AK "ALROSA"

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

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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 2007 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 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
8 July 2008

(in millions of Russian roubles, unless otherwise stated)

Consolidated Balance Sheet

	Notes	31 December 2007	31 December 2006
Assets			
Non-current Assets			
Goodwill	5	1,439	-
Restricted cash	7	133	143
Investments in associates	5	1,613	1,562
Available-for-sale investments	5	786	1,285
Long-term accounts receivable	10	5,902	6,571
Property, plant and equipment	8	155,696	141,458
Total Non-current Assets		**165,569**	**151,019**
Current Assets			
Inventories	9	22,208	19,436
Prepaid income tax		483	46
Current accounts receivable	10	12,564	23,288
Derivative financial instruments	6	5,106	902
Available-for-sale investments		12	14
Cash and cash equivalents	7	21,887	4,209
Total Current Assets		**62,260**	**47,895**
Total Assets		**227,829**	**198,914**
Equity			
Share capital	11	11,491	11,491
Treasury shares	11	(16)	(130)
Deferred capital contribution	12,15	11,063	-
Retained earnings and other reserves		98,552	85,092
Equity attributable to shareholders of AK "ALROSA"		**121,090**	**96,453**
Minority Interest	11	**1,190**	**4,610**
Total Equity		**122,280**	**101,063**
Liabilities			
Non-current Liabilities			
Long-term debt	13	32,296	37,240
Grant	12	-	8,044
Provision for restoration liability	15	-	7,214
Provision for pension obligations	17	1,963	1,519
Other provisions	16	543	713
Deferred tax liabilities	19	6,265	3,991
Total Non-current Liabilities		**41,067**	**58,721**
Current Liabilities			
Short-term loans and current portion of long-term debt	14	49,452	25,077
Trade and other payables	18	11,876	10,076
Income tax payable		273	1,358
Other taxes payable	19	2,474	2,495
Dividends payable		407	124
Total Current Liabilities		**64,482**	**39,130**
Total Liabilities		**105,549**	**97,851**
Total Equity and Liabilities		**227,829**	**198,914**

Signed by the following members of management:

Sergey A. Vybornov
President

Olga A. Lyashenko
Chief accountant

4 July 2008

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Income

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Sales	20	90,734	94,340
Cost of sales	21	(51,441)	(52,912)
Royalty	12	(4,816)	(8,534)
Gross profit		**34,477**	**32,894**
General and administrative expenses	22	(5,266)	(3,963)
Selling and marketing expenses		(1,722)	(1,587)
Other operating income	23	9,061	4,817
Other operating expenses	24	(12,120)	(11,316)
Gain on disposal of gold mining operations	10	-	3,694
Operating profit		**24,430**	**24,539**
Finance income	25	5,552	4,676
Finance costs	26	(6,929)	(5,475)
Share of net profit of associates	5	936	722
Profit before Income Tax		**23,989**	**24,462**
Income tax	19	(7,805)	(7,246)
Profit for the year		**16,184**	**17,216**
Attributable to:			
Equity holders of AK “ALROSA”		15,981	14,152
Minority interest		203	3,064
Profit for the year		**16,184**	**17,216**

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Net cash Inflow from Operating Activities	27	**25,271**	**9,921**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(24,153)	(17,971)
Proceeds from sales of fixed assets		562	537
Proceeds from sales of non-current assets held for sale		-	90
Acquisition of available-for-sale investments		(93)	(16)
Proceeds from sales of available-for-sale investments	5	982	8
Acquisition of minority interest in subsidiaries	11	(3,257)	(1,104)
Cash acquired on acquisition of subsidiaries	5	-	8,237
Execution of the call option related to acquisition of "Rolant Investments Ltd."	5	(8,217)	-
Proceeds from sale of gold mining operations	10	977	1,697
Net cash flow arising on disposal of subsidiary	5	257	-
Interest received		1,259	743
Dividends received from associates		632	1,108
Net Cash Outflow from Investing Activities		**(31,051)**	**(6,671)**
Cash Flows from Financing Activities			
Repayments of loans		(49,767)	(85,912)
Loans received		81,587	86,886
Interest paid		(6,123)	(4,810)
Receipts from restricted cash account		-	286
Purchase of treasury shares		(31)	(81)
Proceeds from sales of treasury shares		85	392
Dividends paid		(2,293)	(1,974)
Net Cash Inflow (Outflow) from Financial Activities		**23,458**	**(5,213)**
Net Increase (Decrease) in Cash and Cash Equivalents		**17,678**	**(1,963)**
Cash and cash equivalents at the beginning of the year		4,209	6,172
Cash and Cash Equivalents at the End of The Year		**21,887**	**4,209**

Significant non-cash transactions are discussed in note 30.

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Changes in Equity

	Number of shares outstanding	Attributable to shareholders of AK "ALROSA"						Minority interest	Total equity
		Share capital	Treasury shares	Deferred capital contribution	Other reserves	Retained earnings	Total		
Balance at 31 December 2005	**196,652**	**11,491**	**(192)**	**-**	**-**	**72,432**	**83,731**	**4,027**	**87,758**
Net gains arising from change in fair value of available-for-sale investments, net of income tax		-	-	-	185	-	185	-	**185**
Currency translation differences		-	-	-	94	-	94	-	**94**
Net income recognised directly in equity		-	-	-	279	-	279	-	**279**
Profit for the year		-	-	-	-	14,152	14,152	3,064	**17,216**
Total recognised income for the year		-	-	-	279	14,152	14,431	3,064	**17,495**
Dividends (note 11)		-	-	-	-	(1,962)	(1,962)	(71)	**(2,033)**
Net treasury shares transactions (note 11)	1,081	-	62	-	-	191	253	-	**253**
Net other changes in minority interest (note 11)		-	-	-	-	-	-	(2,410)	**(2,410)**
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 (note 5)		-	-	-	329	-	329	-	**329**
Gain on disposal of available-for-sale investments recognised in statement of income, net of income tax		-	-	-	(514)	-	(514)	-	**(514)**
Currency translation differences		-	-	-	(287)	-	(287)	-	**(287)**
Net income 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)	(336)	**(2,576)**
Repayment of Grant (note 12)		-	-	7,537	-	-	7,537	-	**7,537**
Reversal of provision for restoration liability (note 15)		-	-	3,526	-	-	3,526	-	**3,526**
Net treasury shares transactions (note 11)	1,987	-	114	-	-	191	305	-	**305**
Net other changes in minority interest (note 11)		-	-	-	-	-	-	(3,287)	**(3,287)**
Balance at 31 December 2007	**199,720**	**11,491**	**(16)**	**11,063**	**(193)**	**98,745**	**121,090**	**1,190**	**122,280**

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 2007 the Company's principal shareholders are the Russian Federation (37 percent of shares) and the Republic of Sakha (Yakutia) (32 percent of shares). The rest of shares are held by administrations of districts of the Republic of Sakha (Yakutia) (8 percent of shares), OAO «Vneshtorgbank» (10.5 percent of shares) and individuals and other companies (12.5 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. ACCOUNTING POLICIES

(a) Basis of presentation

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 consolidated financial statements have been prepared 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 ("IFRS").

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 24.55 and 26.33 as at 31 December 2007 and 2006, respectively. The official Euro to RR exchange rates, as determined by the Central bank of the Russian Federation, were 35.93 and 34.70 as at 31 December 2007 and 2006, respectively.

Reclassifications

As at 31 December 2006 the non-current portion of derivative financial instruments totalling RR'mln 658 was reclassified to current assets to better reflect the nature of these held for trading financial instruments in accordance with IFRS.

Operating profit for the year ended 31 December 2006 have been increased by RR'mln 3,694 due to reclassification of gain on disposal of gold mining operations. This change has been made in order to better reflect the nature of this item.

(b) Recent accounting pronouncements

In 2007 the Group has adopted all standards, amendments and interpretations which were effective as at 1 January 2007 and which are relevant to its operations.

Effective 1 January 2007, the Group adopted IFRS 7 "Financial instruments: Disclosures" ("IFRS 7"). IFRS 7 introduced new disclosures to improve the information about financial instruments with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and some of the requirements in IAS 32 "Financial Instruments: Disclosure and Presentation". In addition, the Amendments to IAS 1 "Presentation of Financial Statements" introduced new disclosures about the level of an entity's capital and how it manages capital.

The adoption of new interpretations IFRIC 7 "Applying the Restatement Approach under IAS 29", IFRIC 8 "Scope of IFRS 2", IFRIC 9 "Reassessment of Embedded Derivatives", IFRIC 10 "Interim Financial Reporting and Impairment" did not have any impact on the consolidated financial statements of the Group.

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. Management does not expect IFRS 8 to materially affect the Group's financial statements.

- Amendment to IAS 23 "Borrowing costs", 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. 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 27 "Consolidated and Separate Financial Statements", which is effective for annual periods beginning on or after 1 July 2009. The revised IAS 27 will require an entity to attribute total comprehensive income 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 current Standard requires the excess losses to be allocated to the owners of the parent in most cases). 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 Group is currently assessing the impact of the amended Standard on its consolidated financial statements.

- Amendment to IFRS 3 "Business Combinations", which is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (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 will 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. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than being included in goodwill. An acquirer will 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 will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended Standard on its consolidated financial statements.

The Group has not early adopted the following other new interpretations and amendments:

- IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12 "Service Concession Arrangements" (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008);

- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 15 "Agreements for the construction of real estate" (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16 "Hedges of a net investment in a foreign operation" (effective for annual periods beginning on or after 1 October 2008);
- "Puttable financial instruments and obligations arising on liquidation – IAS 32 and IAS 1 Amendment" (effective from 1 January 2009);
- "Vesting Conditions and Cancellations – Amendment to IFRS 2 "Share-based Payment" (effective for annual periods beginning on or after 1 January 2009);
- "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment" (effective for annual periods beginning on or after 1 January 2009).

The Group is currently assessing what impact the new interpretations and amendments will have on disclosures in its consolidated financial statements.

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.

(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 exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases. Any excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction 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 minority interest.

Minority 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. Minority interest forms a separate component of the Group's equity.

The difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded as goodwill.

Associates, over which the Group has a significant but not a controlling influence, 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) Grant

Production assets received from the Republic of Sakha (Yakutia) on 19 January 1993 under the terms of a mineral lease agreement (the “Lease Agreement”) to “transfer of rights to use and exploit land, diamond deposits, main production and non-production facilities”, 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 (see note 12).

Social assets received under the aforementioned Lease Agreement were not included in the accompanying consolidated financial statements, since the majority of these assets have been or will be transferred free of charge to local administrations.

With effect from 10 November 2007, the Grant was repaid (see note 12).

(e) Property, plant and equipment

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

Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation, amortisation 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.

Depreciation and amortisation

Property, plant and equipment are depreciated from commencement of commercial mining activities at a specific area of interest.

Depreciation and amortisation of buildings, land and improvements and plant and equipment related to extraction of minerals is calculated on a units of production basis for each area of interest. 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

Local infrastructure assets

Local infrastructure assets constructed or purchased by the Group subsequent to 1 January 1993 (the date of privatisation) are included in the financial statements at historical cost adjusted for the effects of inflation 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.

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(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.

Prior to 10 November 2007, when it was extinguished, a provision for restoration liability was determined based on the terms of the Lease Agreement (see notes 12 and 15). Under this agreement, in the year 2017 the Company was obliged to transfer property, plant and equipment subject to the Lease Agreement to the Republic of Sakha (Yakutia) or settle its liability by means of a cash payment. The initial provision for restoration liability together with any changes in estimation of the ultimate restoration liability was recorded on the balance sheet, with a corresponding amount recorded as part of property, plant and equipment in accordance with IAS 16, “Property, Plant and Equipment”. This amount was amortised over the term of the Lease Agreement.

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

On 10 November 2007 the restoration liability was extinguished (see note 15).

(g) Uncertain tax positions

The Group’s uncertain tax positions (potential tax expenses and tax assets) are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date. 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.

(h) Inventories

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

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.

(i) 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 2007 and 31 December 2006, 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.

(j) 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.

(k) Components of cash and cash equivalents

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

(l) Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(m) Foreign currencies

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at 31 December 2007 and 31 December 2006, 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 reporting year. 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.

(n) 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 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.

(o) Measurement of trade and other receivables

Trade and other receivables are carried at the original invoice amount including value added tax less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, discounted at the market rate of interest for similar borrowers at the inception date.

(p) 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.

(q) 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 of the borrowings. Borrowing costs (the interest) are expensed as incurred.

(r) 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, are expensed when incurred and are included within wages, salaries and other staff costs in cost of sales.

The Group 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, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of the defined benefit pension plans 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.

(s) Social costs

Social costs relating to the maintenance of housing are determined in accordance with agreements with the local authorities and expensed or capitalised as appropriate.

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

(t) 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.

(u) Equity

Share capital

Share capital consists of ordinary shares, which are classified as 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.

(v) 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.

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

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the 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 other assets. At each balance sheet date the Group assesses whether there is any indication that the recoverable amount of the Group's assets has declined below the carrying value. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of income in the period in which the reduction is identified. If conditions change and management determines that the asset value has increased, the impairment provision will be fully or partially reversed, unless the impaired asset is goodwill. Under IFRS, reversals of impairment of goodwill are prohibited.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (see note 28).

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 2007, 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 955 (year ended 31 December 2006 – RR'mln 887) lower / higher.

Classification of production licenses. Management treats cost of production licenses as cost of acquisition of mining properties, 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 17).

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).

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 exposures, primarily with respect to the US dollar and to a lesser extent the Euro. Foreign currency denominated assets and liabilities give rise to foreign exchange risk exposure. 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.

At 31 December 2007, if the Russian Rouble had weakened by 10 percent against the US dollar with all other variables held constant, post-tax profit for the year would had been RR'mln 9,982 (at 31 December 2006 - RR'mln 12,055) lower, mainly as a result of losses from revaluation of derivative financial instruments and foreign exchange losses on translation of US dollar-denominated borrowings and accounts payable partially offset by foreign exchange gains on translation of US dollar-denominated cash and cash equivalents and accounts receivable. At 31 December 2007, if the Russian Rouble had strengthened by 10 percent against the US dollar with all other variables held constant, post-tax profit for the year would had been RR'mln 12,216 (at 31 December 2006 - RR'mln 13,481) higher, mainly as a result of gains on revaluation of derivative financial instruments and foreign exchange gains on translation of US dollar-denominated borrowings and accounts payable partially offset by foreign exchange losses on translation of cash and cash equivalents and accounts receivable.

(in millions of Russian roubles, unless otherwise stated)

At 31 December 2007, if the Russian Rouble had weakened/strengthened by 5 percent against the Euro with all other variables held constant, post-tax profit for the year would had been RR'mln 1 (at 31 December 2006 - RR'mln 15) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade and other receivables.

The table below summarised the Group's exposure to foreign currency exchange rate risk at the balance sheet date:

31 December 2007	**US$**	**Euro**	**Other currency**
Assets			
Cash and cash equivalents	8,456	21	83
Trade and other receivables	4,692	386	-
Derivative financial instruments	5,106	-	-
	18,254	**407**	**83**
Liabilities			
Trade and other payables	510	95	-
Borrowings	72,568	287	-
	73,078	**382**	**-**

31 December 2006	**US$**	**Euro**	**Other currency**
Assets			
Cash and cash equivalents	384	27	220
Trade and other receivables	7,311	371	-
Derivative financial instruments	902	-	-
	8 597	**398**	**220**
Liabilities			
Trade and other payables	134	3	-
Borrowings	55,694	-	-
	55 828	**3**	**-**

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 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 2007 and 2006, the Group's borrowings at variable rates were denominated in US dollars and Russian Roubles (see notes 13 and 14).

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. The Group currently does not use derivative instruments to hedge its cash flow and fair value interest rate risk.

At 31 December 2007, 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 36 (at 31 December 2006 - RR'mln 60) lower/higher, mainly as result of higher/lower interest expense on floating rate borrowings.

At 31 December 2007, 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 14 (at 31 December 2006 - nil) lower/higher, mainly as result of higher/lower interest expense on floating rate borrowings.

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 2007, if the prices of available-for-sale investments held by the Group would had been 20 percent higher/lower with all other variables held constant, its equity would have been RR’mln 157 (31 December 2006 – RR’mln 257) higher/lower and there would have been no impact on post-tax profit.

(in millions of Russian roubles, unless otherwise stated)

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. The Group does not require collateral or other security to support receivables from customers. Although collections of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the 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 these 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 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**
31 December 2006					
Borrowings	28,942	12,268	13,841	2,361	20,613
Trade payables	2,169	-	-	-	-
Current accounts of third parties in OOO “MAK-Bank”	837	-	-	-	-
Interest payable	419	-	-	-	-
Payables to associates	92	-	-	-	-
Deferred purchase consideration payable for acquisition of minority interest in OAO “ALROSA-Gaz”	277	-	-	-	-
Other payables and accruals	540	-	-	-	-
	33,276	**12,268**	**13,841**	**2,361**	**20,613**

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.

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 monitors capital on the basis of the gearing ratio. 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. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt. The Group is not subject to any externally imposed capital requirements.

The gearing ratios at 31 December 2007 and 31 December 2006 were as follows:

(in millions of Russian roubles, unless otherwise stated)

	31 December 2007	31 December 2006
Total borrowings	81,748	62,317
Less: cash and cash equivalents	(21,887)	(4,209)
Net debt	59,861	58,108
Total equity	122,280	101,063
Total capital	182,141	159,171
Gearing ratio	33%	37%

4. FINANCIAL INSTRUMENTS BY CATEGORY

31 December 2007	Loans and receivables	Assets at fair value through the profit and loss-held for trading	Available for sale	Total
Assets				
Non-current assets				
Restricted cash	133	-	-	133
Available-for-sale investments	-	-	786	786
Receivables from associates	2,734	-	-	2,734
Loans issued	1,303	-	-	1,303
Notes receivable	654	-	-	654
Other long-term receivables	24	-	-	24
	4,848	-	786	5,634
Current assets				
Loans issued	4,063	-	-	4,063
Notes receivable	922	-	-	922
Receivables for sale of gold mining operations	555	-	-	555
Receivables from associates	486	-	-	486
Receivables for sale of treasury shares	251	-	-	251
Trade receivables for supplied diamonds	65	-	-	65
Other receivables	2,289	-	-	2,289
Derivative financial instruments	-	5,106	-	5,106
Available-for-sale investments	-	-	12	12
Cash and cash equivalents	21,887	-	-	21,887
	30,518	5,106	12	35,636
	35,366	**5,106**	**798**	**41,270**

31 December 2006	Loans and receivables	Assets at fair value through the profit and loss-held for trading	Available for sale	Total
Assets				
Non-current assets				
Restricted cash	143	-	-	143
Available-for-sale investments	-	-	1,285	1,285
Receivables from associates	2,710	-	-	2,710
Loans issued	1,762	-	-	1,762
Notes receivable	723	-	-	723
Other long-term receivables	68	-	-	68
	5,406	-	1,285	6,691
Current assets				
Loans issued	3,338	-	-	3,338
Notes receivable	10,704	-	-	10,704
Receivables for sale of gold mining operations	1,997	-	-	1,997
Receivables from associates	236	-	-	236
Receivables for disposed non-current assets held for sale	1,220	-	-	1,220
Trade receivables for supplied diamonds	120	-	-	120
Other receivables	2,449	-	-	2,449
Derivative financial instruments	-	902	-	902
Available-for-sale investments	-	-	14	14
Cash and cash equivalents	4,209	-	-	4,209
	24,273	902	14	25,189
	29,679	**902**	**1,299**	**31,880**

(in millions of Russian roubles, unless otherwise stated)

Liabilities at amortised cost	31 December 2007	31 December 2006
Non-current liabilities		
Long-term debt	32,296	37,240
	32,296	37,240
Current liabilities		
Short-term loans and current portion of long-term debt	49,452	25,077
Trade payables	3,728	2,169
Current accounts of third parties in OOO “MAK-Bank”	658	837
Interest payable	565	419
Payables to associates	89	92
Deferred purchase consideration payable for acquisition of minority interest in OAO “ALROSA-Gaz”	-	277
Other payables and accruals	508	540
	55,000	29,411
	87,296	**66,651**

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 2007	31 December 2006
“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
“New Technologies Holdings Ltd.”	(1)	Holding company	BVI	100	100
“Rolant Investments Ltd.”	(2)	Holding company	Cyprus	100	100
ZAO “Irelyakhneft”		Oil production	Russia	100	100
ZAO “Brint-M”		Geological works	Russia	100	100
OAO “ALROSA-Gaz”		Gas production	Russia	100	100
OOO “ALROSA-VGS”		Capital construction	Russia	100	100
OAO “Almazy Anabara”	(3)	Diamonds production	Russia	100	51
OAO “Investment Group ALROSA”	(4)	Investing activity	Russia	100	50
OAO “Severalmaz”		Diamonds production	Russia	95	95
OAO “Viluyskaya GES-3”		Electricity production	Russia	93	85
OOO “MAK-Bank”		Banking activity	Russia	88	88
OAO “ALROSA-Nyurba”		Diamonds production	Russia	88	87
OAO “Yakutskgeofizika”	(5)	Geological works	Russia	-	75

As at 31 December 2007 and 31 December 2006 the percentage of ownership interest of the Group in subsidiaries is equal to the percentage of voting interest.

(1) As at 31 December 2007 and 31 December 2006 “New Technologies Holdings Ltd.” holds a 90 percent interest in ZAO “Geotransgaz”, a Russian company producing gas and gas condensate from a deposit located in Tyumen Region of the Russian Federation.

(2) As at 31 December 2007 and 31 December 2006 “Rolant Investments Ltd.” holds a 100 percent interest in OOO “PIT Sibintek” and a 90 percent interest in OOO “Urengoyskaya Gazovaya Company”, Russian development stage companies that hold licenses for certain oil and gas deposits located in the Tyumen Region of the Russian Federation.

On 27 April 2006 the Group entered into a series of transactions structured by Morgan Stanley Dean Witter bank relating to the acquisition of the 100 percent interest in “Rolant Investments Ltd.”. As a result of these transactions, Morgan Stanley Dean Witter acquired control over “Rolant Investments Ltd.” via capital contribution in the amount of RR’mln 8,217 (US$’mln 300). Subsequently, the bank entered into reciprocal put option and call option agreements with the Group. Pursuant to these agreements, the Group may, and may be required by the bank to, repurchase shares of “Rolant Investments Ltd.” from the bank in October 2007 at a repurchase price of US$’mln 300 plus interest at a rate of 7.5 percent per annum accrued from 27 April 2006. Management believed that at 31 December 2006 the Group effectively controlled

(in millions of Russian roubles, unless otherwise stated)

"Rolant Investments Ltd." and its subsidiaries; accordingly the assets and liabilities of this group of companies were included in the Group's consolidated financial statements. A corresponding liability totalling RR'mln 7,899 (US$'mln 300), which represented the amount payable to Morgan Stanley Dean Witter in October 2007, was recognised within the current portion of long-term debt at 31 December 2006 in the Group's consolidated financial statements.

At the transaction date "Rolant Investments Ltd." had only a portfolio of production licenses, it had not performed any activities to develop the licensed areas and had no other operations. Therefore the acquisition of "Rolant Investments Ltd." was treated as an acquisition of assets, not as a business combination.

In October 2007 the Group executed the call option and obtained a direct control over 100 percent interest in "Rolant Investments Ltd.".

(3) In December 2007 the Group purchased a 49 percent minority interest in OAO "Almazy Anabara" for a total purchase consideration of RR'mln 2,303. As a result of this transaction the Group increased its shareholding in OAO "Almazy Anabara" to 100 percent. The difference between the carrying amount of the minority interest and the amount paid to acquire it totalling RR'mln 1,439 was recorded as goodwill. As at 31 December 2007 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 2008-2015. The pre-tax discount rate used in the analysis was 13.8 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 2007.

(4) The Group owned a 50.01 percent of voting interest in OAO "Investment Group ALROSA" at 31 December 2006. In July 2007 OAO "Investment Group ALROSA" re-purchased 4,999 voting shares (49.99 percent of the share capital) from its minority shareholders for a total purchase consideration of RR'mln 85 and subsequently cancelled these shares. As a result of this transaction the Group increased it's shareholding in OAO "Investment Group ALROSA" to 100 percent. Negative goodwill arised on this transaction totalling RR'mln 2,132 was recognised as other operating income (see note 23).

(5) In October 2007 the Group sold 75 percent of the voting shares of OAO "Yakutskgeofizika" for a total consideration of RR'mln 264.

Net assets of OAO "Yakutskgeofizika" at the date of disposal and at 31 December 2006 are as follows:

	Disposal date	**31 December 2006**
Property, plant and equipment	335	280
Trade and other receivables and other assets	120	78
Cash and cash equivalents	7	10
Trade and other payables and other liabilities	(252)	(168)
Minority interest in subsidiary of "Yakutskgeofizika"	(50)	(47)
Net assets	**160**	**153**
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**	
			2007	**2006**	**2007**	**2006**	**2007**	**2006**
"Catoca Mining Company Ltd"	(1)	Angola	33	33	1,382	1,355	934	774
"Escom-ALROSA Ltd"	(2)	United Kingdom	44	44	-	-	-	(46)
OAO "Almazny Mir"		Russia	47	47	174	171	3	2
Other		Russia			57	36	(1)	(8)
					1,613	1,562	936	722

As at 31 December 2007 and 31 December 2006 the percentage ownership interest of the Group in its associates is equal to the percentage of voting interest.

(in millions of Russian roubles, unless otherwise stated)

(1) "Catoca Mining Company Ltd" is a diamond-mining venture located in Angola. In 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 907.

(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, it 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 2007 is RR'mln 2,809, including current portion of RR'mln 75 (31 December 2006: RR'mln 2,784, including current portion of RR'mln 74). The Group has not recognised its share of net loss of "Camachia-Camagico" for the year ended 31 December 2007 in the amount of RR'mln 320 (year ended 31 December 2006: RR'mln 105). The accumulated losses of "Camachia-Camagico" not recognised by the Group in its consolidated financial statements as at 31 December 2007 were RR'mln 425 (31 December 2006: RR'mln 105).

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	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
"Catoca Mining Company Ltd"	9,192	8,322	4,986	4,191	11,080	11,592	2,847	2,360
"Camachia-Camagico"	6,323	7,070	8,260	7,398	858	1,029	(1,616)	(763)
OAO "Almazny Mir"	395	473	35	118	254	561	6	4
Other	156	135	37	41	70	43	(3)	(21)
	16,066	16,000	13,318	11,748	12,262	13,225	1,234	1,580

Non-current available-for-sale investments

	Year ended 31 December 2007	**Year ended 31 December 2006**
Available-for-sale investments at the beginning of the year	1,285	449
Additions	103	601
Net changes in fair value	433	243
Disposals	(1,035)	(8)
Available-for-sale investments at the end of the year	786	1,285

The net changes in the fair value of available-for-sale investments represent the effect of the revaluation of shares of OAO "Sobinbank" (6.5 percent interest). The fair value of the shares in 2007 was determined by reference to the current market value at the close of business on the day preceding the day of their disposal. In April 2007 the Group sold shares of OAO "Sobinbank" for a total consideration of RR'mln 968, which was equal to their fair value at the date of transaction. Gain on disposal of this investment was recognised in the consolidated statement of income as other operating income (see note 23).

In February 2006 the Company acquired 50.4 percent of the voting shares of OAO "NNGK Sakhaneftegas", a company involved in the development of several oil and gas deposits located in the Republic of Sakha (Yakutia), for a total purchase consideration of RR'mln 493. After this acquisition, minority shareholders of OAO "NNGK Sakhaneftegas" 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 Sakhaneftegas". 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 Sakhaneftegas". Accordingly OAO "NNGK Sakhaneftegas" was not consolidated in the financial statements for the years ended 31 December 2006 and 31 December 2007. The investment of the Company in OAO "NNGK Sakhaneftegas" 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 a quoted market price for it in an active market; also management did not have the full information in respect to the legal status and physical conditions of assets controlled by OAO "NNGK Sakhaneftegas" 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 Sakhaneftegas" 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 Sakhaneftegas". Management of the Company is currently in the process of a formal assessment of the fair value of the acquired assets, liabilities and contingent liabilities of OAO "NNGK Sakhaneftegas". This process is not finished yet, so management believes that it is impracticable to disclose any information regarding the fair value of the acquired assets, liabilities and contingent liabilities of OAO "NNGK Sakhaneftegas" in these consolidated financial statements.

(in millions of Russian roubles, unless otherwise stated)

6. DERIVATIVE FINANCIAL INSTRUMENTS

To reduce the Group's US$ / RR foreign exchange risk exposure, in 2006 the Company entered into US$ / RR forward sale transactions with five foreign banks having an investment grade rating within the range Aa1-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 2007 the fair value of the forward foreign exchange contracts totalled RR'mln 5,106 (at 31 December 2006: RR'mln 902) and 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. The discount rate used to calculate the fair value of the forward foreign exchange contracts at 31 December 2007 was 12.4 percent (31 December 2006: 12.7 percent), which presents 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. The corresponding net gain from foreign exchange forward contracts was recognised in the statement of income as other operating income (see note 23).

As at 31 December 2007 and 31 December 2006 derivative financial instruments are not past due. Derivative financial instruments are classified as current assets in these consolidated financial statements as they present financial instruments held for trading, but a portion of forward foreign exchange contracts totalling RR'mln 3,037 as at 31 December 2007 is expected to be settled after 12 months from the balance sheet date.

7. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents

	31 December 2007	31 December 2006
Current accounts	14,235	3,953
Special accounts	7,364	-
Deposit accounts	288	256
	21,887	4,209

During the year ended 31 December 2007 the Group reserved on special accounts in banks cash totalling RR'mln 7,364 (US$'mln 300). The Group used this cash for the re-purchase of its own Eurobonds in the open market subsequent to the year end.

At 31 December 2007 the weighted average interest rate on the cash balances of the Group was 4.81 percent (31 December 2006: nil percent).

The table below shows analysis of cash and cash equivalents and presents balance of major Group's counterparties at the balance sheet date.

				31 December 2007	31 December 2006
	Rating	Rating agency	Credit limit for one bank	Balance	Balance
OAO "Vneshtorgbank"	Baa2	Moody's	Not set	10,386	22
OAO "KIT Finance"	B2	Moody's	Not set	8,296	15
Other banks			Not set	3,205	4,172
				21,877	4,209

Restricted cash

Included within restricted cash are balances of RR'mln 133 and RR'mln 143 as at 31 December 2007 and 31 December 2006, respectively, which represent mandatory reserve deposits held with the Central Bank of the Russian Federation by

(in millions of Russian roubles, unless otherwise stated)

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 (receipts from) this restricted cash account are included in cash flows from operating activity in consolidated statement of cash flows (see note 27).

At 31 December 2007 and 31 December 2006 the weighted average interest rate on the restricted cash balances is approximately nil percent.

8. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Land and Improvements	Plant and Equipment	Transport	Production Licenses	Assets under Construction	Other	TOTAL
Cost at 31 December 2005	**51,802**	**44,480**	**33,988**	**15,296**	**6,336**	**30,611**	**1,314**	**183,827**
Foreign exchange differences	-	(1)	16	7	-	(62)	(39)	(79)
Additions through acquisition of subsidiaries	53	26	33	163	4,177	6	15	4,473
Additions	288	1,348	2,405	1,928	113	15,264	280	21,626
Transfers	3,019	1,562	1,371	8	-	(6,183)	223	-
Disposals	(393)	(313)	(1,217)	(1,046)	-	(108)	(338)	(3,415)
Provision for land recultivation (note 16)	-	484	-	-	-	-	-	484
Change in estimate of provision for restoration liability (see note 15)	(1,182)	(430)	(81)	(13)	-	-	(2)	(1,708)
Impairment of property, plant and equipment	(5)	(18)	(38)	(9)	-	(294)	(4)	(368)
Cost at 31 December 2006	**53,582**	**47,138**	**36,477**	**16,334**	**10,626**	**39,234**	**1,449**	**204,840**
Foreign exchange differences	(1)	-	(24)	(86)	-	(202)	30	(283)
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)
Disposal of OAO "Yakutskgeofizika" (see note 5)	(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 (see note 15)	(2,586)	(977)	(199)	(28)	-	-	(5)	(3,795)
Change in estimate of provision for land recultivation	-	(25)	-	-	-	-	-	(25)
Reversal of impairment of property, plant and equipment	-	-	-	-	-	158	-	158
Cost at 31 December 2007	**53,001**	**49,848**	**39,476**	**16,518**	**11,175**	**53,276**	**1,732**	**225,026**
Accumulated depreciation at 31 December 2005	**(14,714)**	**(14,247)**	**(17,832)**	**(9,637)**	**(86)**	**-**	**(380)**	**(56,896)**
Charge for the year ended 31 December 2006	(1,624)	(2,035)	(3,548)	(1,234)	(259)	-	(175)	(8,875)
Disposals	224	264	1,016	855	-	-	30	2,389
Accumulated depreciation at 31 December 2006	**(16,114)**	**(16,018)**	**(20,364)**	**(10,016)**	**(345)**	**-**	**(525)**	**(63,382)**
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 (see note 12)	399	183	49	4	1	-	2	638
Disposal of OAO "Yakutskgeofizika" (see note 5)	4	10	13	42	-	-	7	76
Accumulated depreciation at 31 December 2007	**(17,051)**	**(17,837)**	**(22,834)**	**(10,300)**	**(616)**	**-**	**(692)**	**(69,330)**
Net book value at 31 December 2006	**37,468**	**31,120**	**16,113**	**6,318**	**10,281**	**39,234**	**924**	**141,458**
Net book value at 31 December 2007	**35,950**	**32,011**	**16,642**	**6,218**	**10,559**	**53,276**	**1,040**	**155,696**

Property, plant and equipment for the year ended 31 December 2007 includes an aircraft which the Group received under a finance lease agreement (see also note 13). As at 31 December 2007 the carrying value of this aircraft is RR'mln 940 (31 December 2006: RR'mln 1,040). Additions to property, plant and equipment for the year ended 31 December 2007 include the mining equipment which OAO "Almazy Anabara", a subsidiary of the Group, received under finance lease agreements. As at 31 December 2007 the carrying value of this equipment is RR'mln 407.

(in millions of Russian roubles, unless otherwise stated)

9. INVENTORIES

	31 December 2007	31 December 2006
Diamonds	7,815	7,247
Ores and concentrates	3,730	2,995
Mining and construction materials	9,490	7,785
Consumable supplies	638	775
Diamonds for resale	535	634
	22,208	19,436

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 2007	31 December 2006
Receivables from associates (see note 29)	2,734	2,710
Loans issued	1,303	1,762
Long-term VAT recoverable	1,187	1,308
Notes receivable	654	723
Other long-term receivables	24	68
	5,902	6,571

Current accounts receivable	31 December 2007	31 December 2006
Loans issued	4,063	3,338
Prepaid taxes, other than income tax	1,846	1,787
Advances to suppliers	1,157	549
VAT recoverable	930	888
Notes receivable	922	10,704
Receivables for sale of gold mining operations	555	1,997
Receivables from associates (see note 29)	486	236
Receivables for sale of treasury shares	251	-
Trade receivables for supplied diamonds	65	120
Receivables for disposed non-current assets held for sale	-	1,220
Other receivables	2,289	2,449
	12,564	23,288

As at 31 December 2006 notes receivable included non-interest bearing promissory notes of OAO "Vneshtorgbank" issued at discount with a carrying amount of RR'mln 8,592. During the year ended 31 December 2007 these notes were redeemed.

In September 2005 OAO "Investment Group ALROSA", a subsidiary of the Group, sold its gold mining operations (99 percent interest in OOO "GRK Aldanzoloto", 100 percent interest in OAO "Yakutskaya Gornaya Company" and 50 percent interest in OAO "Yuzhno-Verkhoyanskaya Gornaya Company") for an estimated consideration of US$'mln 255. An initial part of consideration totalling RR'mln 3,259 (US$'mln 115) was satisfied by cash in 2005 and the corresponding gain on disposal totalling RR'mln 1,507 was recognised in the Group's financial statements for the year ended 31 December 2005. The remaining part of the estimated contracted consideration of US$'mln 140 and the final amount payable were contingent upon the negotiations with the buyer of the financial terms of the acquisition and analysis of the financial results of the acquired entities at the acquisition date. The negotiations with the buyer relating to the contingent element of sales proceeds were not completed as of the date of issuance of consolidated financial statements for the year ended 31 December 2005. For the purposes of those consolidated financial statements, management was not able to estimate the final value of the uncertainties and, consequently, no value was recorded in the consolidated financial statements for the year ended 31 December 2005 relating to the remaining contracted contingent consideration.

In July 2006 the Group finalised negotiations in respect of the consideration. According to the final agreement, the amount of outstanding consideration was determined to be RR'mln 3,694 (US$'mln 138). As a result an additional gain on disposal of gold mining operations was recognised in the Group's financial statements for the year ended 31 December 2006 together with respective accounts receivable totalling RR'mln 1,997 (US$'mln 76) recognised in the balance sheet as at 31 December 2006 after receipt of cash payment of RR'mln 1,697 (US$'mln 62).

In 2007 the buyer renegotiated with the Group the terms of sale of gold mining operations. As a result the parties agreed to reduce the amount of consideration payable to the Group by RR'mln 378 (US$'mln 15). The uncollectible amount was written-off in these consolidated financial statements. In 2007 the Group received cash of RR'mln 977 (US$'mln 38), the outstanding balance of accounts receivable totalling RR'mln 555 (US$'mln 23) will be repaid in 2008.

(in millions of Russian roubles, unless otherwise stated)

As at 31 December 2007 accounts receivable in the amount of RR'mln 332 (as at 31 December 2006: RR'mln 289) that are past due are not considered impaired. These include only other receivables and relate to a number of independent 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 2007	31 December 2006
Up to 3 months	134	107
3 to 6 months	17	40
6 to 12 months	112	120
More than 1 year	69	22
	332	289

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

Long-term accounts receivable	31 December 2007	Bad debt write-off	Interest on impaired receivables	Bad debt expense (reversal)	31 December 2006
Loans issued	26	-	-	-	26
	26	-	-	-	26
Current accounts receivable					
Receivables from associates (see note 29)	188	(78)	-	-	266
Notes receivable	80	(143)	-	-	223
Loans issued	129	-	5	(13)	137
Receivables for sale of gold mining operations	-	(378)	-	378	-
Other receivables	1,418	(119)	6	224	1,307
	1,815	(718)	11	589	1,933

Long-term accounts receivable	31 December 2006	Bad debt write-off	Interest on impaired receivables	Bad debt expense (reversal)	31 December 2005
Loans issued	26	-	(8)	(11)	45
	26	-	(8)	(11)	45
Current accounts receivable					
Receivables from associates (see note 29)	266	-	-	(83)	349
Notes receivable	223	-	-	-	223
Loans issued	137	-	-	11	126
Other receivables	1,307	(357)	-	160	1,504
	1,933	(357)	-	88	2,202

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 2007				31 December 2006			
	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	19	45
	-	-	26	26	-	26	19	45
Current accounts receivable								
Receivables from associates	-	99	89	188	24	114	128	266
Notes receivable	-	-	80	80	-	59	164	223
Loans issued	25	43	61	129	29	45	63	137
Other receivables	86	261	1,071	1,418	122	528	657	1,307
	111	403	1,301	1,815	175	746	1,012	1,933

As at 31 December 2007 and 31 December 2006, trade and other receivables totalling RR'mln 18,134 and RR'mln 29,570, 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)

As at 31 December 2007 accounts receivable that would otherwise be past due whose terms have been renegotiated amounted to RR'mln 555, they are presented by receivables for sale of gold mining operations.

As at 31 December 2007 17 individual debtors of the Group (31 December 2006: 18 individual debtors) had the outstanding balance with the Group exceeding RR'mln 100. As at 31 December 2007 total amount of such accounts receivable was RR'mln 7,704 (31 December 2006: RR'mln 19,135).

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

Long-term accounts receivable	**31 December 2007**	**31 December 2006**
Receivables from associates	7%	7%
Loans issued	14%	16%
Notes receivable	10%	10%

The fair value of trade and other receivables at 31 December 2007 and 31 December 2006 approximates their carrying value.

11. EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 11,491 at 31 December 2007 and 31 December 2006 and consists of 200,000 ordinary shares at RR 57,455 per share.

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 current year net profit. For the years ended 31 December 2007 and 31 December 2006, the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 14,133 and RR'mln 15,558 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 financial statements.

Other reserves

	Available-for-sale investments	**Currency translation**	**Total**
Balance at 31 December 2005	-	-	-
Net gains arising from change in fair value of available-for-sale investments, net of income tax	185	-	185
Currency translation differences	-	94	94
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)

Treasury shares

At 31 December 2007 OOO "MAK-Bank", a subsidiary of the Group, held 280 ordinary shares of the Company. At 31 December 2006 OOO "Management Company Almaz" and OOO "MAK-Bank", subsidiaries of the Group, held 2,267 ordinary shares of the Company. The Group management controls the voting right of these shares.

Dividends

On 24 June 2006, the Company's shareholders approved dividends for the year ended 31 December 2005 totalling RR'mln 1,962. Dividends per share amounted to RR 9,810.

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.

(in millions of Russian roubles, unless otherwise stated)

Minority interest

	Year ended 31 December 2007	Year ended 31 December 2006
Minority interest at the beginning of the year	4,610	4,027
Minority interest share of net profit of subsidiaries	203	3,064
Purchase of minority interest	(3,237)	(1,806)
Dividends paid by subsidiaries to minority shareholders	(336)	(71)
Disposal of minority interest through disposal of subsidiary (see note 5)	(50)	-
Acquisition of subsidiaries	-	250
Distribution of minority interest share in the statutory retained earnings of OAO "ALROSA-Nyurba" to AK "ALROSA"	-	(854)
Minority interest at the end of the year	1,190	4,610

During the year ended 31 December 2007 minority 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), see also note 5.

During the year ended 31 December 2006 minority interest decreased as a result of the acquisition of an additional 47 percent interest in OAO "ALROSA-Gaz" (for RR'mln 1,668) and an additional 6 percent interest in OAO "Viluyskaya GES-3" (for RR'mln 138).

During the year ended 31 December 2006 OAO "ALROSA-Nyurba", a subsidiary of the Group, distributed part of its statutory retained earnings to the Company as financial assistance without making a share of such distributions available to minority shareholders. This distribution was approved by the minority shareholders of OAO "ALROSA-Nyurba" and their share in the statutory retained earnings distributed to the Company totalling RR'mln 854 for the year ended 31 December 2006 was recognised by the Group within other operating income (see note 23).

12. GRANT AND ASSETS SUBJECT TO MINERAL LEASE AGREEMENT

On 19 January 1993, the Company entered into a 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 provided the Company with the right to use certain production and non-production assets for exploring, mining and operating diamond deposits for 25 years. The original agreement also stipulated that the Company was subject to royalties and other taxes on the right to use the land and logging areas, disposal and burial of waste and contaminated materials, and the use of mineral resources and water for industrial purposes.

Management estimated the restoration liability based upon their interpretation of the Lease Agreement and, in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", calculated and recorded the net present value of the restoration liability (see note 15).

On 19 December 2006 the Governments of the Russian Federation and the Republic of Sakha (Yakutia) signed an Amicable Agreement in respect to 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.

As a result of the share capital contribution the Russian Federation's share in the Company's share capital should increase to at least 50 percent plus one share and the share of Republic of Sakha (Yakutia) and its districts should remain at 40 percent.

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 lease until the new shares were issued.

On 10 November 2007 the extraordinary shareholders' meeting of the Company approved the issue of 72,726 new shares and their private 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 expects the transaction will be completed in the third quarter of 2008.

(in millions of Russian roubles, unless otherwise stated)

Management believes that since the date of official approval of the new shares 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 reclassed to equity as a deferred capital contribution in these consolidated financial statements. 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.

Royalty payments expensed during the year ended 31 December 2007 totalled RR’mln 4,816 (year ended 31 December 2006: RR’mln 8,534).

Pursuant to an addendum to the agreement dated 29 December 2006 the Company and the Republic of Sakha (Yakutia) agreed that the royalty payments, including value added tax, due in 2007 were fixed at RR’mln 1,473. Since 1 January 2007 the Company is no longer obliged to make payments to the ecology fund. In addition, pursuant to the agreement dated 27 January 2007 OAO “ALROSA-Nyurba”, a subsidiary of the Group, was required to make royalty payments to the Republic of Sakha (Yakutia) in the amount of RR’mln 3,509 during 2007.

Pursuant to an addendum to the Lease Agreement dated 10 January 2006, the Company and the Republic of Sakha (Yakutia) agreed that the royalty payments, including ecology fund payments and value added tax, due in 2006 were fixed at RR’mln 10,500.

The recoverable level of value added tax related to royalty paid by the Company depends on the percentage of export diamond sales to the total diamond sales of the Company. The amount of recoverable value added tax for the year ended 31 December 2007 was RR’mln 166 (for the year ended 31 December 2006: RR’mln 1,117, including value added tax related to ecology fund payments).

13. LONG-TERM DEBT

	31 December 2007	31 December 2006
Banks:		
US$ denominated floating rate	468	5,092
US$ denominated fixed rate	21,372	26,242
RR denominated fixed rate	305	313
	22,145	31,647
Eurobonds	19,631	21,005
Finance lease obligation	945	722
Commercial paper	545	662
Other US$ denominated fixed rate loans	227	318
Other RR denominated fixed rate loans	1,036	677
	44,529	55,031
Less: current portion of long-term debt (see note 14)	(12,233)	(17,791)
	32,296	37,240

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.

(in millions of Russian roubles, unless otherwise stated)

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

	31 December 2007	31 December 2006
Banks:		
US$ denominated floating rate	6.8%	7.8%
US$ denominated fixed rate	7.7%	7.6%
RR denominated fixed rate	12.6%	12.7%
Eurobonds	8.7%	8.7%
Finance lease obligation	7.6%	7.6%
Commercial paper	24.9%	20.7%
Other US$ denominated fixed rate	9.0%	9.0%
Other RR denominated fixed rate loans	10.6%	12.9%

At 31 December 2007 long-term loans had the following maturity profile:

	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

At 31 December 2006 long-term loans had the following maturity profile:

	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	5,092	-	-	-	-	5,092
US$ denominated fixed rate	12,668	434	11,527	506	1,107	26,242
RR denominated fixed rate	-	19	-	-	294	313
Eurobonds	-	7,867	-	-	13,138	21,005
Finance lease obligation	16	18	20	21	647	722
Commercial paper	-	229	115	91	227	662
Other US$ denominated fixed rate loans	-	173	76	69	-	318
Other RR denominated fixed rate loans	15	522	-	-	140	677
	17,791	9,262	11,738	687	15,553	55,031

The Group has not entered into any derivative contracts in respect of its interest rate exposure.

The carrying amounts and fair values of long-term debt are as follows:

	31 December 2007		31 December 2006	
	Carrying value	Fair value	Carrying value	Fair value
Banks	22,145	20,407	31,647	30,806
Eurobonds	19,631	21,029	21,005	21,709
Finance lease obligation	945	851	722	585
Commercial paper	545	1,190	662	822
Other US$ denominated fixed rate loans	227	227	318	318
Other RR denominated fixed rate loans	1,036	1,028	677	713

(in millions of Russian roubles, unless otherwise stated)

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 2007	**31 December 2006**
Banks:	9.5%	9.9%
Eurobonds	5.4%	9.1%
Commercial paper	7.8%	7.5%
Finance lease obligation	9.8%	9.4%
Other US$ denominated fixed rate	11.0%	13.0%
Other RR denominated fixed rate loans	10.7%	12.9%

As at 31 December 2007 there were no long-term loans secured with the assets of the Group. As at 31 December 2006, long-term debt totalling RR'mln 11,585 was secured with the assets of the Group. As separate loan agreements did not specify individual pledged assets, the carrying amount of pledged assets is not disclosed.

Eurobonds

	Year ended 31 December 2007	**Year ended 31 December 2006**
Balance at the beginning of the year	21,005	25,441
Amortisation of discount	34	101
Exchange gains	(1,408)	(2,086)
Early repayment	-	(2,451)
Balance at the end of the year	19,631	21,005

Finance lease obligation

	Minimum lease payments 31 December 2007	**Discounted value of minimum lease payments 31 December 2007**	**Minimum lease payments 31 December 2006**	**Discounted value of minimum lease payments 31 December 2006**
Within 1 year	203	133	72	16
Between 2 and 5 years	1,060	812	355	108
6 years and thereafter	-	-	633	598
	1,263	945	1,060	722

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

	31 December 2007	**31 December 2006**
Banks:		
US$ denominated floating rate	3,682	-
US$ denominated fixed rate	23,012	1,960
RR denominated floating rate	543	-
RR denominated fixed rate	3,509	1,732
	30,746	3,692
European commercial paper	3,510	-
Commercial paper	791	1,208
Other US$ denominated fixed rate loans	6	92
Other RR denominated fixed rate loans	2,166	2,294
	37,219	7,286
Add: current portion of long-term debt (see note 13)	12,233	17,791
	49,452	25,077

Commercial paper

Commercial paper comprises unsecured notes, denominated in RR, issued by the Group to provide short and medium-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.

(in millions of Russian roubles, unless otherwise stated)

European commercial paper

	Year ended 31 December 2007	Year ended 31 December 2006
Balance at the beginning of the year	-	-
Issued	10,979	7,993
Repaid	(7,027)	(7,668)
Exchange gain	(442)	(325)
Balance at the end of the year	3,510	-

In March 2005 "ALROSA Finance S.A." established a program for issuing European commercial paper (ECP). The program allows for the issue of short-term fixed rate commercial paper with maturity dates within 364 days.

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

	31 December 2007	31 December 2006
Banks:		
US$ denominated floating rate	5.6%	-
US$ denominated fixed rate	9.1%	7.6%
RR denominated floating rate	11.7%	-
RR denominated fixed rate	11.0%	10.8%
European commercial paper	9.6%	-
Commercial paper	22.3%	23.0%
Other US$ denominated fixed rate loans	3.7%	3.9%
Other RR denominated fixed rate loans	2.4%	3.9%

As at 31 December 2007 and 31 December 2006 the carrying amounts of short-term loans are assumed to approximate their fair values.

As at 31 December 2007, short-term debt totalling RR'mln 1,028 (31 December 2006: nil) was secured with the assets of the Group. As separate loan agreements do not specify individual pledged assets, the carrying amount of pledged assets is not disclosed.

15. PROVISION FOR RESTORATION LIABILITY

	Year ended 31 December 2007	Year ended 31 December 2006
At the beginning of the year	7,214	8,517
Change in estimate of provision for restoration liability	162	(1,708)
Unwinding of discount	283	405
Reversal of provision for restoration liability	(7,659)	-
At the end of the year	-	7,214

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 received from the Republic of Sakha (Yakutia) under the terms of the Lease Agreement (see notes 2(f) and 10).

Management believes that since the date of official approval of the new shares issue (see note 12) 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), accordingly the amount of provision for restoration liability was reversed in these consolidated financial statements. 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 in equity as a deferred capital contribution. It will be split between the share capital and additional capital when the additional issue of shares is completed and the increase of share capital is registered by state authorities.

The discount rate used to calculate the net present value of the restoration liability at 10 November 2007 was 4.6 percent (31 December 2006: 5.9 percent), which was a pre-tax real rate and was considered appropriate to the Group in the economic environment in the Russian Federation at the respective dates. This decrease in the discount rate resulted in a change in the estimate of the amount of provision for restoration liability totalling RR'mln 162, which was added to the cost of the related asset (see note 8).

(in millions of Russian roubles, unless otherwise stated)

16. OTHER PROVISIONS

	Year ended 31 December 2007	Year ended 31 December 2006
Provision for land recultivation	444	484
Legal claim provision	99	229
	543	713

Provision for land recultivation

	Year ended 31 December 2007	Year ended 31 December 2006
At the beginning of the year	484	-
Recognised	-	484
Change in estimate of provision for land recultivation	(25)	-
Unwinding of discount	62	-
Utilised	(77)	-
At the end of the year	444	484

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 2007 and 31 December 2006 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 2007 was 12.4 percent (31 December 2006: 12.7 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.

Legal claim provision

	Year ended 31 December 2007	Year ended 31 December 2006
At the beginning of the year	229	229
Utilised	(104)	-
Foreign exchange gain	(26)	-
At the end of the year	99	229

17. 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 2007	31 December 2006
Present value of obligations	11,375	11,388
Fair value of plan assets	(3,555)	(3,120)
Unrecognised actuarial losses	(5,857)	(6,749)
Net liability	1,963	1,519

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 2007	Year ended 31 December 2006
Current service cost	301	279
Interest cost	762	794
Expected return on plan assets	(228)	(251)
Net actuarial losses	468	334
Net expense recognised in the statement of income	1,303	1,156

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.

(in millions of Russian roubles, unless otherwise stated)

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 2007	31 December 2006
Benefit obligation at the beginning of the year	11,388	8,590
Current service cost	301	279
Interest cost	762	794
Actuarial (gain) loss	(653)	2,163
Benefits paid	(423)	(438)
Benefit obligation at the end of the year	11,375	11,388

	31 December 2007	31 December 2006
Fair value of plan assets at the beginning of the year	3,120	2,648
Expected return on plan assets	228	251
Contributions made	682	726
Benefits paid	(423)	(438)
Actuarial loss	(52)	(67)
Fair value of plan asset at the end of the year	3,555	3,120

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 2007 the actual return on plan assets was RR'mln 176 (year ended 31 December 2006: RR'mln 184).

The Group expects to contribute RR 888 million to the defined benefit plans during the year beginning 1 January 2008.

Principal actuarial assumptions used:

	31 December 2007	31 December 2006
Discount rate (nominal)	6.8%	6.8%
Future salary and pension increases (nominal)	8.2%	8.2%
Expected return on plan assets	6.8%	6.8%
Turnover ratio	3.0%	3.0%
Employees average remaining working life (years)	13	13
Estimated total service (years)	18	18

Life expectancies (at standard age of retirement) are as follows:

	31 December 2007	31 December 2006
Male aged 55 (years)	14	14
Female aged 50 (years)	23	23

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

	31 December 2007, %	31 December 2006, %
Russian corporate bonds	55.6	46.8
Bank deposits	18.9	18.8
Equity securities of Russian issuers	12.4	8.1
Russian Government and municipal bonds	7.6	17.8
Promissory notes of Russian issuers	5.5	8.5
	100.0	100.0

(in millions of Russian roubles, unless otherwise stated)

18. TRADE AND OTHER PAYABLES

	31 December 2007	31 December 2006
Accrual for employee flights and holidays	4,393	3,951
Trade payables	3,728	2,169
Wages and salaries	1,657	1,523
Current accounts of third parties in OOO “MAK-Bank”	658	837
Interest payable	565	419
Advances from customers	278	268
Payables to associates	89	92
Deferred purchase consideration payable for acquisition of minority interest in OAO “ALROSA-Gaz”	-	277
Other payables and accruals	508	540
	11,876	10,076

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.

19. INCOME AND OTHER TAX ASSETS AND LIABILITIES

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

	31 December 2007	31 December 2006
Unified social tax	829	796
Extraction tax	713	711
Value added tax	289	298
Personal income tax (employees)	232	250
Tax penalties	178	183
Property tax	88	75
Other taxes and accruals	145	182
	2,474	2,495

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

	Year ended 31 December 2007	Year ended 31 December 2006
Property tax	1,544	1,489
Ecology fund	-	849
Tax penalties	43	28
Other taxes and accruals	245	202
	1,832	2,568

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 20).

According to legislation which became substantively enacted in the year ended 31 December 2001, income tax payable by companies in the Russian Federation with effect from 1 January 2002 ranges from 20 percent to 24 percent, depending on the decision each year of regional and local tax authorities, which can agree jointly on a supplementary amount of up to 4 percent above that set by the federal tax authorities. The rate used to compute the deferred income tax assets and liabilities of the Group at 31 December 2007 and 31 December 2006 was 24 percent, which reflects the fact that, based on their decisions in respect of tax rates, substantially all regional and local tax authorities in the regions in which the Group operates assessed the maximum supplementary amount in respect of the year ended 31 December 2007 and year ended 31 December 2006.

Income tax expense comprises the following:

	Year ended 31 December 2007	Year ended 31 December 2006
Current tax expense	6,422	7,844
Deferred tax expense (benefit)	1,383	(598)
	7,805	7,246

(in millions of Russian roubles, unless otherwise stated)

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

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before income tax	23,989	24,462
Theoretical tax charge at statutory rate of 24 percent thereon	5,757	5,871
Income not assessable for income tax purposes	(633)	(721)
Expenses and losses not deductible for income tax purposes	2,681	2,096
	7,805	7,246

Expenses and losses not deductible for income tax purposes include mostly social expenses (see note 24) 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 24 percent (2006: 24 percent).

	31 December 2007	Tax effect of movement in temporary differences			31 December 2006	Tax effect of movement in temporary differences			31 December 2005
		Disposal of subsidiary (see note 5)	Charged to statement of changes in equity	Charged to statement of income		Acquisition of subsidiary	Charged to statement of changes in equity	Charged to statement of income	
Deferred tax liabilities									
Property, plant and equipment	6,137	(27)	976	624	4,564	38	-	283	4,243
Inventories	2,088	-	-	55	2,033	-	-	(369)	2,402
Derivative financial instruments	1,225	-	-	1,008	217	-	-	217	-
Long-term investments	323	-	(58)	189	192	-	58	(192)	326
Deferred tax assets									
Accrual for employee benefits	(1,298)	-	-	(97)	(1,201)	-	-	(171)	(1,030)
Exploration costs written off	(404)	-	-	(97)	(307)	-	-	(4)	(303)
Provision for pension obligations	(471)	-	-	(106)	(365)	-	-	(250)	(115)
Write-down of inventories	(1,048)	-	-	(78)	(970)	-	-	(71)	(899)
Impairment of accounts receivable	(150)	-	-	(24)	(126)	-	-	(149)	23
Other deductible temporary differences	(137)	-	-	(91)	(46)	-	-	108	(154)
Net deferred tax liability	**6,265**	**(27)**	**918**	**1,383**	**3,991**	**38**	**58**	**(598)**	**4,493**

At 31 December 2007 and 2006, the Group had not recorded a deferred tax liability in respect to taxable temporary differences of RR’mln 2,450 and RR’2,440, 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.

20. SALES

	Year ended 31 December 2007	Year ended 31 December 2006
Revenue from diamond sales:		
Export	47,477	45,397
Domestic	27,716	35,194
Revenue from diamonds for resale	4,578	4,608
	79,771	85,199
Other revenue:		
Transport	3,878	3,166
Social infrastructure	1,790	1,528
Gas and gas condensate	1,148	682
Construction	803	721
Trading	513	688
Other	2,831	2,356
	90,734	94,340

Export duties totalling RR’mln 3,014 for the year ended 31 December 2007 (year ended 31 December 2006: RR’mln 2,839) were netted against revenues from export of diamonds.

(in millions of Russian roubles, unless otherwise stated)

In March 2005 the Group received the right to purchase diamonds produced in Angola from specially authorised local exporters and subsequently resell these diamonds in the open market.

In December 2001, a Trade agreement between the Company and De Beers was signed, covering the years from 1 January 2002 to 31 December 2006. Pursuant to this agreement, the Company agreed to sell and De Beers agreed to buy up to US$'mln 800 in value of the Company's annual diamond production at the current market prices. To be legally enforceable, this agreement required the regulatory permission of the European Commission. In January 2003 European Commission issued a Statement of Objections to the De Beers Trade Agreement. In February 2006 De Beers has agreed with the European Commission to gradually reduce its purchases of rough diamonds from the Company to a maximum of US$'mln 400 in 2008 and thereafter to cease any further purchases altogether.

21. COST OF SALES

	Year ended 31 December 2007	Year ended 31 December 2006
Wages, salaries and other staff costs	16,135	15,801
Depreciation	8,611	8,268
Fuel and energy	8,402	7,535
Extraction tax	6,509	6,566
Materials	4,882	4,592
Cost of diamonds for resale	3,904	4,713
Services	2,764	2,221
Transport	1,397	884
Write down of inventory	-	192
Other	140	211
Movement in inventories	(1,303)	1,929
	51,441	52,912

Wages, salaries and other staff costs include unified social tax in the amount of RR'mln 2,482 (year ended 31 December 2006: RR'mln 2,386).

Depreciation totalling RR'mln 937 (year ended 31 December 2006: RR'mln 607) and staff costs totalling RR'mln 2,649 (year ended 31 December 2006: RR'mln 1,916) were incurred by the Group's construction divisions and were capitalised in the year.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2007	Year ended 31 December 2006
Wages, salaries and other staff costs	1,741	1,187
Services and other administrative expenses	2,936	2,699
Bad debt expense (see note 10)	589	77
	5,266	3,963

23. OTHER OPERATING INCOME

	Year ended 31 December 2007	Year ended 31 December 2006
Net gain from foreign exchange forward contracts (see note 6)	5,149	902
Negative goodwill on acquisition of minority interest in subsidiaries (see note 5)	2,132	889
Gain on disposal of available-for-sale investments (see note 5)	676	-
Amortisation of Grant (see note 12)	507	620
Gain on disposal of a OAO "Yakutskgeofizika" (see note 5)	104	-
Distribution of minority interest share in the statutory retained earnings of OAO "ALROSA-Nyurba" to AK "ALROSA" (see note 11)	-	854
Purchase price adjustment relating to diamonds for resale	-	766
Other	493	786
	9,061	4,817

(in millions of Russian roubles, unless otherwise stated)

In May 2006 the Group signed an agreement with "Sunland Mining Company Lda", a third party Angolan diamonds supplier, to reconsider certain terms of the diamonds supplies which took place in 2005. As a result the Group obtained additional profit due to a reduction in the purchase prices for diamonds supplied in 2005 and recognised income totalling RR'mln 766 in its financial statements for the year ended 31 December 2006.

24. OTHER OPERATING EXPENSES

	Year ended 31 December 2007	Year ended 31 December 2006
Social costs	3,672	3,041
Exploration expenses	4,150	2,981
Taxes other than income tax, extraction tax and unified social tax (see note 19)	1,832	2,568
Loss on disposal of property, plant and equipment	1,061	490
(Reversal of impairment) impairment of property, plant and equipment	(158)	368
Other	1,563	1,868
	12,120	11,316

Social costs consist of:

	Year ended 31 December 2007	Year ended 31 December 2006
Maintenance of local infrastructure	1,804	1,507
Charity	746	539
Hospital expenses	391	338
Education	179	159
Other	552	498
	3,672	3,041

25. FINANCE INCOME

	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	1,406	989
Exchange gains	4,146	3,687
	5,552	4,676

26. FINANCE COSTS

	Year ended 31 December 2007	Year ended 31 December 2006
Interest expense:		
Eurobonds	1,795	2,181
Bank loans	3,999	2,157
Commercial paper	261	332
European commercial paper	347	329
Other	182	71
Unwinding of discount of provision for restoration liability (see note 15)	283	405
Unwinding of discount of provision for land recultivation (see note 16)	62	-
	6,929	5,475

(in millions of Russian roubles, unless otherwise stated)

27. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before income tax	23,989	24,462
Adjustments for:		
Share of net profit of associates (note 5)	(936)	(722)
Interest income (note 25)	(1,406)	(989)
Interest expense (note 26)	6,929	5,475
Gain on disposal of gold mining operations (note 10)	-	(3,694)
Loss on disposal of property, plant and equipment (note 24)	1,061	490
(Reversal of impairment) impairment of property, plant and equipment (note 24)	(158)	368
Net gain from foreign exchange forward contracts (note 23)	(5,149)	(902)
Negative goodwill on acquisition of minority interest in subsidiaries (note 23)	(2,132)	(889)
Gain on disposal of OAO “Yakutskgeofizika” (note 23)	(104)	-
Gain on disposal of available-for-sale investments (note 23)	(676)	-
Distribution of minority interest share in the statutory retained earnings of OAO “ALROSA-Nyurba” to AK “ALROSA” (note 23)	-	(854)
Amortisation of Grant (note 23)	(507)	(620)
Depreciation (note 21)	8,611	8,268
Adjustments for non-cash investing activity (note 30)	(1,995)	(1,828)
Adjustments for non-cash financing activity (note 30)	7	493
Proceeds from exercising of foreign exchange forward contracts	945	-
Receipts from (payments to) restricted cash account (note 7)	10	(51)
Unrealised foreign exchange effect on non-operating items	(4,521)	(3,635)
Net operating cash flow before changes in working capital	23,968	25,372
Net (increase) decrease in inventories	(2,825)	1,717
Net decrease (increase) in trade and other receivables, excluding dividends receivable, receivables for sale of gold mining operations and treasury shares	10,404	(11,280)
Net increase in provisions, trade and other payables, excluding interest payable, payables for acquired property, plant and equipment, deferred purchase consideration payable for acquisition of minority interest in OAO “ALROSA-Gaz” and provision for restoration liability	1,688	797
Net decrease in taxes payable other than income tax	(20)	(517)
Cash generated from operations	**33,215**	**16,089**
Income tax paid	(7,944)	(6,168)
Net cash inflows from operating activities	**25,271**	**9,921**

28. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment

Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and changes, which can occur frequently.

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.

Recent volatility in global financial markets. In 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivatives markets. The volume of wholesale financing 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 that applied to similar transactions in recent periods.

(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 2007 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 these 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 2007, other than amounts that have been accrued in the consolidated financial statements.

(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 2007, the Group has contractual commitments for capital expenditures of approximately RR'mln 2,014 (31 December 2006: RR'mln 1,127).

(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 for the years ended 31 December 2007 and 31 December 2006 (see note 16). 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 incurred.

29. 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 2007 69 percent of AK "ALROSA" issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Following the General Meeting of Shareholders in June 2007, 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.

(in millions of Russian roubles, unless otherwise stated)

Tax balances are disclosed in notes 10 and 19. Tax transactions are disclosed in note 19. Information related to the Lease Agreement with the Republic of Sakha (Yakutia) is disclosed in notes 12 and 15.

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 2007 the accounts payable to the parties under Governmental control totalled RR'mln 244 (31 December 2006: RR'mln 246). As at 31 December 2007 the accounts receivable from the parties under Governmental control totalled RR'mln 481 (31 December 2006: RR'mln 8,763, including promissory notes of OAO "Vneshtorgbank" in total amount of RR'mln 8,592, see note 10). Promissory notes of OAO "Vneshtorgbank" were non-interest bearing issued at discount with an effective interest rate of 5.6 percent per annum. In the year ended 31 December 2007 the Group earned interest income in respect to the promissory notes of OAO "Vneshtorgbank" totalling RR'mln 434 (year ended 31 December 2006: RR'mln 223). As at 31 December 2007 and 31 December 2006 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 2007 and 31 December 2006 the Group had the following significant transactions with parties under Governmental control:

	Year ended 31 December 2007	**Year ended 31 December 2006**
Sales of diamonds	10,864	16,615
Other sales	1,369	1,033
Electricity and heating purchases	4,131	4,167
Other purchases	855	522

As at 31 December 2007 and 31 December 2006 the amount of loans received by the Group from banks under Governmental control was as follows:

	31 December 2007	**31 December 2006**
Long-term bank loans		
US$ denominated fixed rate	2,342	3,122
	2,342	3,122
Short-term bank loans		
US$ denominated fixed rate	6,883	430
RR denominated fixed rate	554	1,248
	7,437	1,678
	9,779	**4,800**

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 2007	**31 December 2006**
Long-term bank loans		
US$ denominated fixed rate	8.8%	9.9%
Short-term bank loans		
US$ denominated fixed rate	10.1%	7.9%
RR denominated fixed rate	10.0%	9.5%

In the year ended 31 December 2007 interest expense accrued in respect to the loans received by the Group from entities under Governmental control totalled RR'mln 701 (year ended 31 December 2006: RR'mln 661).

As at 31 December 2007 the amount of loans issued by the Group to entities under Governmental control totalled RR'mln 1,121 (31 December 2006: RR'mln 1,127). These loans are short-term, denominated in Russian Roubles, the average effective interest rate on these loans is 15 percent (31 December 2006: 16 percent). In the year ended 31 December 2007 interest income earned by the Group in respect to the loans issued to entities under Governmental control totalled RR'mln 144 (year ended 31 December 2006: RR'mln 139).

(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 25 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.

Supervisory Council and Management committee members received benefits for the year ended 31 December 2007 totalling RR'mln 406 (year ended 31 December 2006: RR'mln 194).

Associates

Significant transactions with associates are summarised as follows:

Long-term accounts receivable	31 December 2007	31 December 2006
"Escom-ALROSA Ltd", loan issued and interest receivable (see note 5)	2,734	2,710
	2,734	2,710

In the year ended 31 December 2007 the Group earned interest income in respect to the loan issued for "Escom-ALROSA Ltd" totalling RR'mln 219 (year ended 31 December 2006: RR'mln 181).

Current accounts receivable	31 December 2007	31 December 2006
"Catoca Mining Company Ltd.", dividends receivable	234	111
ZAO "PIC Orel Almaz", receivables for supplied diamonds	162	240
"LUO-Camachia-Camagico"	108	30
"Escom-ALROSA Ltd", loan issued (see note 5)	75	74
Other	95	47
Less: provision for bad debt	(188)	(266)
	486	236

As at 31 December 2007 and 31 December 2006 the accounts receivable from associates were non-interest bearing, had a maturity within one year and were denominated mostly in US$.

30. SIGNIFICANT NON-CASH TRANSACTIONS

	Year ended 31 December 2007	Year ended 31 December 2006
Non-cash investing activities:		
Inventory used in construction	(1,939)	(1,768)
Other	(56)	(60)
	(1,995)	(1,828)
Non-cash financing activities:		
Commercial paper issuance	500	493
Commercial paper and loans redemption	(493)	-
	7	493

(in millions of Russian roubles, unless otherwise stated)

31. 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 20. 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 2007	**Year ended 31 December 2006**	**31 December 2007**	**31 December 2006**	**Year ended 31 December 2007**	**Year ended 31 December 2006**
Russian Federation	38,331	43,996	220,067	189,561	28,350	19,118
Western Europe	24,705	26,934	1,996	2,402	-	1,054
Other countries	27,698	23,410	3,670	5,343	537	1,454
	90,734	**94,340**	**225,733**	**197,306**	**28,887**	**21,626**
Associates	-	-	1,613	1,562	-	-
Unallocated assets	-	-	483	46	-	-
Total	**90,734**	**94,340**	**227,829**	**198,914**	**28,887**	**21,626**

Sales to De Beers are included in the Western Europe geographical segment.

The Group has one individual customer, De Beers, that accounted for 15 percent of its diamond sales during the year ended 31 December 2007 (year ended 31 December 2006: 17 percent).

32. POST BALANCE SHEET EVENTS

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.