**AK “ALROSA”**

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

**30 JUNE 2010**

# CONTENTS

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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)

| | | Attributable to owners of AK “ALROSA” | | | | | | | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares outstanding | Share capital | Share premium | Treasury shares | Other reserves | Retained earnings | Total | | | |
| **Balance at 31 December 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** |

## 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 | Transpor-tation | 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 | Transpor-tation | 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 | Transpor-tation | 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 | Transpor-tation | 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** |