AK “ALROSA”

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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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 2006 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 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit
Moscow, Russian Federation
31 July 2007

(in millions of Russian roubles, unless otherwise stated)

Consolidated Balance Sheet

	Notes	31 December 2006	31 December 2005
Assets			
Non-current Assets			
Restricted cash	5	143	92
Investments in associates	3	1,562	1,464
Available-for-sale investments	3	1,285	449
Derivative financial instruments	4	658	-
Long-term accounts receivable	8	6,571	6,010
Property, plant and equipment	6	141,458	126,931
Total Non-current Assets		**151,677**	**134,946**
Current Assets			
Restricted cash	5	-	286
Inventories	7	19,436	21,153
Current accounts receivable	8	23,288	10,817
Prepaid income tax		46	701
Derivative financial instruments	4	244	-
Available-for-sale investments		14	20
Cash and cash equivalents	5	4,209	6,172
Total Current Assets		**47,237**	**39,149**
Total Assets		**198,914**	**174,095**
Equity			
Share capital	9	11,491	11,491
Treasury shares	9	(130)	(192)
Retained earnings and other reserves		85,092	72,432
Equity attributable to shareholders of AK “ALROSA”		**96,453**	**83,731**
Minority Interest	9	**4,610**	**4,027**
Total Equity		**101,063**	**87,758**
Liabilities			
Non-current Liabilities			
Long-term debt	11	37,240	33,593
Grant	10	8,044	8,664
Provision for restoration liability	13	7,214	8,517
Provision for pension obligations	15	1,519	1,089
Other provisions	14	713	229
Deferred tax liabilities	17	3,991	4,493
Total Non-current Liabilities		**58,721**	**56,585**
Current Liabilities			
Short-term loans and current portion of long-term debt	12	25,077	17,128
Trade and other payables	16	10,076	9,210
Income tax payable		1,358	337
Other taxes payable	17	2,495	3,012
Dividends payable		124	65
Total Current Liabilities		**39,130**	**29,752**
Total Liabilities		**97,851**	**86,337**
Total Equity and Liabilities		**198,914**	**174,095**

Signed by the following members of management:

Sergey A. Vybornov	Olga A. Lyashenko
President	Chief accountant

31 July 2007

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Income

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Sales	18	94,340	96,833
Cost of sales	19	(52,912)	(50,556)
Royalty	10	(8,534)	(8,650)
Gross profit		**32,894**	**37,627**
General and administrative expenses	20	(3,963)	(3,397)
Selling and marketing expenses		(1,587)	(1,214)
Other operating income	21	4,817	4,048
Other operating expenses	22	(11,316)	(11,524)
Operating profit		**20,845**	**25,540**
Finance income	24	4,676	781
Finance costs	25	(5,475)	(6,446)
Gain on disposal of gold mining operations	23	3,694	1,507
Share of net profit of associates	3	722	749
Profit before Income Tax		**24,462**	**22,131**
Income tax	17	(7,246)	(6,231)
Profit for the year		**17,216**	**15,900**
Attributable to:			
Equity holders of AK "ALROSA"		14,152	13,790
Minority interest		3,064	2,110
Profit for the year		**17,216**	**15,900**

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Net cash Inflow from Operating Activities	26	**9,972**	**19,083**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(17,971)	(14,771)
Proceeds from sales of fixed assets		537	340
Proceeds from disposal of non-current assets held for sale	3	90	-
Purchase of available-for-sale investments		(16)	(51)
Proceeds from sale of available-for-sale investments		8	151
Acquisition of minority interest in subsidiaries		(1,104)	(479)
Cash acquired on acquisition of subsidiaries	3	8,237	167
Advances paid for acquisition of subsidiaries	8	-	(960)
Acquisition of interest in "Escom-ALROSA Ltd."		-	(125)
Proceeds from sale of gold mining operations	23	1,697	3,251
Interest received		743	759
Dividends received from associates		1,108	207
Net Cash Outflow from Investing Activities		**(6,671)**	**(11,511)**
Cash Flows from Financing Activities			
Repayments of loans		(85,912)	(56,779)
Loans received		86,886	60,150
Interest paid		(4,810)	(4,585)
Receipts from restricted cash account		235	58
Purchase of treasury shares		(81)	(330)
Proceeds from sales of treasury shares		392	-
Dividends paid		(1,974)	(1,791)
Net Cash Outflow from Financial Activities		**(5,264)**	**(3,277)**
Net (Decrease) Increase in Cash and Cash Equivalents		**(1,963)**	**4,295**
Cash and cash equivalents at the beginning of the year		6,172	1,877
Cash and Cash Equivalents at the End of The Year		**4,209**	**6,172**

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	Retained earnings and other reserves	Total		
Balance at 31 December 2004	**198,739**	**11,491**	**(72)**	**60,652**	**72,071**	**2,958**	**75,029**
Profit for the year		-	-	13,790	13,790	2,110	**15,900**
Total recognised income for the year		-	-	13,790	13,790	2,110	**15,900**
Dividends (note 9)		-	-	(1,800)	(1,800)	-	**(1,800)**
Net treasury shares transactions (note 9)	(2,087)	-	(120)	(210)	(330)	-	**(330)**
Net changes in minority interest (note 9)		-	-	-	-	(1,041)	**(1,041)**
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 (note 3)		-	-	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		-	-	14,431	14,431	3,064	**17,495**
Dividends (note 9)				(1,962)	(1,962)	-	**(1,962)**
Net treasury shares transactions (note 9)	1,081	-	62	191	253	-	**253**
Net changes in minority interest (note 9)		-	-	-	-	(2,481)	**(2,481)**
Balance at 31 December 2006	**197,733**	**11,491**	**(130)**	**85,092**	**96,453**	**4,610**	**101,063**

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). The Company is subject to special legislation issued by the Russian Federation and the Republic of Sakha (Yakutia), which significantly influences the Company's core operating activities. This legislation includes, but is not limited to, requirements to obtain quotas for export of diamonds from the Government of the Russian Federation (see note 18). Licenses for major Group's 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 2006 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 (11.5 percent of shares). Additionally, 1 percent of the Company's shares as at 31 December 2006 are accounted for as treasury shares as they are held by the Group controlled entities (see note 9).

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 26.33 and 28.78 as at 31 December 2006 and 31 December 2005, respectively.

(b) Recent accounting pronouncements

In 2006 the Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2006 and which are relevant to its operations.

Effective 1 January 2006 the Group has applied IFRS 6 "Exploration and Evaluation of Mineral Resources". This standard provides guidance for accounting of costs incurred in the exploration for and evaluation of mineral resources. The adoption of the standard did not result in changes of the Group's accounting policies.

Effective 1 January 2006 the Group has applied the amendment to IAS 19 "Employee Benefits—Actuarial Gains and Losses, Group Plans and Disclosures". The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. No changes in respect of the recognition of actuarial gains and losses were made in the Group's accounting policies as a result of such adoption.

The adoption of IFRIC 4 "Determining whether an Arrangement contains a Lease", IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds", IFRIC 6 "Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment", amendment to IAS 21 "Net investment in a foreign operation" and amendments to IAS 39 "Cash Flow Hedge Accounting of Forecast Intragroup Transactions", "The

Fair Value Option" and "Financial Guarantee Contracts" did not have a significant 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 7 "Financial instruments: Disclosures" and Amendment to IAS 1 "Presentation of Financial Statements - Capital Disclosures", which are effective for annual periods beginning on or after 1 January 2007. New IFRS 7 introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will 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 will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces 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". The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact IFRS 7 and the amendment to IAS 1 will have on disclosures in its 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 operations 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" ("IAS 23"), which is effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 23 removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group is currently assessing what impact the amendment to IAS 23 will have on its consolidated financial statements.

The following new interpretations to existing Standards (not effective and not applicable for preparation of these financial statements) are not expected to significantly affect the Group's consolidated financial statements:

- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies", which is effective for annual periods beginning on or after 1 March 2006. The interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period;
- IFRIC 8 "Scope of IFRS 2", which is effective for annual periods beginning on or after 1 May 2006. The interpretation explains that, if the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received and thus IFRS 2 "Share-based payments" applies;
- IFRIC 9 "Reassessment of Embedded Derivatives", which is effective for annual periods beginning on or after 1 June 2006. The interpretation clarifies application of IAS 39 (Amended) for reassessment of the requirement to separate the embedded derivative from the host contract. It states that subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required;
- IFRIC 10 "Interim Financial Reporting and Impairment", which is effective for annual periods beginning on or after 1 November 2006. The interpretation prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date.
- IFRIC 11 "IFRS 2—Group and Treasury Share Transactions", which is effective for annual periods beginning on or after 1 March 2007. The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. The Interpretation also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements;

- IFRIC 12 "Service Concession Agreements", which is effective for annual periods beginning on or after 1 January 2008. Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services – such as roads, airports and other facilities – to private sector operators. The interpretation addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements.

(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 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 a corresponding credit reflected as a Grant in the Group's balance sheet. The Grant is amortised in line with the reduction in the carrying value of the underlying assets, with the amortised portion recorded as an increase in income (see note 10).

Social assets received under the aforementioned Lease Agreement have not been 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.

(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.

(in millions of Russian roubles, unless otherwise stated)

Costs related to efficient diamond reserves exploration are capitalised until the moment when project is officially recognised as commercially efficient. In other cases diamond exploration costs are expensed as incurred. Exploration costs are classified as research and development expenses within operating expenses.

Major renewals and improvements are capitalised. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of the asset beyond its original capacity. 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 net selling price 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 upon 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.

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 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.

(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.

The provision for restoration liability is determined based on the terms of the Lease Agreement (see notes 10 and 13). Under this agreement, in the year 2017 the Company is 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 is 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 is amortised over the term of the Lease Agreement.

Changes in the provision for restoration liability resulting from the passage of time are 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, are treated as a change in accounting estimate in the period of the change. The effects of such changes are added to, or deducted from, the cost of the related asset.

(g) Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as 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 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. During the years ended 31 December 2006 and 31 December 2005, the Group did not hold any investments classified as trading or held-to-maturity. 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 and sales of available-for-sale investments are initially measured at fair value and recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair 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 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 2006 and 31 December 2005, 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 reporting date. 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.

(o) Measurement of trade and other receivables

Trade and other receivables are initially recognised at the fair value of the consideration given, which normally is 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 cost, which is the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) 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 are recognised over the average remaining service life of employees.

Pension Fund "Almaznaya Osen" administers the Group's defined benefit plan. 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. The defined benefit liability is recognised net of the fair value of plan assets at the balance sheet date.

(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 information 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. Management has determined the allowance for doubtful debtors based on specific customer identification, customer payment trends and subsequent receipts and settlements. The management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that, therefore, the recorded value approximates their fair value.

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.

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.

Provisions. The Group's estimates for provisions for liabilities and charges are based on currently available facts and the Group's estimates of the ultimate outcome or resolution of the liability in the future. Actual results may differ from the estimates, and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

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

(in millions of Russian roubles, unless otherwise stated)

3. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries are as follows:

Name		Country of Incorporation	Percentage of ownership interest held	
			31 December 2006	31 December 2005
"ALROSA Finance" S.A.		Luxembourg	100	100
"Sunland Trading" S.A.		Switzerland	100	100
"Arcos Belgium" N.V.		Belgium	100	100
"New Technologies Holdings Ltd."		BVI	100	100
ZAO "Irelyakhneft"		Russia	100	100
OOO "ALROSA-VGS"		Russia	100	100
"Rolant Investments Ltd."	(1)	Cyprus	100	-
ZAO "Brint-M"	(2)	Russia	100	-
OAO "ALROSA-Gaz"	(3)	Russia	100	53
OAO "Severalmaz"		Russia	95	92
OOO "MAK-Bank"		Russia	88	88
OAO "ALROSA-Nyurba"		Russia	87	87
OAO "Viluyskaya GES-3"		Russia	85	79
OAO "Yakutskgeofizika"	(4)	Russia	75	-
OAO "Almazy Anabara"		Russia	51	51
OAO "Investment Group ALROSA"	(5)	Russia	50	50

As at 31 December 2006 and 31 December 2005 percentage of ownership interest of the Group in subsidiaries is equal to percentage of voting interest.

(1) 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 rights to indirect interests in four companies that hold licenses for certain oil and gas deposits in the Tyumen region of the Russian Federation. 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$'mln 300). "Rolant Investments Ltd." held a 100 percent interest in OOO "PIT Sibintek", a 90 percent interest in OOO "Urengoyskaya Gazovaya Company", a 65 percent interest in OOO "Kupol-NG" and a 41 percent interest in OAO "Severnaya Expedition". Subsequently, the bank entered into reciprocal put option and call option agreements with the Group. Pursuant to these agreements, the Group may, and may be required by the bank to, repurchase shares of "Rolant Investments Ltd." from the bank in October 2007 at a repurchase price of US$'mln 300 plus interest at a rate of 7.5 percent per annum accrued from 27 April 2006. In July 2006 the 65 percent interest in OOO "Kupol-NG" and the 41 percent interest in OAO "Severnaya Expedition" were sold to a third party for a total consideration of RR'mln 1,310 (US$'mln 48). Management believes that at 31 December 2006 the Group effectively controlled "Rolant Investments Ltd." and its subsidiaries; accordingly the assets and liabilities of this group of companies were included in the Group's consolidated financial statements. A corresponding liability totalling RR'mln 7,899 (US$'mln 300), which represents 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 (see note 11).

The acquisition of control over "Rolant Investments Ltd." was structured as described above primarily to give the Group greater flexibility to resell its rights to the interests in the oil and gas companies if the Group were to decide not to develop its oil and gas activities, than if the Company directly held the interests in the individual oil and gas companies.

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. Accordingly, fair valuation of the acquired assets and liabilities was not performed.

The carrying values of the acquired assets and liabilities of "Rolant Investments Ltd." at the date of transaction are as follows:

	Carrying value
Property, plant and equipment (production licenses)	3,863
Non-current assets held for sale	1,310
Borrowings and other current liabilities	(4,970)
Minority interest	(203)

(in millions of Russian roubles, unless otherwise stated)

(2) In April 2006 the Company acquired 100 percent of the voting shares of ZAO "Brint-M", a company holding licenses to conduct a geological survey of diamond deposits in the Arkhangelsk and Murmansk regions of Russia, for a total purchase consideration of RR'mln 314. At the date of acquisition ZAO "Brint-M" had only a portfolio of exploration licenses, it did not perform any operations and had no any other assets. Therefore the acquisition of ZAO "Brint-M" was treated as acquisition of assets, not as a business combination. Accordingly, fair valuation of the acquired assets was not performed.

(3) In December 2006 the Company acquired a 47 percent minority interest in OAO "ALROSA-Gaz" from OAO "Sakhatransneftegaz", a company wholly owned by the Ministry of Property of Republic of Sakha (Yakutia), for a total purchase consideration of RR'mln 777. The first part of purchase consideration, totalling RR'mln 500, was paid in December 2006, the payment of the rest of the amount was deferred until July 2007. As a result of this transaction the Group increased its shareholding in OAO "ALROSA-Gaz" to 100 percent. Negative goodwill arised on this acquisition totalling RR'mln 889 was recognised as other operating income (see note 21).

(4) In January 2006 the Company acquired 75 percent of the voting shares of OAO "Yakutskgeofizika", a company involved in geological survey and exploration of oil and gas deposits in the Republic of Sakha (Yakutia), for a total purchase consideration of RR'mln 158.

Details of the assets and liabilities of OAO "Yakutskgeofizika" acquired are as follows:

	Carrying amount immediately before acquisition	Attributed fair value
Property, plant and equipment	97	296
Trade and other receivables and other assets	33	33
Cash and cash equivalents	20	20
Deferred tax liability	-	(38)
Trade and other payables and other liabilities	(106)	(106)
Minority interest	(13)	(47)
Fair value of the acquired share in net assets of the subsidiary		**158**
Total purchase consideration		**158**

(5) The Group owned a 50.01 percent of voting interest in OAO "Investment Group ALROSA" at 31 December 2006 and 31 December 2005.

Associates

Name		Country of incorporation	Percentage of ownership interest held as at		Carrying value of investment as at		Group's share of net profit (loss) for the year ended	
			31 December 2006	**31 December 2005**	**31 December 2006**	**31 December 2005**	**31 December 2006**	**31 December 2005**
"Catoca Mining Company Ltd"	(1)	Angola	33	33	1,355	1,205	774	833
"Escom-ALROSA Ltd"	(2)	United Kingdom	44	44	-	46	(46)	(79)
OAO "Almazny Mir"		Russia	47	47	171	169	2	1
Other		Russia			36	44	(8)	(6)
					1,562	1,464	722	749

As at 31 December 2006 and 31 December 2005 the percentage ownership interest of the Group in its associates is equal to the percentage of voting interest.

(1) "Catoca Mining Company Ltd" is a diamond-mining venture located in Angola. In 2006 "Catoca Mining Company Ltd" declared dividends for the year ended 31 December 2005; the Group's share of these dividends amounted to RR'mln 624.

(in millions of Russian roubles, unless otherwise stated)

(2) "Escom-ALROSA Ltd" owns 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 loan totalling RR'mln 2,138 (US$'mln 81) to "Escom-ALROSA Ltd"; the repayment period of this loan is June 2006 – June 2014 and it bears interest at LIBOR+2.5% per annum. The purpose of the loan is to finance construction of the main processing plant at the Luo deposit. During the year ended 31 December 2006 "Escom-ALROSA Ltd" received the final portion of this loan totalling RR'mln 448 (US$'mln 17).

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

	Assets as at		Liabilities as at		Revenues for the year ended		Profit (loss) for the year ended	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
"Catoca Mining Company Ltd"	8,322	8,104	4,191	4,431	11,592	8,676	2,360	2,540
"Escom-ALROSA Ltd"	7,070	5,435	7,398	5,330	1,029	328	(763)	(180)
OAO "Almazny Mir"	473	841	118	486	561	858	4	3
Other	135	259	41	282	43	115	(21)	(85)
	16,000	14,639	11,748	10,529	13,225	9,977	1,580	2,278

Non-current available-for-sale investments

	Year ended 31 December 2006	Year ended 31 December 2005
Available-for-sale investments at the beginning of the year	449	518
Additions	601	53
Net changes in fair value	243	-
Disposals	(8)	(122)
Available-for-sale investments at the end of the year	1,285	449

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 has not been able to exercise control over the financial and operating activity of OAO "NNGK Sakhaneftegas". Accordingly OAO "NNGK Sakhaneftegas" was not consolidated in these financial statements. The investment of the Company in OAO "NNGK Sakhaneftegas" was recognised at 31 December 2006 within available-for-sale investments at cost as management believes that the fair value of this investment cannot be estimated on a reasonable basis.

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 was determined by reference to the current market value at the close of business on 31 December 2006.

4. 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 several banks under which it agreed to sell US$ for RR during a five-year period starting in September 2006 and ending in September 2011, at a strike price fixed at the exchange rates ranging from RR 26.56 to RR 26.84 per US$ 1, averaged on a quarterly basis. The transactions have varying maturities and amounts spread evenly over the five-year period in the aggregate amount of US$'mln 215 per quarter (US$'mln 4,300 in total over the five-year period). At 31 December 2006 the fair value of the forward foreign exchange contracts totalled RR'mln 902 (including current portion of RR'mln 244) and represents the net present value of the differences between the cash flows related to these contracts calculated at spot exchange rate as at 31 December 2006 and forward exchange rates over the five-years period. The discount rate used to calculate the fair value of the forward foreign exchange contracts at 31 December 2006 was 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 recognized in the statement of income as other operating income (see note 21).

(in millions of Russian roubles, unless otherwise stated)

5. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents

	31 December 2006	31 December 2005
Current accounts	3,953	3,329
Deposit accounts	256	75
Special accounts	-	2,768
	4,209	6,172

During the year ended 31 December 2005 the Group reserved on special accounts in banks cash totalling RR’mln 2,768. The Group intended to use this cash for the re-purchase of its own Eurobonds in the open market.

At 31 December 2006 the weighted average interest rate on the cash balances of the Group is approximately nil percent (31 December 2005: 1 percent).

Restricted cash

Included within long-term restricted cash are balances of RR’mln 143 and RR’mln 92 as at 31 December 2006 and 31 December 2005, respectively, which represent mandatory reserve deposits held with the Central Bank of the Russian Federation by OOO “MAK-Bank”, a subsidiary of the Group; these balances are not available for use in the Group’s day to day operations.

At 31 December 2005 a short-term restricted cash balance of RR’mln 113 was held with authorised banks. According to Russian exchange regulation, at 31 December 2005 authorised banks reserved two percent of loans proceeds received by the Group from foreign legal entities. These balances were not available for use in the Group’s day-to-day operations for 365 days from the date of transfer of cash to the specified account. The remaining RR’mln 173 as at 31 December 2005 was cash held in J.P.Morgan Chase Bank; the Group was required to maintain a balance equal to the amount of its next scheduled principal and interest payment in accordance with loan agreements with this bank. These loans were fully repaid by the Group during the year ended 31 December 2006, and the deposit account was closed.

At 31 December 2006 and 31 December 2005 the weighted average interest rate on the restricted cash balances is approximately nil percent.

(in millions of Russian roubles, unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Land and Improvements	Plant and Equipment	Transport	Production licenses	Assets under Construction	Other	TOTAL
Cost at 31 December 2004	**47,614**	**39,168**	**31,497**	**15,707**	**2,802**	**30,890**	**1,218**	**168,896**
Additions through acquisition of subsidiaries	24	88	9	2	3,534	576	2	4,235
Additions	339	937	2,379	911	-	12,927	555	18,048
Transfers	3,883	7,085	1,918	111	-	(13,093)	96	-
Disposal of gold mining operations	(698)	-	(570)	(4)		(167)	(34)	(1,473)
Other disposals	(494)	(3,210)	(1,322)	(1,443)	-	(357)	(524)	(7,350)
Change in estimate of provision for restoration liability (see note 13)	1,134	412	77	12	-	-	1	1,636
Impairment of property, plant and equipment	-	-	-	-	-	(165)	-	(165)
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 (see note 3)	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 14)	-	484	-	-	-	-	-	484
Change in estimate of provision for restoration liability (see note 13)	(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**
Accumulated depreciation at 31 December 2004	**(13,664)**	**(15,592)**	**(15,671)**	**(9,692)**	**(70)**	**-**	**(309)**	**(54,998)**
Charge for the year ended 31 December 2005	(1,509)	(1,731)	(3,464)	(1,309)	(16)	-	(137)	(8,166)
Disposal of gold mining operations	88	-	109	-	-	-	6	203
Other disposals	371	3,076	1,194	1,364	-	-	60	6,065
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)**
Net book value at 31 December 2005	**37,088**	**30,233**	**16,156**	**5,659**	**6,250**	**30,611**	**934**	**126,931**
Net book value at 31 December 2006	**37,468**	**31,120**	**16,113**	**6,318**	**10,281**	**39,234**	**924**	**141,458**

Refer to note 10 for property, plant and equipment included above which is subject to the Lease Agreement with the Republic of Sakha (Yakutia).

Additions to property, plant and equipment for the year ended 31 December 2006 include an aircraft which the Group received under a finance lease agreement (see also note 11). As at 31 December 2006 the carrying value of this aircraft is RR'mln 1,040.

7. INVENTORIES

	31 December 2006	31 December 2005
Diamonds	7,247	9,752
Ores and concentrates	2,995	2,419
Mining and construction materials	7,785	6,570
Consumable supplies	775	717
Diamonds for resale	634	1,695
	19,436	21,153

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.

(in millions of Russian roubles, unless otherwise stated)

8. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 December 2006	31 December 2005
Receivables from associates (see note 29)	2,710	2,271
Loans issued	1,762	1,526
Long-term VAT recoverable	1,308	1,385
Notes receivable	723	752
Other long-term receivables	68	76
	6,571	6,010

Current accounts receivable	31 December 2006	31 December 2005
Notes receivable	10,704	1,372
Loans issued	3,338	2,312
Receivables for sale of gold mining operations (see note 23)	1,997	-
Prepaid taxes, other than income tax	1,787	497
Receivables for disposed non-current assets held for sale (see note 3)	1,220	-
VAT recoverable	888	2,924
Advances to suppliers	549	557
Receivables from associates (see note 29)	236	677
Trade receivables for supplied diamonds	120	20
Advances for acquisition of subsidiaries	-	960
Other receivables	2,449	1,498
	23,288	10,817

As at 31 December 2006 notes receivable include non-interest bearing promissory notes of OAO "Vneshtorgbank" issued at discount with a carrying amount of RR'mln 8,592, an effective interest rate of 5.6 percent per annum and a maturity on presentation not earlier than 20 May 2007.

Advances for acquisition of subsidiaries were paid in respect of the acquisition of controlling interests in OAO "NNGK Sakhaneftegaz", OAO "Yakutskgeofisika" and ZAO "Brint-M". These acquisitions were completed in January – April 2006 (see note 3).

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

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)	104	-	-	(83)	187
Notes receivable	226	-	-	-	226
Loans issued	89	-	-	11	78
Other receivables	1,514	(357)	-	160	1,711
	1,933	(357)	-	88	2,202

Long-term accounts receivable	31 December 2005	Bad debt write-off	Interest on impaired receivables	Bad debt expense (reversal)	31 December 2004
Loans issued	45	-	-	45	-
Long-term prepaid royalty	-	-	(6)	(50)	56
	45	-	(6)	(5)	56
Current accounts receivable					
Receivables from associates (see note 29)	187	(35)	-	(61)	283
Notes receivable	226	-	-	(25)	251
Loans issued	78	(41)	(2)	(55)	176
Prepaid taxes, other than income tax	-	-	-	(29)	29
Other receivables	1,711	(302)	-	257	1,756
	2,202	(378)	(2)	87	2,495

(in millions of Russian roubles, unless otherwise stated)

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

Long-term accounts receivable	31 December 2006	31 December 2005
Receivables from associates	7%	7%
Loans issued	16%	16%
Notes receivable	10%	10%

9. EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 11,491 at 31 December 2006 and 31 December 2005 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 2006 and 31 December 2005, the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 15,558 and RR'mln 15,090 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.

Treasury shares

At 31 December 2006 OOO "Management Company Almaz" and OOO "MAK-Bank", subsidiaries of the Group, held 2,267 ordinary shares of the Company (at 31 December 2005 – 3,348 shares). The Group management controls the voting right of these shares.

Dividends

On 25 June 2005, the Company's shareholders approved dividends for the year ended 31 December 2004 totalling RR'mln 1,800. Dividends per share amounted to RR 9,000.

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.

Minority interest

	Year ended 31 December 2006	Year ended 31 December 2005
Minority interest at the beginning of the year	4,027	2,958
Minority interest share of net profit of subsidiaries	3,064	2,110
Distribution of minority interest share in the statutory retained earnings of OAO "ALROSA-Nyurba" to AK "ALROSA"	(854)	(1,080)
Purchase of minority interest	(1,806)	(211)
Dividends paid to minority shareholder by OAO "Almazy Anabara"	(71)	-
Acquisition of "Rolant Investments Ltd." and OAO "Yakutskgeofizika" (see note 3)	250	250
Minority interest at the end of the year	4,610	4,027

During the years ended 31 December 2006 and 2005 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. These distributions were 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 (RR'mln 1,080 for the year ended 31 December 2005) was recognised by the Group within other operating income (see note 21).

As a result of the acquisition of an additional 47 percent in OAO "ALROSA-Gaz" in December 2006 (see note 3), minority interest decreased by RR'mln 1,668. As a result of the acquisition of an additional 6 percent in OAO "Viluyskaya GES-3" in September 2006, minority interest decreased by RR'mln 138.

(in millions of Russian roubles, unless otherwise stated)

10. 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 provides the Company with the right to use certain production and non-production assets for exploring, mining and operating diamond deposits for 25 years. Under initial conditions of the agreement the Company was obliged to return the assets in 2017 and reimburse the Government of Republic of Sakha (Yakutia) for depreciation of the assets. The Government in turn was required to reimburse the Company for qualifying repair and maintenance costs. 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 have estimated the restoration liability based upon their interpretation of the Lease Agreement and, in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, have calculated and recorded the net present value of the restoration liability (see notes 2 (f) and 13).

Royalty payments expensed during the year ended 31 December 2006 totalled RR’mln 8,534 (year ended 31 December 2005 - RR’mln 8,650). Ecology fund payments expensed during the year ended 31 December 2006 totalled RR’mln 849 (year ended 31 December 2005 - RR’mln 864).

Pursuant to an addendum to the Lease Agreement dated 17 December 2003, the Company and the Republic of Sakha (Yakutia) agreed that the royalty payments, including ecology fund payments and value added tax, due in 2005 were fixed at RR’mln 10,500.

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.

Recoverable value added tax related to royalty and ecology fund payments depends on the percentage of export diamond sales to the total diamond sales of the Company. The amount of such value added tax for the year ended 31 December 2006 was RR’mln 1,117 (for the year ended 31 December 2005 – RR’mln 986).

Pursuant to an 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 930. In addition, OAO “ALROSA-Nyurba”, a subsidiary of the Group, should make royalty payments to the Republic of Sakha (Yakutia) in the amount of RR’mln 3,509 during 2007. Since 1 January 2007 the Company is no longer obliged to make payments to ecology fund.

The carrying values of Company owned and granted assets subject to the Lease Agreement with the Republic of Sakha (Yakutia) are as follows:

Assets subject to the agreement with the Republic of Sakha (Yakutia)	31 December 2006	31 December 2005
Net book value of granted assets received in 1993	8,044	8,664
Net book value of Company owned assets subsequently transferred to the lease	5,053	5,470
Net book value at the end of the year	13,097	14,134

11. LONG-TERM DEBT

	31 December 2006	31 December 2005
Banks:		
US$ denominated floating rate	5,092	10,249
US$ denominated fixed rate	26,242	6,111
RR denominated fixed rate	313	-
	31,647	16,360
Eurobonds	21,005	25,441
Finance lease obligation	722	-
Commercial paper	662	284
Other US$ denominated fixed rate loans	318	462
Other RR denominated fixed rate loans	677	470
	55,031	43,017
Less: current portion of long-term debt (see note 12)	(17,791)	(9,424)
	37,240	33,593

(in millions of Russian roubles, unless otherwise stated)

Included within US$ denominated floating rate bank loans are RR'mln 3,686 (US$'mln 140) of deferred purchase consideration payable to an investment bank in December 2007 for acquisition of 100 percent in "New Technologies Holdings Ltd.". This amount is secured by shares of "New Technologies Holdings Ltd." and bears interest at a rate of six-months LIBOR plus 2.35 percent per annum.

Included within US$ denominated fixed rate bank loans are RR'mln 7,899 (US$'mln 300), which represent the amount payable to Morgan Stanley Dean Witter in October 2007 to repurchase shares of "Rolant Investments Ltd." within the framework of a series of option agreements concluded between the bank and the Group in April 2006 (see note 3).

The long-term commercial paper is denominated in RR, has defined maturity dates ranging between one and ten years, and is carried at amortised cost.

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

	31 December 2006	31 December 2005
Banks:		
US$ denominated floating rate	7.8%	7.6%
US$ denominated fixed rate	7.6%	9.8%
RR denominated fixed rate	12.7%	-
Eurobonds	8.7%	8.8%
Finance lease obligation	7.6%	-
Commercial paper	20.7%	53.8%
Other US$ denominated fixed rate	9.0%	9.0%
Other RR denominated fixed rate loans	12.9%	11.0%

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

At 31 December 2005 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	4,878	5,371	-	-	-	10,249
US $ denominated fixed rate	4,418	1,324	-	21	348	6,111
Eurobonds	-	-	11,082	-	14,359	25,441
Commercial paper	-	131	67	32	54	284
Other US$ denominated fixed rate loans	-	209	92	84	77	462
Other RR denominated fixed rate loans	128	202	-	-	140	470
	9,424	7,237	11,241	137	14,978	43,017

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

(in millions of Russian roubles, unless otherwise stated)

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

	31 December 2006		31 December 2005	
	Carrying amounts	**Fair values**	**Carrying amounts**	**Fair values**
Banks	31,647	30,806	16,360	16,266
Eurobonds	21,005	21,709	25,441	28,441
Commercial paper	662	822	284	1,025
Other US$ denominated fixed rate loans	318	318	462	463
Other RR denominated fixed rate loans	677	713	470	502

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.

As at 31 December 2006, long-term debt totalling RR'mln 11,585 (31 December 2005: RR'mln 4,175) included above 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.

Eurobonds

	Year ended 31 December 2006	Year ended 31 December 2005
Balance at the beginning of the year	25,441	19,594
Issuance	-	5,699
Amortisation of discount	101	57
Exchange (gain) loss	(2,086)	862
Early repayment	(2,451)	(771)
Balance at the end of the year	21,005	25,441

Finance lease obligation

	Minimum lease payments 31 December 2006	Net present value of minimum lease payments 31 December 2006
Within 1 year	72	16
Between 1 to 5 years	355	108
6 years and thereafter	633	598
	1,060	722

In September 2006 the Group entered into a finance lease agreement with "Societe Generale Equipment Finance Schweiz AG" to lease an aircraft for a term of 7 years (see also note 6).

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

	31 December 2006	31 December 2005
Banks:		
US$ denominated fixed rate	1,960	5,537
RR denominated fixed rate	1,732	92
	3,692	5,629
Commercial paper	1,208	427
Other US$ denominated fixed rate loans	92	173
Other RR denominated fixed rate loans	2,294	1,475
	7,286	7,704
Add: current portion of long-term debt (see note 11)	17,791	9,424
	25,077	17,128

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 non-interest bearing instrument issued at 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

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. Within the framework of this program "ALROSA Finance S.A." issued three series of European commercial paper in the total amount of RR'mln 7,708 (nominal value - US$'mln 300) during the year ended 31 December 2006. By 31 December 2006 all series of European commercial paper were redeemed.

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

	31 December 2006	**31 December 2005**
Banks:		
US$ denominated fixed rate	7.6%	7.9%
RR denominated fixed rate	10.8%	16.1%
Commercial paper	23.0%	13.0%
Other US$ denominated fixed rate loans	3.9%	6.7%
Other RR denominated fixed rate loans	3.9%	2.0%

As at 31 December 2006 and 31 December 2005 there were no short-term loans secured with the assets of the Group.

13. PROVISION FOR RESTORATION LIABILITY

	Year ended 31 December 2006	**Year ended 31 December 2005**
At the beginning of the year	8,517	6,492
Change in estimate of provision for restoration liability	(1,708)	1,636
Unwinding of discount	405	389
At the end of the year	7,214	8,517

The provision for restoration liability represents 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). The discount rate used to calculate the net present value of the restoration liability at 31 December 2006 was 5.9 percent (31 December 2005: 4.8 percent), which is a pre-tax real rate and is considered appropriate to the Group in the economic environment in the Russian Federation at the balance sheet date.

Prior to 1 January 2006, under the terms of the Lease Agreement, the Company was obliged to reimburse to the Republic of Sakha (Yakutia) the amount of accumulated depreciation on property, plant and equipment subject to this agreement (leased property, plant and equipment) and the Republic of Sakha (Yakutia) was obliged to reimburse to the Company the amount of qualified repair and maintenance expense incurred by the Company in relation to the leased property, plant and equipment (being limited to 30 percent of the depreciation on leased property, plant and equipment). The Company and the Republic of Sakha (Yakutia) determined the amount to be reimbursed by the Company under the terms of the lease agreement on a net basis, being the difference between the amount of depreciation on leased assets and the amount of repair and maintenance expense in relation to the leased property, plant and equipment. Historically reimbursement was effected by means of the transfer of title of certain of the Company's own items of property, plant and equipment to the Republic of Sakha (Yakutia) and these assets were, subsequent to their transfer, treated as leased property, plant and equipment (see note 10).

Pursuant to an addendum to the Lease Agreement dated 9 October 2006, starting from 1 January 2006 the Company is no longer obliged to reimburse to the Republic of Sakha (Yakutia) the amount of accumulated depreciation on the leased property, plant and equipment and the Republic of Sakha (Yakutia) is no longer obliged to reimburse to the Company the amount of qualified repair and maintenance expense incurred in relation to the leased property, plant and equipment. This modification of the Lease Agreement, in combination with the increase in the discount rate from 4.8 to 5.9 percent, resulted in a change in the estimate of the amount of provision for restoration liability totalling RR'mln 1,708, which was deducted from the cost of the related asset (see note 6).

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;

(in millions of Russian roubles, unless otherwise stated)

- 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 to which:
- the parties agreed to early terminate the Lease Agreement;
- the Republic of Sakha (Yakutia) agreed to transfer property, plant and equipment, which were subject to the Lease Agreement, to the Company in operating lease until the new shares issue.

At 31 December 2006 and the date of these financial statements the timing and some conditions of the new shares issue are still uncertain and subject to negotiations between the Russian Federation and the Republic of Sakha (Yakutia). Therefore management believes that at 31 December 2006 there is no effect on recognised amounts of the leased property, plant and equipment, grant and provision for restoration liability.

14. OTHER PROVISIONS

	Year ended 31 December 2006	Year ended 31 December 2005
Provision for land recultivation	484	-
Legal claim provision	229	229
	713	229

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 these financial statements with a corresponding asset recognised within property, plant and equipment (see note 6). The discount rate used to calculate the net present value of the future cash outflows relating to land recultivation at 31 December 2006 was 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.

15. PROVISION FOR PENSION OBLIGATIONS

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

	31 December 2006	31 December 2005
Present value of obligations	11,388	8,590
Fair value of plan assets	(3,120)	(2,648)
Unrecognised actuarial losses	(6,749)	(4,853)
Net liability	1,519	1,089

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 2006	Year ended 31 December 2005
Current service cost	279	270
Interest cost	794	692
Expected return on plan assets	(251)	(147)
Net actuarial losses	334	310
Net expense recognised in the statement of income	1,156	1,125

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 2006	31 December 2005
Benefit obligation at the beginning of the year	8,590	7,513
Current service cost	279	270
Interest cost	794	693
Actuarial loss	2,163	443
Benefits paid	(438)	(329)
Benefit obligation at the end of the year	11,388	8,590

	31 December 2006	31 December 2005
Fair value of plan assets at the beginning of the year	2,648	1,544
Expected return on plan assets	251	147
Contributions made	726	1,170
Benefits paid	(438)	(329)
Actuarial (loss) gain	(67)	116
Fair value of plan asset at the end of the year	3,120	2,648

Principal actuarial assumptions used:

	31 December 2006	31 December 2005
Discount rate (nominal)	6.8%	9.5%
Future pension increases (nominal)	8.2%	9.5%
Employees average remaining working life (years)	13	13

16. TRADE AND OTHER PAYABLES

	31 December 2006	31 December 2005
Accrual for employee flights and holidays	3,951	3,312
Trade payables	2,169	2,942
Wages and salaries	1,523	1,321
Current accounts of third parties in OOO "MAK-Bank"	837	574
Interest payable	419	490
Deferred purchase consideration payable for acquisition of minority interest in OAO "ALROSA-Gaz" (see note 3)	277	-
Advances from customers	268	120
Payables to associates	92	66
Other payables and accruals	540	385
	10,076	9,210

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.

17. INCOME AND OTHER TAX ASSETS AND LIABILITIES

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

	31 December 2006	31 December 2005
Unified social tax	796	736
Extraction tax	711	478
Value added tax	298	834
Personal income tax (employees)	250	202
Tax penalties	183	290
Property tax	75	376
Other taxes and accruals	182	96
	2,495	3,012

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

(in millions of Russian roubles, unless otherwise stated)

	Year ended 31 December 2006	Year ended 31 December 2005
Property tax	1,489	1,306
Ecology fund	849	864
Tax penalties	28	639
Other taxes and accruals	202	331
	2,568	3,140

In accordance with Resolution № 1364 of the Government of the Russian Federation dated 9 December 1999, in addition to the taxes noted above, the Group is obliged to pay 6.5 percent on the value of diamonds sold for export in the form of an export duty (see note 18).

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 2006 and 31 December 2005 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 2006 and year ended 31 December 2005.

Income tax expense comprises the following:

	Year ended 31 December 2006	Year ended 31 December 2005
Current tax expense	7,844	6,288
Deferred tax benefit	(598)	(57)
	7,246	6,231

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

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before income tax	24,462	22,131
Theoretical tax charge at statutory rate of 24 percent thereon	5,871	5,311
Income not assessable for income tax purposes	(721)	(963)
Expenses and losses not deductible for income tax purposes	2,096	1,883
	7,246	6,231

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 on these temporary differences is recorded at the rate of 24 percent (2005: 24 percent).

	31 December 2006	Tax effect of movement in temporary differences			31 December 2005	Tax effect of movement in temporary differences		31 December 2004
		Acquisition of subsidiary (see note 3)	Charged to statement of changes in equity	Charged to statement of income		Acquisition of subsidiary	Charged to statement of income	
Deferred tax liabilities								
Property, plant and equipment	4,564	38	-	283	4,243	684	(330)	3,889
Inventories	2,033	-	-	(369)	2,402	-	165	2,237
Derivative financial instruments	217	-	-	217	-	-	-	-
Long-term investments	192	-	58	(192)	326	-	141	185
Deferred tax assets								
Accrual for employee benefits	(1,201)	-	-	(171)	(1,030)	-	(30)	(1,000)
Exploration costs written off	(307)	-	-	(4)	(303)	-	(38)	(265)
Provision for pension obligations	(365)	-	-	(250)	(115)	-	131	(246)
Write-down of inventories	(970)	-	-	(71)	(899)	-	(390)	(509)
Impairment of accounts receivable	(126)	-	-	(149)	23	-	103	(80)
Other deductible temporary differences	(46)	-	-	108	(154)	-	191	(345)
Net deferred tax liability	**3,991**	**38**	**58**	**(598)**	**4,493**	**684**	**(57)**	**3,866**

(in millions of Russian roubles, unless otherwise stated)

18. SALES

	Year ended 31 December 2006	Year ended 31 December 2005
Revenue from diamond sales:		
Export	45,397	46,315
Domestic	35,194	33,931
Revenue from diamonds for resale	4,608	7,602
	85,199	87,848
Other revenue:		
Transport	3,166	2,659
Social infrastructure	1,528	1,049
Construction	721	1,021
Gold	-	808
Trading	688	597
Other	3,038	2,851
	94,340	96,833

Export duties totalling RR'mln 2,839 for the year ended 31 December 2006 (year ended 31 December 2005: RR'mln 2,945) were netted against revenues from export of diamonds.

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 year 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.

In November 2002, the President of the Russian Federation signed a decree liberalising the Russian diamond market. The decree authorised the Government of the Russian Federation to grant multi-year quotas, not to exceed five years. In February 2003 the Company was granted a five-year quota to export up to US$'mln 1,740 of diamonds each year, based on current market prices. In December 2006 OAO "ALROSA-Nyurba", a subsidiary, was granted a five-year quota to export up to US$'mln 395 of diamonds each year, based on current market prices. In July 2006 OAO "Almazy Anabara", a subsidiary of the Group, was granted a quota for the year ended 31 December 2006 to export up to US$'mln 46 of diamonds based on current market prices.

In January 2007, as part of the liberalisation of the diamond industry in Russia, the President of the Russian Federation signed a decree in accordance with which export quotas of diamonds were abolished starting from 1 January 2007.

19. COST OF SALES

	Year ended 31 December 2006	Year ended 31 December 2005
Wages, salaries and other staff costs	15,801	13,480
Depreciation	8,268	7,671
Fuel and energy	7,535	7,305
Extraction tax	6,566	6,613
Cost of diamonds for resale	4,713	7,234
Materials	4,592	5,028
Services	2,221	2,368
Transport	884	1,157
Write down of inventory	192	244
Other	211	294
Movement in inventories	1,929	(838)
	52,912	50,556

(in millions of Russian roubles, unless otherwise stated)

Cost of diamonds for resale represents the cost of diamonds purchased by the Group from specially authorised Angolan exporters for the purpose of their subsequent resale on the open market (see note 18).

Depreciation totalling RR'mln 607 (year ended 31 December 2005: RR'mln 495) and staff costs totalling RR'mln 1,916 (year ended 31 December 2005: RR'mln 1,776) were incurred by the Group's construction divisions and were capitalised in the year.

20. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2006	Year ended 31 December 2005
Administrative expenses	3,886	3,315
Bad debt expense (see note 8)	77	82
	3,963	3,397

Wages, salaries and other staff costs totalling RR'mln 1,187 (year ended 31 December 2005: RR'mln 850) were included into administrative expenses.

21. OTHER OPERATING INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Net gain from foreign exchange forward contracts (see note 4)	902	-
Negative goodwill on acquisition of minority interest in OAO "ALROSA-Gaz" (see note 3)	889	-
Distribution of minority interest share in the statutory retained earnings of OAO "ALROSA-Nyurba" to AK "ALROSA" (see note 9)	854	1,080
Purchase price adjustment relating to diamonds for resale	766	-
Amortisation of Grant (see note 10)	620	699
Reversal of provision for guarantee given	-	916
Reversal of tax penalties	-	391
Other	786	962
	4,817	4,048

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.

22. OTHER OPERATING EXPENSES

	Year ended 31 December 2006	Year ended 31 December 2005
Social costs	3,041	3,362
Taxes other than income tax and extraction tax (see note 17)	2,568	3,140
Exploration expenses	2,981	2,463
Loss on disposal of property, plant and equipment	490	934
Impairment of property, plant and equipment	368	165
Provision for guarantee given	-	68
Other	1,868	1,392
	11,316	11,524

(in millions of Russian roubles, unless otherwise stated)

Social costs consist of:

	Year ended 31 December 2006	Year ended 31 December 2005
Maintenance of local infrastructure	1,507	1,700
Charity	539	521
Hospital expenses	338	312
Celebration of semi centenary of diamond-mining industry	-	174
Education	159	153
Other	498	502
	3,041	3,362

23. GAIN ON DISPOSAL OF GOLD MINING OPERATIONS

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.

24. FINANCE INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Interest income	989	781
Exchange gains	3,687	-
	4,676	781

25. FINANCE COSTS

	Year ended 31 December 2006	Year ended 31 December 2005
Interest expense:		
Eurobonds	2,181	2,236
Bank loans	2,157	1,607
Non-convertible bonds	-	447
Commercial paper	332	146
European commercial paper	329	149
Other	71	123
Exchange loss	-	1,349
Provision for restoration liability (see note 13)	405	389
	5,475	6,446

(in millions of Russian roubles, unless otherwise stated)

26. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before income tax	24,462	22,131
Adjustments for:		
Share of net profit of associates (note 3)	(722)	(749)
Gain on disposal of gold mining operations (note 23)	(3,694)	(1,507)
Interest income (note 24)	(989)	(781)
Interest expense (note 25)	5,475	5,097
Loss on disposal of property, plant and equipment (note 22)	490	934
Impairment of property, plant and equipment (note 22)	368	165
Provision for guarantee given (note 22)	-	68
Net gain from foreign exchange forward contracts (note 21)	(902)	-
Negative goodwill on acquisition of minority interest in OAO "ALROSA-Gaz" (see note 21)	(889)	-
Distribution of minority interest share in the statutory retained earnings of OAO "ALROSA-Nyurba" to AK "ALROSA" (note 21)	(854)	(1,080)
Reversal of provision for guarantee given (note 21)	-	(916)
Amortisation of Grant (note 21)	(620)	(699)
Depreciation (note 19)	8,268	7,671
Adjustments for non-cash investing activity (note 30)	(1,828)	(2,321)
Adjustments for non-cash financing activity (note 30)	493	128
Unrealised foreign exchange effect on non-operating items	(3,635)	1,605
Net operating cash flow before changes in working capital	25,423	29,746
Net decrease (increase) in inventories	1,717	(1,779)
Net increase in trade and other receivables, excluding dividends receivable, advances for acquisition of subsidiaries, receivables for disposed non-current assets held for sale and receivables for sale of gold mining operations	(11,280)	(3,172)
Net increase in provisions, trade and other payables, excluding interest payable, payables for acquired property, plant and equipment and deferred purchase consideration payable for acquisition of minority interest in OAO "ALROSA-Gaz"	797	901
Net (decrease) increase in taxes payable other than income tax	(517)	371
Cash generated from operations	**16,140**	**26,067**
Income tax paid	(6,168)	(6,984)
Net cash inflows from operating activities	**9,972**	**19,083**

27. FINANCIAL RISKS MANAGEMENT

(a) Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade and other receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment provision, represents the maximum amount exposed to credit risk. The Group has no other significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

(b) Foreign exchange risk

The Group exports production to European and other countries and attracts a substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated liabilities (see notes 11 and 12) give rise to foreign exchange exposure.

To reduce the Group's foreign exchange risk exposure, the Company entered in 2006 into US$ / RR forward sale transactions with several banks (see note 4).

(c) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest bearing long-term borrowings. The majorities of interest rates on long-term borrowings are fixed, and are disclosed in note 11. The Group's principal interest bearing assets are current accounts opened with a number of banks (see note 5), loans issued and notes receivable.

At 31 December 2006 the Group does not have arrangements to mitigate the interest rate risk.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and ensuring the availability of additional funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in its funding requirements by keeping committed credit lines available.

(e) Fair value estimation

The fair value of publicly traded trading and available-for-sale securities is based on quoted market prices at the balance sheet date.

The estimated fair value of financial assets carried at amortised cost is determined by discounting estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates available to the Group for similar financial instruments. Fair value of these financial assets did not materially differ from their carrying amount at 31 December 2006 and 31 December 2005. At 31 December 2006 and 31 December 2005 the fair value of financial liabilities which is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments with the same remaining maturity, did not materially differ from the carrying amount of these financial liabilities (see note 11).

The carrying amounts of financial assets and liabilities with maturity of less than one year are assumed to approximate their fair values.

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.

(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 2006 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.

As at 31 December 2006 the Group had tax contingencies relating to transactions between the Company and its subsidiaries. Management of the Group believes that the exposure in respect of these tax risks is not probable, therefore as at 31 December 2006 and 31 December 2005 no provision for tax liabilities had been recorded.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 31 December 2006, 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 2006, the Group has contractual commitments for capital expenditures of approximately RR’mln 4,229 (31 December 2005: RR’mln 3,873).

(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 return assets received under the Lease Agreement (see note 10). However, 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

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or 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” and have a controlling interest of over 50 percent in AK “ALROSA”. As at 31 December 2006 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 2006, the 15 seats on the Supervisory Council include 12 representatives of the Russian Federation and the Republic of Sakha (Yakutia), two management representatives and one representative of districts of the Republic of Sakha (Yakutia). Governmental, federal and local, economic and social policies affect the Group’s financial position, results of operations and cash flows.

Tax balances are disclosed in notes 8 and 17. Tax transactions are disclosed in note 17. Information related to the Lease Agreement with the Republic of Sakha (Yakutia) is disclosed in notes 10 and 13.

During the year ended 31 December 2006 the Group acquired 29,963,289 common shares of OAO “Viluyskaya GES-3” from the Ministry of Property of the Republic of Sakha (Yakutia) for a total consideration of RR’mln 500. As a result of this transaction the Group increased its shareholding in OAO “Viluyskaya GES-3” to 85 percent.

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.

(in millions of Russian roubles, unless otherwise stated)

As at 31 December 2006 the accounts payable to the parties under Governmental control totalled RR'mln 246 (31 December 2005 - RR'mln 60). As at 31 December 2006 the accounts receivable from the parties under Governmental control totalled RR'mln 8,763, including promissory notes of OAO "Vneshtorgbank" in total amount of RR'mln 8,592, see note 8 (31 December 2005 - RR'mln 45).

During the years ended 31 December 2006 and 31 December 2005 the Group had the following significant transactions with parties under Governmental control:

	Year ended 31 December 2006	Year ended 31 December 2005
Sales of diamonds	16,615	11,091
Other sales	1,033	274
Electricity and heating purchases	4,167	3,660
Other purchases	522	591

As at 31 December 2006 the amount of loans received by the Group from entities under Governmental control totalled RR'mln 4,800 (31 December 2005 – RR'mln 6,139). As at 31 December 2006 the amount of loans issued by the Group to entities under Governmental control totalled RR'mln 1,127 (31 December 2005 – RR'mln 920).

In December 2006 the Company acquired a minority interest in OAO "ALROSA-Gaz" from OAO "Sakhatransneftegaz", a company wholly owned by the Ministry of Property of the Republic of Sakha (Yakutia), for a total purchase consideration of RR'mln 777. As a result of this transaction the Group increased its shareholding in OAO "ALROSA-Gaz" to 100 percent (see also note 3).

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 2006 totalling RR'mln 194 (year ended 31 December 2005: RR'mln 164).

Associates

Significant transactions with associates are summarised as follows:

Long-term accounts receivable	31 December 2006	31 December 2005
"Escom-ALROSA Ltd", loan issued and interest receivable (see note 3)	2,710	2,271
	2,710	2,271

Current accounts receivable	31 December 2006	31 December 2005
"Catoca Mining Company Ltd.", dividends receivable and loan issued	111	554
ZAO "PIC Orel Almaz", receivables for supplied diamonds	78	164
"Escom-ALROSA Ltd", loan issued (see note 3)	74	78
Other	77	68
Less: provision for bad debt	(104)	(187)
	236	677

Management believes that in years ended 31 December 2006 and 31 December 2005 transactions with associates were performed under market terms.

(in millions of Russian roubles, unless otherwise stated)

30. SIGNIFICANT NON-CASH TRANSACTIONS

	Year ended 31 December 2006	Year ended 31 December 2005
Non-cash investing activities:		
Inventory used in construction	(1,768)	(2,107)
Other	(60)	(214)
	(1,828)	(2,321)
Non-cash financing activities:		
Commercial paper issuance	493	358
Commercial paper and loans redemption	-	(230)
	493	128

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 18. Revenue from sales by geographical location of the customer, and assets and capital expenditures by geographical location of the asset are as follows:

	Sales		Total assets		Capital Expenditures	
	Year ended 31 December 2006	Year ended 31 December 2005	31 December 2006	31 December 2005	Year ended 31 December 2006	Year ended 31 December 2005
Russian Federation	43,996	42,431	189,561	167,396	19,118	17,337
Western Europe	26,934	28,358	2,402	1,966	1,054	37
Other countries	23,410	26,044	5,343	2,568	1,454	674
	94,340	96,833	197,306	171,930	21,626	18,048
Associates	-	-	1,562	1,464	-	-
Unallocated assets	-	-	46	701	-	-
Total	**94,340**	**96,833**	**198,914**	**174,095**	**21,626**	**18,048**

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

The Group has one individual customer, De Beers, that accounted for 17 percent of its diamond sales during the year ended 31 December 2006 (year ended 31 December 2005: 23 percent).

32. POST BALANCE SHEET EVENTS

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.