OTHER OPERATING INCOME

	Year ended 31 December 2008	Year ended 31 December 2007
Negative goodwill on acquisition of non-controlling interest in subsidiaries	-	2,132
Gain on disposal of available-for-sale investments	-	676
Amortisation of Grant	-	507
Gain on disposal of OAO "Yakutskgeofizika" (see note 5)	-	104
Other	573	493
	573	3,912

22. OTHER OPERATING EXPENSES

	Year ended 31 December 2008	Year ended 31 December 2007
Exploration expenses	4,520	4,150
Social costs	3,306	3,672
Taxes other than income tax, extraction tax and unified social tax (note 17)	2,669	1,832
Impairment of goodwill arising from the acquisition of OAO "NNGK Sakhaneftegaz" (see note 5)	1,531	-
Net loss from cross currency interest rate swap contracts (see note 6)	1,040	-
Loss on disposal of property, plant and equipment	890	1,061
Impairment (reversal of impairment) of property, plant and equipment	520	(158)
Other	1,516	1,563
	15,992	12,120

Social costs consist of:

	Year ended 31 December 2008	Year ended 31 December 2007
Maintenance of local infrastructure	1,620	1,804
Charity	774	746
Hospital expenses	227	391
Education	165	179
Other	520	552
	3,306	3,672

23. FINANCE INCOME

	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	1,696	1,406
Exchange gains	3,360	4,687
	5,056	6,093

(in millions of Russian roubles, unless otherwise stated)

24. FINANCE COSTS

	Year ended 31 December 2008	Year ended 31 December 2007
Interest expense:		
Bank loans	7,397	3,999
Eurobonds	1,316	1,795
Commercial paper	272	261
European commercial paper	749	347
Other	78	182
Unwinding of discount of provision for restoration liability	-	283
Unwinding of discount of provision for land recultivation (see note 14)	14	62
Exchange loss	17,812	541
	27,638	7,470

25. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December 2008	Year ended 31 December 2007
(Loss) / profit before income tax	(36,003)	23,989
Adjustments for:		
Share of net profit of associates (note 5)	(676)	(936)
Interest income (note 23)	(1,696)	(1,406)
Interest expense (note 24)	9,826	6,929
Loss on disposal of property, plant and equipment (note 22)	890	1,061
Impairment (reversal of impairment) of property, plant and equipment (note 22)	520	(158)
Net loss from cross currency interest rate swap contracts (note 22)	1,040	-
Impairment of goodwill arising from the acquisition of OAO "NNGK Sakhaneftegaz" (note 22)	1,531	-
Negative goodwill on acquisition of non-controlling interest in subsidiaries (note 21)	-	(2,132)
Gain on disposal of OAO "Yakutskgeofizika" (note 21)	-	(104)
Gain on disposal of available-for-sale investments (note 21)	-	(676)
Amortisation of Grant (note 21)	-	(507)
Net loss / (gain) from foreign exchange forward contracts	25,077	(5,149)
Depreciation (note 19)	8,897	8,611
Adjustment for inventory used in construction	(2,031)	(1,995)
Adjustments for non-cash financing activity (note 28)	(141)	7
Net proceeds from exercising of foreign exchange forward contracts	1,377	945
Net proceeds from exercising of cross currency interest rate swap contracts	56	-
Receipts from restricted cash account (note 7)	102	10
Unrealised foreign exchange effect on non-operating items	15,958	(4,521)
Net operating cash flow before changes in working capital	24,727	23,968
Net increase in inventories	(6,222)	(2,825)
Net (increase) / decrease in trade and other receivables, excluding dividends receivable, receivables for sale of gold mining operations and treasury shares	(12,746)	10,404
Net increase in provisions, trade and other payables, excluding interest payable and payables for acquired property, plant and equipment	3,376	1,688
Net increase / (decrease) in taxes payable other than income tax	2,459	(20)
Cash generated from operations	**8,418**	**33,215**
Income tax paid	(3,291)	(7,944)
Net cash inflows from operating activities	**5,127**	**25,271**

26. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment of the Russian Federation and impact of the ongoing global financial and economic crisis

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US$ exchange rate of the Central Bank of the Russian Federation increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 32.04 at 10 July 2009. International reserves of the Russian Federation decreased from US$'mln 556,813 at 30 September 2008 to US$'mln 427,080 at 31 December 2008 and to US$'mln 412,591 at 30 June 2009. The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price per barrel of Urals oil decreased from US$ 91.15 at 29 September 2008 to US$ 41.83 at 31 December 2008 and then partially recovered to US$ 58.47 at 10 July 2009.

The uncertainties in the global financial markets have also led to failures of banks and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. In this context the Group acquired a share in OAO "KIT Finance Investment bank" in order to support the process of normalisation of its financial position (see note 5). The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

The availability of external funding in financial markets has significantly reduced since August 2007. Such circumstances 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.

Debtors and borrowers of the Group may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers and borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

The Group is exposed to deteriorating economic conditions resulting from general economic downturn, decline in demand for certain commodities, including diamonds, and decline in prices for diamonds. These new market conditions have an impact on medium term cash flow forecast and assessment of potential impairment of property, plant and equipment. As at 31 December 2008 management has updated the Group's medium and long-term cash-flow forecasts and impairment assessment (see note 8).

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. 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.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

(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 December 2008 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.

(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 2008.

(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

At 31 December 2008, the Group has contractual commitments for capital expenditures of approximately RR'mln 10,622 (31 December 2007: RR'mln 2,014).

(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 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 December 2008 and 31 December 2007. 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.

27. 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 December 2008 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 December 2008 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 2008, the 15 seats on the Supervisory Council include 12 representatives of the Russian Federation and the Republic of Sakha (Yakutia), two management representatives and one 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 balance sheet and in notes 10 and 17. Tax transactions are disclosed in the income statement, cash flow statement and in notes 17, 18, 19, 22 and 25.

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 December 2008 the accounts payable to the parties under Governmental control totalled RR'mln 3,092 (31 December 2007: RR'mln 244). As at 31 December 2008 the accounts receivable from the parties under Governmental control totalled RR'mln 517 (31 December 2007: RR'mln 481). As at 31 December 2008 and 31 December 2007 the

(in millions of Russian roubles, unless otherwise stated)

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 2008 and 31 December 2007 the Group had the following significant transactions with parties under Governmental control:

	Year ended 31 December 2008	**Year ended 31 December 2007**
Sales of diamonds	13,244	10,864
Other sales	1,333	1,369
Electricity and heating purchases	4,330	4,131
Other purchases	1,301	855

As at 31 December 2008 and 31 December 2007 the amount of loans received by the Group from banks under Governmental control was as follows:

	31 December 2008	**31 December 2007**
Long-term bank loans		
US$ denominated fixed rate	5,364	2,342
RR denominated floating rate	3,193	-
RR denominated fixed rate	44,992	-
	53,549	2,342
Short-term bank loans		
US$ denominated fixed rate	14,141	6,883
RR denominated floating rate	2,605	-
RR denominated fixed rate	600	554
	17,346	7,437
	70,895	**9,779**

The average effective interest rates on the loans received by the Group from banks under Governmental control at the balance sheet dates were as follows:

	31 December 2008	**31 December 2007**
Long-term bank loans		
US$ denominated fixed rate	10.9%	8.8%
RR denominated floating rate	28.3%	-
RR denominated fixed rate	15.2%	-
Short-term bank loans		
US$ denominated fixed rate	10.0%	10.1%
RR denominated floating rate	27.1%	-
RR denominated fixed rate	18.5%	10.0%

In the year ended 31 December 2008 interest expense accrued in respect to the loans received by the Group from entities under Governmental control totalled RR'mln 3,077 (year ended 31 December 2007: RR'mln 701).

As at 31 December 2008 the amount of loans issued by the Group to the entities under Governmental control totalled RR'mln 843 (31 December 2007: RR'mln 1,121). These loans are short-term, denominated in Russian Roubles, the average effective interest rate on these loans is 15 percent (31 December 2007: 15 percent). In the year ended 31 December 2008 interest income earned by the Group in respect to the loans issued to the entities under Governmental control totalled RR'mln 141 (year ended 31 December 2007: RR'mln 144).

In December 2008 the Group acquired a 45 percent interest in share capital of OOO "KIT Finance Holding Company", which at the date of transaction owned 87 percent of shares of OAO "KIT Finance Investment bank" (see note 5). The rest 55 percent interest in share capital of OOO "KIT Finance Holding Company" was acquired by the companies of "Russian Railroads" group, which is controlled by the Government of the Russian Federation. As a result of these transactions OAO "KIT Finance Investment bank" became a related party of the Group. Cash balances held by the Group on current and long-term deposit accounts in OAO "KIT Finance Investment bank" as at 31 December 2008 are disclosed in note 7.

(in millions of Russian roubles, unless otherwise stated)

Key management compensation

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

The Management Committee consists of 24 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 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 year ended 31 December 2008 totalling RR'mln 520 (year ended 31 December 2007: RR'mln 406).

Associates

Significant transactions with associates are summarised as follows:

Long-term accounts receivable	**31 December 2008**	**31 December 2007**
"Escom-ALROSA Ltd", loan issued and interest receivable (see note 5)	2,990	2,734
	2,990	2,734

In the year ended 31 December 2008 the Group earned interest income in respect to the loan issued for "Escom-ALROSA Ltd" totalling RR'mln 188 (year ended 31 December 2007: RR'mln 219).

Current accounts receivable	**31 December 2008**	**31 December 2007**
"Escom-ALROSA Ltd", current portion of the loan issued (see note 5)	592	75
"Catoca Mining Company Ltd.", dividends receivable	402	234
ZAO "PIC Orel Almaz", receivables for supplied diamonds	162	162
"LUO Camachia-Camagico"	73	108
Other	67	95
Less: provision for bad debt	(188)	(188)
	1,108	486

As at 31 December 2008 and 31 December 2007 the accounts receivable from associates were non-interest bearing, had a maturity within one year and were denominated mostly in US$.

28. SIGNIFICANT NON-CASH TRANSACTIONS

	Year ended 31 December 2008	**Year ended 31 December 2007**
Non-cash financing activities:		
Commercial paper issuance	401	500
Commercial paper and loans redemption	(542)	(493)
	(141)	7

(in millions of Russian roubles, unless otherwise stated)

29. SEGMENT INFORMATION

The Group has one reportable business segment, which is the production and sale of diamonds. The Group evaluates performance and makes investment and strategic decisions based upon review of profitability for the Group as a whole.

An analysis of revenue by type is disclosed in note 18. Revenue from sales by geographical location of the customer, and assets and capital expenditures by geographical location of the asset are as follows:

	Sales		**Total assets**		**Capital Expenditures**	
	Year ended 31 December 2008	**Year ended 31 December 2007**	**31 December 2008**	**31 December 2007**	**Year ended 31 December 2008**	**Year ended 31 December 2007**
Russian Federation	47,821	38,331	254,847	220,067	31,571	28,350
Western Europe	19,471	24,705	3,215	1,996	5	-
Other countries	23,790	27,698	4,597	3,670	16	537
	91,082	**90,734**	**262,659**	**225,733**	**31,592**	**28,887**
Associates	-	-	1,813	1,613	-	-
Unallocated assets	-	-	603	483	-	-
Total	**91,082**	**90,734**	**265,075**	**227,829**	**31,592**	**28,887**

30. POST BALANCE SHEET EVENTS

Borrowings

During January–June 2009 "ALROSA Finance S.A.", a subsidiary of the Group, issued several series of European commercial paper (ECP) in the amount of RR'mln 12,083 (US$'mln 373) with maturity periods 6-12 months and fixed annual interest rates of 11.5-14.4 percent.

During January–June 2009 the Group received short-term and medium-term US$ denominated fixed rate loans from several Russian banks in the amount of RR'mln 52,465 (US$'mln 1,545). During the same period the Group repaid bank loans (including US$ denominated fixed rate and RR denominated fixed and floating rate loans) in the amount of RR'mln 28,828 in accordance with the repayment schedules established by the respective loan agreements.

Dividends

On 20 June 2009, the Company's annual shareholders' meeting decided not to pay dividends for the year ended 31 December 2008.

ALROSA FINANCE S.A.

Société Anonyme

412F route d'Esch L-1030 Luxembourg

ANNUAL ACCOUNTS

December 31, 2009

R.C.S. Luxembourg B 93 147

PRICEWATERHOUSECOOPERS

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Audit report

To the Shareholders of
Alrosa Finance S.A.

Report on the annual accounts

We have audited the accompanying annual accounts of Alrosa Finance S.A. which comprise the balance sheet as at December 31, 2009, the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts 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 the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

Cabinet de révision agréé
Expert comptable (autorisation gouvernementale n°95992)
R.C.S. Luxembourg B 65 477 - Capital social EUR 516 950 - TVA LU17564447

PRICEWATERHOUSECOOPERS

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these annual accounts give a true and fair view of the financial position of Alrosa Finance S.A.as of December 31, 2009, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

PricewaterhouseCoopers S.à r.l. Luxembourg, July 19, 2010
Represented by

Marc Minet

ALROSA FINANCE S.A.
BALANCE SHEET
December 31, 2009
(expressed in EUR)

	2009	2008
ASSETS		
SUBSCRIBED CAPITAL UNPAID (note 5)	23 250,00	23 250,00
FIXED ASSETS		
Financial assets		
- Loans to affiliated undertakings (note 3)	386 040 765,90	386 040 765,90
CURRENT ASSETS		
Debtors		
- Accrued interest on loans to affiliated undertakings due and payable within one year (note 3)	3 774 678,23	3 860 898,29
- Amounts owed by affiliated undertakings due and payable within one year (note 4)	253 969 482,13	31 132 366,90
Cash at bank	665 201,36	857 325,90
PREPAYMENTS AND ACCRUED INCOME	454 790,35	548 752,67
TOTAL ASSETS	644 928 167,97	422 463 359,66
LIABILITIES		
CAPITAL AND RESERVES		
Subscribed capital (note 5)	31 000,00	31 000,00
Legal reserve (note 6)	3 100,00	3 100,00
Other reserves (note 7)	18 800,00	7 900,00
Profit brought forward (note 5)	560 294,32	418 424,95
Profit for the financial year	33 114,73	152 769,37
	646 309,05	613 194,32
CREDITORS		
Notes becoming due and payable after more than one year (note 8)	386 040 765,90	386 040 765,90
Accrued interest on notes becoming due and payable within one year (note 8)	3 762 397,00	3 848 336,53
Creditors becoming due and payable within one year (note 4)	253 958 342,97	31 132 366,87
Debts on purchases and provisions of services becoming due and payable within one year	28 654,40	61 428,76
Other creditors	37 637,47	219 243,78
	643 827 797,74	421 302 141,84
ACCRUALS AND DEFERRED INCOME	454 061,18	548 023,50
TOTAL LIABILITIES	644 928 167,97	422 463 359,66

The accompanying notes are an integral part of these annual accounts.

ALROSA FINANCE S.A.

PROFIT AND LOSS ACCOUNT

For the year 2009

(expressed in EUR)

CHARGES

	2009	**2008**
Other operating charges (note 9)	175 961,84	360 366,12
Interest payable and similar charges (notes 4 and 8)	54 517 920,91	58 085 275,68
Income tax	49 945,65	68 605,68
Other taxes not shown under the above items	780,00	585,00
PROFIT FOR THE FINANCIAL YEAR	33 114,73	152 769,37
TOTAL CHARGES	54 777 723,13	58 667 601,85

INCOME

Income from loans forming part of the fixed assets derived from affiliated undertakings (note 3)	31 442 720,47	37 780 240,08
Other interest receivable and similar income derived from affiliated undertakings (note 10)	23 329 702,19	20 424 826,53
Other interest receivable and similar income	5 300,47	430 685,65
Extraordinary income	-	31 849,59
TOTAL INCOME	54 777 723,13	58 667 601,85

The accompanying notes are an integral part of these annual accounts.

ALROSA FINANCE S.A.

NOTES TO THE ACCOUNTS

December 31, 2009

NOTE 1 - GENERAL

Alrosa Finance S.A. - hereafter "the Company" - was incorporated on April 17, 2003 as a Société Anonyme within the definition of the Luxembourg law of August 10, 1915 on commercial companies for an unlimited duration.

The registered office of the Company is established in Luxembourg, Grand-Duchy of Luxembourg.
The purpose of the Company is the holding of participations, in any form whatsoever, in Luxembourg and foreign companies and any other form of investment, the acquisition by purchase, subscription or in any other manner as well as the transfer by sale, exchange or otherwise of securities of any kind and the administration, control and development of its portofolio.
The Company may further guarantee, grant loans or otherwise assist the companies in which it holds a direct or indirect participation or which form part of the same group of companies as the Company.
The Company may carry out any commercial, industrial or financial activities which it may deem useful in accomplishment of this purpose.

The Company has received the confirmation of the CSSF as at March 11, 2009 that it benefits from the exemption mentioned by the article 7 (1) of the law of January 11, 2008 on the Transparency of information about issuers of securities.

The financial year covers the period from January 1 to December 31.

The Company's accounts are included in the consolidated accounts established by ALROSA Company Limited, a closed joint stock company established at 6 Lenin Street, Mirny 678170, Republlic of Sakha (Yakutia), Russia, with postal address: 10/12 1st Kazachii per., Moscow 119017, Russia.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The annual accounts have been prepared in accordance with Luxembourg legal and regulatory requirements. Accounting policies and valuation rules are, besides the ones laid down by the law, determinated and applied by the Board of Directors.

Foreign currencies

The Company maintains its accounts in Euros (EUR) and the annual accounts are expressed in this currency.
Loans and Notes expressed in currencies other than EUR are translated into EUR at the exchange rate effective at the time of the transaction.
At the balance sheet date, long term loans associated with long term liabilities expressed in the same currency, remain translated at historical exchange rate.
Cash at bank is translated at the exchange rate effective at the balance sheet date. Exchange losses and gains are recorded in the profit and loss account of the year.
Other assets and liabilities are translated respectively at the lower or at the higher of the value converted at the historic exchange rate or the value determined on the basis of the exchange rates effective at the balance sheet date. The unrealised exchange losses are recorded in the profit and loss account. The realised exchange gains are recorded in the profit and loss account at the moment of their realisation.
Income and expenses transactions are recorded at the rates prevailing on the dates of transactions.
Where there is an economic link between an asset and a liability, these are valued in total according to the method described above and the net unrealised loss is recorded in the profit and loss account.

Financial assets

Financial assets are stated at cost unless, in the opinion of the Directors, a permanent loss in value occurs, in which case their value is adjusted accordingly. Loans are recorded at the nominal value. Discounts or premiums on loans granted are recorded as "Accruals and deferred income" or "Prepayments and accrued income" and amortized over the duration of the financial asset.

Formation expenses

Formation expenses have been amortized using the straight-line method over five years.

Creditors

Long-term notes are recorded at par value. Discounts or premiums on notes issued are recorded as "Prepayments and accrued income" or "Accruals and deferred income" and amortized over the duration of the long-term note.

NOTE 3 - FINANCIAL ASSETS: Loans to affiliated undertakings

The loan dated 2003 has been reimbursed on May 2008, at the maturity date.
The loan dated 2004 and due 2014 has an interest rate of 8,90625% per annum.

As at December 31, 2009 the financial fixed assets held by the Company are made of one loan granted to Alrosa Company Limited.

Loans to affiliated undertakings due and payable after more than one year

		2009		2008
	USD	EUR	USD	EUR
* Loan dated 2004 and due 2014	500 000 000,00	386 040 765,90	500 000 000,00	386 040 765,90
As at December 31,	500 000 000,00	386 040 765,90	500 000 000,00	386 040 765,90
Total net book value at end of year		386 040 765,90		386 040 765,90

Loans to affiliated undertakings due and payable within one year

		2009		2008
	USD	EUR	USD	EUR
* Loan dated 2003 and due 2008	-	-	300 000 000,00	253 764 168,50
Repayment	-	-	(300 000 000,00)	(253 764 168,50)
As at December 31,	-	-	-	-
Total net book value at end of year		-		-
* Accrued interest on Loan dated 2004 and due 2014	5 442 708,33	3 774 678,23	5 442 708,33	3 860 898,29
		3 774 678,23		3 860 898,29
Total net book value at end of year		3 774 678,23		3 860 898,29

NOTE 4 - DEBTORS/CREDITORS BECOMING DUE AND PAYABLE WITHIN ONE YEAR

During the year 2009, Euro Commercial Papers ("ECP") have been issued by Alrosa Finance S.A. and the proceeds from these issues have been granted through intercompany loans to Alrosa Company Limited.

As at December 31, 2009, the outstanding ECP and intercompany loans are detailed as follows:

	Duration	Loan Facility (USD)	Proceeds (USD)	Proceeds (EUR)
Series 11	24/06/2009-22/03/2010	9 000 000,00	8 155 775,31	5 855 248,27
Series 12	14/07/2009-14/01/2010	16 700 000,00	15 629 549,52	11 242 662,58
Series 13	14/07/2009-13/07/2010	31 200 000,00	27 234 636,87	19 590 445,17
Series 14	02/12/2009-01/12/2010	350 000 000,00	320 509 559,32	213 189 809,31
				249 878 165,33

NOTE 4 - DEBTORS/CREDITORS BECOMING DUE AND PAYABLE WITHIN ONE YEAR (continued)

As at December 31, 2009, the accrued interest are detailed as follows:

	Period	Interest rate on ECP	Accrued interest on ECP (EUR)	Interest rate on intercompany loans	Accrued interest on intercompany loans (EUR)
Series 11	24/06/2009-31/12/2009	13,75074%	412 654,90	13,78199%	413 592,76
Series 12	14/07/2009-31/12/2009	13,40000%	689 937,49	13,43125%	691 546,49
Series 13	14/07/2009-31/12/2009	14,40000%	1 291 940,66	14,43123%	1 294 744,35
Series 14	02/12/2009-31/12/2009	9,10000%	1 685 644,59	9,13125%	1 691 433,20
			4 080 177,64		4 091 316,80

NOTE 5 - CAPITAL AND RESERVES

Subscribed capital

The subscribed capital amounts to EUR 31 000,00 and is divided into 310 shares having a par value of EUR 100,00 each. One fourth of each share has been paid up.
Subscribed capital unpaid and not called:
- Alrosa Finance B.V.: EUR 23 175,00
- Shapburg Limited: EUR 75,00.

Profit brought forward

The Annual General Meeting of Shareholders dated August 12, 2009 decided to allocate EUR 10 900,00 to a special reserve and to carry forward the remaining net profit of the year ended December 31, 2008.

NOTE 6 - LEGAL RESERVE

Under Luxembourg company law 5 % of the profit for the financial year must be apportioned to the legal reserve, until such legal reserve is equal to 10 % of the share capital. The legal reserve is not distributable.

NOTE 7 - OTHER RESERVES

The special reserve corresponds to five times the amount of the Net Wealth Tax calculated as at January 1st, 2007 and January 1st, 2008 following article 8.a of the Net Wealth Tax law.
This reserve is not distributable during five years.

NOTE 8 - NOTES

The Company issued on May 6, 2003 a note due on 2008 amounting to USD 500 000 000,00 at a rate of 8.125 %.
The issue price of the note was 98.996 % of the principal amount.
The note has been reimbursed on May 2008, at the maturity date.

Notes becoming due and payable after more than one year

	2009 USD	2009 EUR	2008 USD	2008 EUR
* Notes due to 2014	500 000 000,00	386 040 765,90	500 000 000,00	386 040 765,90
As at December 31,	500 000 000,00	386 040 765,90	500 000 000,00	386 040 765,90
Total net book value at end of year		386 040 765,90		386 040 765,90

The Company issued on November 16, 2004 a note due 2014 amounting to USD 300 000 000,00 at a rate of 8.875 %. The issue price of the note is 99.511 % of the principal amount.

On January 24, 2005 the Board of Directors resolved to issue a supplementary note due 2014 amounting to USD 200 000 000,00 at a rate of 8.875 %. The note due 2014 is to be consolidated with the preceding note due 2014 issued on November 16, 2004.

Notes becoming due and payable within one year

	2009 USD	2009 EUR	2008 USD	2008 EUR
* Notes due to 2008	-	-	300 000 000,00	253 764 168,50
Repayment	-	-	(300 000 000,00)	(253 764 168,50)
As at December 31,	-	-	-	-
Total net book value at end of year		-		-
* Accrued interest on notes due to 2014	5 425 000,00	3 762 397,00	5 425 000,00	3 848 336,53
		3 762 397,00		3 848 336,53
Total net book value at end of year		3 762 397,00		3 848 336,53

All notes are unconditionnally and irrecovably guaranteed by Alrosa Company Limited.

NOTE 9 - OTHER OPERATING CHARGES

Other operating charges consist of:

	2009 EUR	2008 EUR
Discount on the Notes	93 962,32	263 276,60
Other	81 999,52	97 089,52
	175 961,84	360 366,12

NOTE 10 - INTEREST RECEIVABLE AND SIMILAR INCOME DERIVED FROM AFFILIATED UNDERTAKINGS

During the year 2009, Alrosa Finance S.A. has issued ECP from the existing ECP programme amounting to USD 700 000 000,00. Four issues are due in 2010.

The proceeds from this ECP programme have been granted through intercompany loans to Alrosa Company Limited. As at end of 2009, both ECP programme and the corresponding intercompany loans due in 2009 have been entirely reimbursed.

NOTE 11 - TAX STATUS

The Company is subject in Luxembourg to the applicable general tax regulations.

NOTE 12 - SUBSEQUENT EVENT

On April 21, 2010, the shareholder Shapburg Limited has transferred to Louv S.à r.l., a company incorporated under the law of Luxembourg, its share held in Alrosa Finance S.A..

NOTE 13 - COMPARATIVE INFORMATION

The balance sheet published as at December 31, 2009 may differ in certain respects from the balance sheet of the previous year.
The difference is the consequence of the reclassification of some items in order to deliver better financial information.
The reclassifications in no way effect the results of the final balance.

ALROSA FINANCE S.A.

Société Anonyme

412F route d'Esch L-1030 Luxembourg

ANNUAL ACCOUNTS

December 31, 2008

R.C.S. Luxembourg B 93 147

PRICEWATERHOUSECOOPERS

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Independent Auditor's report

To the Shareholders of
Alrosa Finance S.A.

Report on the annual accounts

We have audited the accompanying annual accounts of Alrosa Finance S.A., which comprise the balance sheet as at December 31, 2008, the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, 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 annual accounts 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.

R.C.S. Luxembourg B 65 477 - TVA LU17564447

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these annual accounts give a true and fair view of the financial position of Alrosa Finance S.A. as of December 31, 2008, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

PricewaterhouseCoopers S.à r.l.
Réviseur d'entreprises
Represented by

Luxembourg, July 27, 2009

Marc Minet

ALROSA FINANCE S.A.

BALANCE SHEET

December 31, 2008

(expressed in EUR)

	2008	2007
ASSETS		
SUBSCRIBED CAPITAL UNPAID (note 7)	23 250.00	23 250.00
FIXED ASSETS		
Financial assets		
- Loans to affiliated undertakings due and payable after more than one year (note 5)	386 040 765.90	386 040 765.90
CURRENT ASSETS		
Debtors		
- Loans to affiliated undertakings due and payable within one year (note 5)	3 860 898.29	260 007 378.94
- Amounts owed by affiliated undertakings due and payable within one year (note 6)	31 132 366.90	99 491 840.84
Cash at bank	857 325.90	845 637.45
PREPAYMENTS AND ACCRUED INCOME	548 752.67	813 360.24
TOTAL ASSETS	422 463 359.66	747 222 233.37
LIABILITIES		
CAPITAL AND RESERVES		
Subscribed capital (note 7)	31 000.00	31 000.00
Legal reserve (note 8)	3 100.00	3 100.00
Other reserves (note 9)	7 900.00	
Profit brought forward (note 7)	418 424.95	351 954.69
Profit for the financial year	152 769.37	74 370.26
	613 194.32	460 424.95
PROVISIONS FOR LIABILITIES AND CHARGES		
Provisions for taxation	219 243.78	366 313.36
CREDITORS		
Notes becoming due and payable after more than one year (note 10)	386 040 765.90	386 040 765.90
Notes becoming due and payable within one year (note 10)	3 848 336.53	259 975 255.85
Creditors becoming due and payable within one year (note 6)	31 132 366.87	99 490 576.28
Debts on purchases and provisions of services becoming due and payable within one year	61 428.76	45 747.34
Amounts owed to affiliated undertakings becoming due and payable after more than one year	-	31 849.59
	421 082 898.06	745 584 194.96
ACCRUALS AND DEFERRED INCOME	548 023.50	811 300.10
TOTAL LIABILITIES	422 463 359.66	747 222 233.37

The accompanying notes are an integral part of these annual accounts.

ALROSA FINANCE S.A.

PROFIT AND LOSS ACCOUNT

For the year 2008

(expressed in EUR)

CHARGES

	2008	**2007**
Value adjustments in respect of formation expenses (note 4)	-	347.00
Other operating charges (note 11)	360 366.12	755 109.30
Interest payable and similar charges (note 6 and 10)	58 085 275.68	58 053 259.45
Income tax	68 605.68	33 512.02
Other taxes not shown under the above items	585.00	1 692.66
PROFIT FOR THE FINANCIAL YEAR	152 769.37	74 370.26
TOTAL CHARGES	58 667 601.85	58 918 290.69

INCOME

Income from loans forming part of the fixed assets derived from affiliated undertakings (note 5)	37 780 240.08	49 073 452.77
Interest receivable and similar income derived from affiliated undertakings (note 12)	20 424 826.53	9 784 113.60
Other interest and similar income	430 685.65	60 724.32
Extraodinary income	31 849.59	-
TOTAL INCOME	58 667 601.85	58 918 290.69

The accompanying notes are an integral part of these annual accounts.

NOTE 1 - GENERAL

Alrosa Finance S.A. - hereafter "the Company" - was incorporated on April 17, 2003 as a Société Anonyme within the definition of the Luxembourg law of August 10, 1915 on commercial companies for an unlimited duration.

The registered office of the Company is established in Luxembourg, Grand-Duchy of Luxembourg.
The purpose of the Company is the holding of participations, in any form whatsoever, in Luxembourg and foreign companies and any other form of investment, the acquisition by purchase, subscription or in any other manner as well as the transfer by sale, exchange or otherwise of securities of any kind and the administration, control and development of its portofolio.
The Company may further guarantee, grant loans or otherwise assist the companies in which it holds a direct or indirect participation or which form part of the same group of companies as the Company.
The Company may carry out any commercial, industrial or financial activities which it may deem useful in accomplishment of this purpose.

The Company has received the confirmation of the CSSF as at March 11, 2009 that it benefits from the exemption mentioned by the article 7 (1) of the law of January 11, 2008 on the Transparency of information about issuers of securities.

The financial year covers the period from January 1 to December 31.

The company's accounts are included in the consolidated accounts established by ALROSA Co. Ltd, a closed joint stock company established at 6 Lenin Street, Mirny 678170, Republlic of Sakha (Yakutia), Russia, with postal address: 10/12 1st Kazachii per., Moscow 119017, Russia.

NOTE 2 - PRESENTATION OF THE COMPARATIVE FINANCIAL DATA

The figures of the year ending December 31, 2007 relating to the following items have been reclassified to ensure the comparability of the figures of the year ending December 31, 2008.

- Loans to affiliated undertakings due and payable after more than one year;
- Loans to affiliated undertakings due and payable within one year;
- Notes becoming due and payable after more than one year;
- Notes becoming due and payable within one year.

The reclassifications have no impact on the final result.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of presentation</u>

The annual accounts have been prepared in accordance with Luxembourg legal and regulatory requirements. Accounting policies and valuation rules are, besides the ones laid down by the law, determinated and applied by the Board of Directors.

<u>Foreign currencies</u>

The company maintains its accounts in Euros (EUR) and the annual accounts are expressed in this currency.
Loans and Notes expressed in currencies other than EUR are translated into EUR at the exchange rate effective at the time of the transaction.
At the balance sheet date, long term loans associated with long term liabilities expressed in the same currency, remain translated at historical exchange rate.
Cash at bank is translated at the exchange rate effective at the balance sheet date. Exchange losses and gains are recorded in the profit and loss account of the year.
Other assets and liabilities are translated respectively at the lower or at the higher of the value converted at the historic exchange rate or the value determined on the basis of the exchange rates effective at the balance sheet date. The unrealised exchange losses are recorded in the profit and loss account. The realised exchange gains are recorded in the profit and loss account at the moment of their realisation.
Income and expenses transactions are recorded at the rates prevailing on the dates of transactions.
Where there is an economic link between an asset and a liability, these are valued in total according to the method described above and the net unrealised loss is recorded in the profit and loss account.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Financial assets are stated at cost unless, in the opinion of the Managers, a permanent loss in value occurs, in which case their value is adjusted accordingly. Loans are recorded at the nominal value. Discounts or premiums on loans granted are recorded as "Accruals and deferred income" or "Prepayments and accrued income" and amortized over the duration of the financial asset.

Formation expenses

Formation expenses are amortized using the straight-line method over five years.

Creditors

Long-term notes are recorded at par value. Discounts or premiums on notes issued are recorded as "Prepayments and accrued income" or "Accruals and deferred income" and amortized over the duration of the long-term note.

NOTE 4 - FORMATION EXPENSES

The formation expenses correspond to the charges related to the incorporation.

	2008 EUR	2007 EUR
Net book value at the beginning of the year	-	347.00
Amortisation during the year	-	(347.00)
Net book value at end of the year	-	-

NOTE 5 - FINANCIAL ASSETS: Loans to affiliated undertakings

The loan dated 2003 has been reimbursed on May 2008, at the maturity date. It has an interest rate of 8,1875% per annum.
The loan dated 2004 and due 2014 has an interest rate of 8,90625% per annum.

As at December 31, 2008 the financial fixed assets held by the Company are made of one loan granted to a company of the Group.

Loans to affiliated undertakings due and payable after more than one year

	2008 USD	2008 EUR	2007 USD	2007 EUR
* Loan dated 2004 and due 2014	500 000 000.00	386 040 765.90	300 000 000.00	231 624 459.54
* Advance	-	-	200 000 000.00	154 416 306.36
As at December 31,	500 000 000.00	386 040 765.90	500 000 000.00	386 040 765.90
Total net book value at end of year		386 040 765.90		386 040 765.90

NOTE 5 - FINANCIAL ASSETS: Loans to affiliated undertakings (continued)

Loans to affiliated undertakings due and payable within one year

	2008		2007	
	USD	**EUR**	**USD**	**EUR**
* Loan dated 2003 and due 2008	300 000 000.00	253 764 168.50	500 000 000.00	422 940 280.83
Partly repayment	-	-	(200 000 000.00)	(169 176 112.33)
Repayment	(300 000 000.00)	(253 764 168.50)		
As at December 31,	-	-	300 000 000.00	253 764 168.50
Total net book value at end of year		-		253 764 168.50
* Accrued interest on Loan dated 2003 and due 2008	-	-	3 752 604.17	2 547 852.24
		-		2 547 852.24
* Accrued interest on Loan dated 2004 and due 2014	5 442 708.33	3 860 898.29	5 442 708.33	3 695 358.20
		3 860 898.29		3 695 358.20
Total net book value at end of year		3 860 898.29		260 007 378.94

NOTE 6 - DEBTORS/CREDITORS BECOMING DUE AND PAYABLE WITHIN ONE YEAR

As at June 26, 2008, a Euro Commercial Paper ("ECP") programme amounting to USD 50,000,000.00 has been issued by Alrosa Finance S.A., with due date June 25, 2009, and bearing an interest rate of 7,435%.

The proceeds from this last issue, USD 46,504,009.50 (EUR 29,844,698.69) have been granted through an intercompany loan to a group company, with repayment date June 25, 2009, and bearing an interest rate of 7.435%.

Both ECP and intercompany loan have been repaid on June 25, 2009.

The accrued interest on the ECP and on the intercompany loan as at December 31, 2008 amount to USD 1,815,225.84 (EUR 1,287,668.18).

NOTE 7 - CAPITAL AND RESERVES

Subscribed capital

The subscribed capital amounts to EUR 31,000.00 and is divided into 310 shares having a par value of EUR 100.00 each. One fourth of each share has been paid up.
Subscribed capital unpaid and not called:
- Alrosa Finance B.V.: EUR 23,175.00;
- Shapburg Limited: EUR 75.00.

Profit brought forward

The Annual General Meeting of Shareholders dated September 2, 2008 decided to allocate EUR 7,900.00 to a special reserve and to carry forward the net profit of the year ended December 31, 2007.

NOTE 8 - LEGAL RESERVE

Under Luxembourg company law 5 % of the profit for the financial year must be apportioned to the legal reserve, until such legal reserve is equal to 10 % of the share capital. The legal reserve is not distributable.

NOTE 9 - OTHER RESERVES

The special reserve corresponds to five times the amount of the Net Wealth Tax calculated as at January 1st, 2007 following article 8.a of the Net Wealth Tax law.
This reserve is not distributable during five years.

NOTE 10 - NOTES

The Company issued on May 6, 2003 a note due on 2008 amounting to USD 500,000,000.00 at a rate of 8.125 %.
The issue price of the Note is 98.996 % of the principal amount.
The note has been reimbursed on May 2008, at the maturity date.

Notes becoming due and payable after more than one year

	2008 USD	2008 EUR	2007 USD	2007 EUR
* Notes due to 2014	500 000 000.00	386 040 765.90	300 000 000.00	231 624 459.54
* Notes due to 2014	-	-	200 000 000.00	154 416 306.36
As at December 31,	500 000 000.00	386 040 765.90	500 000 000.00	386 040 765.90
Total net book value at end of year		386 040 765.90		386 040 765.90

The Company issued on November 16, 2004 a note due 2014 amounting to USD 300,000,000.00 at a rate of 8.875 %. The issue price of the Note is 99.511 % of the principal amount.

On January 24, 2005 the Board of Directors resolved to issue a supplementary note due 2014 amounting to USD 200,000,000.00 at a rate of 8.875 %. The Note due 2014 is to be consolidated with the preceding Note due 2014 issued on November 16, 2004.

Notes becoming due and payable within one year

	2008 USD	2008 EUR	2007 USD	2007 EUR
* Notes due to 2008	300 000 000.00	253 764 168.50	500 000 000.00	422 940 280.83
Partly repayment	-	-	(200 000 000.00)	(169 176 112.33)
Repayment	(300 000 000.00)	(253 764 168.50)		
As at December 31,	-	-	300 000 000.00	253 764 168.50
Total net book value at end of year		-		253 764 168.50
* Accrued interest on Notes due to 2008	-	-	3 723 000.00	2 527 752.32
		-		2 527 752.32
* Accrued interest on Notes due to 2014	5 425 000.00	3 848 336.53	5 425 000.00	3 683 335.03
		3 848 336.53		3 683 335.03
Total net book value at end of year		3 848 336.53		259 975 255.85

All notes are unconditionnally and irrecovably guaranteed by the ultimate mother company.

NOTE 11 - OTHER OPERATING CHARGES

Other operating charges consist of:

	2008 EUR	2007 EUR
Discount on the Notes	263 276.60	603 520.76
Other	97 089.52	151 588.54
	360 366.12	755 109.30

NOTE 12 - INTEREST RECEIVABLE AND SIMILAR INCOME DERIVED FROM AFFILIATED UNDERTAKINGS

During the year 2008, a Euro Commercial Paper ("ECP") programme amounting to USD 700,000,000.00 has been issued by Alrosa Finance S.A., with due date end of 2008. One issue is due in 2009.

The proceeds from this ECP Programme have been granted through intercompany loans to companies of the group. As at end of 2008, both ECP Programme and the corresponding intercompany loans due in 2008 have been entirely reimbursed.

NOTE 13 - TAX STATUS

The Company is subject in Luxembourg to the applicable general tax regulations.

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