AK ñALROSAò

IFRS UNAUDITED CONDENSED CONSOLIDATED INTERIM

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2007

CONTENTS

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

On the basis of information provided by management, we have compiled, in accordance with the International Financial Reporting Standards applicable to compilation engagements, the unaudited consolidated balance sheet of AK "ALROSA" ("the Company") and its subsidiaries ("the Group") as at 30 June 2007, unaudited condensed interim consolidated statements of income, cash flows, and of changes in equity for the six months ended 30 June 2007 and the related notes to the unaudited condensed interim consolidated financial statements. Management of the Company is responsible for these unaudited condensed interim consolidated financial statements. We have neither audited nor reviewed the accompanying unaudited condensed interim consolidated financial statements and, accordingly, do not imply or express an opinion or any other form of assurance on them.

OOO "Financial and Accounting Consultants", PKF
Moscow, Russia
19 October 2007

(in millions of Russian roubles, unless otherwise stated)

Consolidated Interim Balance Sheet

	Notes	30 June 2007 (unaudited)	31 December 2006
Assets			
Non-current Assets			
Restricted cash	5	170	143
Investments in associates	3	1,187	1,562
Available-for-sale investments	3	1,331	1,285
Derivative financial instruments	4	632	658
Long-term accounts receivable	8	6,549	6,571
Property, plant and equipment	6	146,730	141,458
Total Non-current Assets		**156,599**	**151,677**
Current Assets			
Inventories	7	23,996	19,436
Current accounts receivable	8	27,071	23,288
Prepaid income tax		407	46
Derivative financial instruments	4	1,802	244
Available-for-sale investments		12	14
Cash and cash equivalents	5	8,857	4,209
Total Current Assets		**62,145**	**47,237**
Total Assets		**218,744**	**198,914**
Equity			
Share capital	9	11,491	11,491
Treasury shares	9	(20)	(130)
Retained earnings and other reserves		92,090	85,092
Equity attributable to shareholders of AK ñALROSAò		**103,561**	**96,453**
Minority Interest	9	**2,465**	**4,610**
Total Equity		**106,026**	**101,063**
Liabilities			
Non-current Liabilities			
Long-term debt	11	29,152	37,240
Grant	10	7,729	8,044
Provision for restoration liability	13	7,659	7,214
Provision for pension obligations		1,622	1,519
Other provisions	14	735	713
Deferred tax liabilities		4,466	3,991
Total Non-current Liabilities		**51,363**	**58,721**
Current Liabilities			
Short-term loans and current portion of long-term debt	12	44,515	25,077
Trade and other payables	15	11,454	10,076
Income tax payable		695	1,358
Other taxes payable	16	2,360	2,495
Dividends payable		2,331	124
Total Current Liabilities		**61,355**	**39,130**
Total Liabilities		**112,718**	**97,851**
Total Equity and Liabilities		**218,744**	**198,914**

Signed by the following members of management:

Sergey A. Vybornov
President
18 October 2007

Olga A. Lyashenko
Chief accountant

(in millions of Russian roubles, unless otherwise stated)

Consolidated Interim Statement of Income

		Three months ended		Six months ended	
	Notes	**30 June 2007 (unaudited)**	**30 June 2006 (unaudited)**	**30 June 2007 (unaudited)**	**30 June 2006 (unaudited)**
Sales	17	20,605	21,005	42,147	41,797
Cost of sales	18	(10,626)	(11,602)	(23,072)	(22,033)
Royalty	10	(1,962)	(2,136)	(2,172)	(4,266)
Gross profit		**8,017**	**7,267**	**16,903**	**15,498**
General and administrative expenses	19	(1,208)	(674)	(2,498)	(1,861)
Selling and marketing expenses		(458)	(482)	(867)	(698)
Other operating income	20	1,342	1,244	2,795	1,805
Other operating expenses	21	(2,911)	(2,778)	(5,475)	(5,376)
Operating profit		**4,782**	**4,577**	**10,858**	**9,368**
Finance income	22	857	1,628	2,188	2,852
Finance costs	23	(1,443)	(1,684)	(2,612)	(2,872)
Share of net profit of associates	3	248	104	456	398
Profit before Income Tax		**4,444**	**4,625**	**10,890**	**9,746**
Income tax	16	(1,328)	(1,351)	(3,381)	(3,001)
Profit for the period		**3,116**	**3,274**	**7,509**	**6,745**
Attributable to:					
Equity holders of AK ñALROSAò		3,117	3,334	7,309	6,487
Minority interest		(1)	(60)	200	258
Profit for the period		**3,116**	**3,274**	**7,509**	**6,745**

(in millions of Russian roubles, unless otherwise stated)

Consolidated Interim Statement of Cash Flows

	Notes	Six months ended 30 June 2007 (unaudited)	Six months ended 30 June 2006 (unaudited)
Net cash Inflow (Outflow) from Operating Activities	24	**2,954**	**(4,788)**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(9,321)	(9,359)
Proceeds from sales of fixed assets		153	224
Proceeds from sale of available-for-sale investments	3	968	-
Acquisition of available-for-sale investments		(240)	-
Acquisition of minority interest in subsidiaries		(697)	-
Interest received		453	363
Dividends received from associates		-	518
Net Cash Outflow from Investing Activities		**(8,684)**	**(8,254)**
Cash Flows from Financing Activities			
Repayments of loans		(17,961)	(38,833)
Loans received		30,356	53,446
Interest paid		(1,904)	(2,229)
(Transfer) receipts from restricted cash account		(27)	140
Purchase of treasury shares		(26)	(396)
Proceeds from sales of treasure shares		-	768
Dividends paid		(60)	(132)
Net Cash Inflow from Financial Activities		**10,378**	**12,764**
Net Increase (decrease) in Cash and Cash Equivalents		**4,648**	**(278)**
Cash and cash equivalents at the beginning of the period		4,209	6,172
Cash and Cash Equivalents at the End of The Period		**8,857**	**5,894**

Significant non-cash transactions are discussed in note 28.

(in millions of Russian roubles, unless otherwise stated)

Consolidated Interim Statement of Changes in Equity

	Number of shares outstanding	Attributable to shareholders of AK ñALROSAò				Minority interest	Total equity
		Share capital	Treasury shares	Retained earnings and other reserves	Total		
Balance at 31 December 2005	**196,652**	**11,491**	**(484)**	**72 724**	**83,731**	**4,027**	**87,758**
Currency translation differences		-	-	(140)	(140)	-	**(140)**
Net gain recognised directly in equity		-	-	(140)	(140)	-	**(140)**
Profit for the period		-	-	6,487	6,487	258	**6,745**
Total recognised income for the period		-	-	6,347	6,347	258	**6,605**
Dividends (note 9)		-	-	(1,962)	(1,962)	-	**(1,962)**
Net treasury shares transactions	1,085	-	84	195	279	-	**279**
Changes in minority interest (note 9)		-	-	-	-	(2)	**(2)**
Balance at 30 June 2006 (unaudited)	**197,737**	**11,491**	**(400)**	**77,304**	**88,395**	**4,283**	**92,678**
Balance at 31 December 2006	**197,733**	**11,491**	**(130)**	**85,092**	**96,453**	**4,610**	**101,063**
Net gains arising from change in fair value of available-for-sale investments, net of income tax (note 3)		-	-	330	330	-	**330**
Currency translation differences		-	-	(205)	(205)	-	**(205)**
Net gain recognised directly in equity		-	-	125	125	-	**125**
Net gains arising from change in fair value of available-for-sale investments transferred to income statement, net of income tax (note 20)		-	-	(515)	(515)	-	**(515)**
Profit for the period		-	-	7, 309	7,309	200	**7,509**
Total recognised income for the period		-	-	6,919	6,919	200	**7,119**
Dividends (note 9)		-	-	(2,240)	(2,240)	-	**(2,240)**
Net treasury shares transactions (note 9)	1 926	-	110	187	297	-	**297**
Changes in minority interest (note 9)		-	-	2,132	2,132	(2,345)	**(213)**
Balance at 30 June 2007 (unaudited)	**199,659**	**11,491**	**(20)**	**92,090**	**103,561**	**2,465**	**106,026**

1. ACTIVITIES

The core activities of Closed Joint Stock Company AK ñALROSAò (ñthe Companyò) and its subsidiaries (ñthe Groupò) 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 Companyôs core operating activities. Licenses for major Groupôs diamond deposits expire between 2015 and 2022. Management believes the Group will be able to extend the licensesô terms after they expire.

As at 30 June 2007 the Companyôs 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), ʃ ϕ ʃ «Vneshtorgbank» (10.5 percent of shares) and individuals (12.5 percent of shares).

2. ACCOUNTING POLICIES

(a) Basis of presentation

The condensed consolidated interim financial statements is prepared in accordance with International Accounting Standard 34 ñInterim Financial Reportingò (ñIAS 34ò). This financial statements should be read together with the consolidated financial statements for the year ended 31 December 2006 prepared in accordance with International Financial Reporting Standards (ñIFRSò).

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 (ñRARò). The consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS 34.

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

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 25.82 and 26.33 as at 30 June 2007 and 31 December 2006, respectively.

(b) Basis of accounting policies

Accounting policies which the Group has applied in process of preparing the condensed consolidated interim financial statements for period ended 30 June 2007 and the consolidated financial statements for the year ended 31 December 2006 are the same.

(in millions of Russian roubles, unless otherwise stated)

3. GROUP STRUCTURE AND INVESTMENTS

The Companyõs significant consolidated subsidiaries are as follows:

Name		Country of Incorporation	Percentage of ownership interest held	
			30 June 2007	31 December 2006
ñALROSA Financeò S.A.		Luxembourg	100	100
ñSunland Tradingò S.A.		Switzerland	100	100
ñArcos Belgiumò N.V.		Belgium	100	100
ñNew Technologies Holdings Ltd.ò		BVI	100	100
Zϕʆ ñIrelyakhneftò		Russia	100	100
OOʆ ñALROSA-VGSò		Russia	100	100
ñRolant Investments Ltd.ò		Cyprus	100	100
ZAO ñBRINT-ʄ ò		Russia	100	100
ʆ ϕʆ ñALROSA-Gazò		Russia	100	100
ʆ ϕʆ ñSeveralmazò		Russia	95	95
OOO ñʄ ϕȿ -Bankò		Russia	88	88
ʆ ϕʆ ñALROSA-Nyurbaò		Russia	88	87
ʆ ϕʆ ñViluyskaya GES-3ò		Russia	90	85
OAO ñYakutskgeofizikaò		Russia	75	75
OAO ñAlmazy Anabaraò		Russia	51	51
OAO ñInvestment Group ALROSAò	(1)	Russia	50	50

As at 30 June 2007 and 31 December 2006 percentage of ownership interest of the Group in subsidiaries is equal to percentage of voting interest.

(1) The Group owned a 50.01 percent of voting interest in OAO ñInvestment Group ALROSAò at 30 June 2007 and 31 December 2006.

Associates

Name		Country of incorporation	Percentage of ownership interest held as at		Carrying value of investment as at		Groupõs share of net profit (loss) for the period ended	
			30 June 2007	31 December 2006	30 June 2007	31 December 2006	30 June 2007	30 June 2006
ñCatoca Mining Company Ltdò	(1)	Angola	33	33	955	1,355	458	392
ñEscom-ALROSA Ltdò		United Kingdom	44	44	-	-	-	-
OAO ñAlmazny Mirò		Russia	47	47	168	171	-	-
Other		Russia			64	36	(2)	6
					1,187	1,562	456	398

As at 30 June 2007 and 31 December 2006 the percentage ownership interest of the Group in its associates is equal to the percentage of voting interest.

(1) ñCatoca Mining Company Ltdò is a diamond-mining venture located in Angola. During the period ended 30 June 2007 ñCatoca Mining Company Ltdò declared dividends for the year ended 31 December 2006; the Groupõs share of these dividends amounted to RRœmln 857 (US$œmln 33).

(in millions of Russian roubles, unless otherwise stated)

Summarised IFRS financial information on the Groupôs associates is as follows:

	Assets as at		Liabilities as at		Revenues for the period ended		Profit (loss) for the period ended	
	30 June 2007	**31 December 2006**	**30 June 2007**	**31 December 2006**	**30 June 2007**	**30 June 2006**	**30 June 2007**	**30 June 2006**
ñCatoka Mining Company Ltdò	8,745	8,322	5,832	4,191	5,183	6,074	1,395	1,623
ñEscom-ALROSA Ltdò	6,120	7,070	7,256	7,398	447	-	(808)	(152)
OAO ñAlmazny Mirò	423	473	64	118	158	382	4	2
Other	119	133	40	41	26	44	(1)	(1)
	15,407	15,998	13,192	11,748	5,814	6,500	590	1,472

Non-current available-for-sale investments

	Six months ended 30 June 2007	**Six months ended 30 June 2006**
Available-for-sale investments at the beginning of the period	1,285	449
Additions	608	504
Net gains arising from change in fair value	434	-
Disposals	(996)	-
Available-for-sale investments at the end of the period	1,331	953

During the period ended 30 June 2007 ñRolant Investments Ltd.ò, the company effectively controlled by the Group, purchased the 10 percent interest in OOO ñKupol-NGò and the 10 percent interest in OAO ñSevernaya Expeditionò on the forward contract from a third party for a total consideration of RRºmln 594. This contract is expected to be fully exercised during the year 2007. During the second quarter 2007 ñRolant Investments Ltd.ò has partially settled its obligation on purchase of the mentioned assets in the amount of RRºmln 220. The remained part of RRºmln 374 was recognised within accounts payables at 30 June 2007 in the Groupôs consolidated financial statements (see note 15).

The net changes in the fair value of available-for-sale investments represent the effect of the revaluation of shares of OAO ñSobinbankò. The fair value of the shares was determined by reference to the current market value at the close of business.

During the period ended 30 June 2007 the 6.25 percent interest in OAO ñSobinbankò were sold to a third party for the total consideration of RRºmln 968 that equals the fair value of these assets on the disposal date. Net income raised on this operation was recognised within the other operating income (see note 20).

In February 2006 the Company acquired 50.4 percent of the voting shares of OAO ñNNGK Sakhaneftegasò, 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 RRºmln 493. After this acquisition, minority shareholders of OAO ñNNGK Sakhaneftegasò 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 ñNNGK Sakhaneftegasò. Due to this court decision, the Company has not been able to exercise control over the financial and operating activity of OAO ñNNGK Sakhaneftegasò. Accordingly OAO ñNNGK Sakhaneftegasò was not consolidated in these financial statements. The investment of the Company in OAO ñNNGK Sakhaneftegasò was recognised at 30 June 2007 and 31 December 2006 within available-for-sale investments at cost.

4. DERIVATIVE FINANCIAL INSTRUMENTS

To reduce the Groupôs 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$ºmln 215 per quarter (US$ºmln 4,300 in total over the five-year period). The fair value of the forward foreign exchange contracts represents the net present value of the differences between the cash flows related to these contracts calculated at spot exchange rate as at 30 June 2007 and forward exchange rates over the five-years period.

(in millions of Russian roubles, unless otherwise stated)

The discount rate used to calculate the fair value of the forward foreign exchange contracts at 30 June 2007 was 12.6 percent (at 31 December 2006 ï 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 20).

5. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents

	30 June 2007	31 December 2006
Current accounts	8,661	3,953
Deposit accounts	196	256
	8,857	4,209

At 30 June 2007 the weighted average interest rate on the cash balances of the Group is nil (31 December 2006: nil).

Restricted cash

Included within long-term restricted cash are balances of RRômln 170 and RRômln 143 as at 30 June 2007 and 31 December 2006, respectively, which represent mandatory reserve deposits held with the Central Bank of the Russian Federation by OOO ñMAK-Bankò, a subsidiary of the Group; these balances are not available for use in the Groupôs day to day operations.

(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 2005	**51,802**	**44,480**	**33,988**	**15,296**	**6,336**	**30,611**	**1,314**	**183,827**
Foreign exchange differences	-	-	-	-	(147)	-	-	(147)
Additions through acquisition of subsidiaries	52	26	33	164	389	4	15	683
Additions	64	564	799	1,377	21	6,956	210	9,991
Transfers	309	128	433	3	-	(990)	117	-
Disposals	(74)	(28)	(467)	(302)	-	(21)	(198)	(1,090)
Change in estimate of provision for restoration liability (note 13)	(628)	(228)	(43)	(7)	-	-	(1)	(907)
Impairment of property, plant and equipment	-	-	-	-	-	(124)	-	(124)
Cost at 30 June 2006	**51,525**	**44,942**	**34,743**	**16,531**	**6,599**	**36,436**	**1,457**	**192,233**
Accumulated depreciation at 31 December 2005	**(14,714)**	**(14,247)**	**(17,832)**	**(9,637)**	**(86)**	**-**	**(380)**	**(56,896)**
Charge for the period ended 30 June 2006	(728)	(920)	(1 732)	(617)	(3)	-	(113)	(4,113)
Disposals	38	5	383	271	-	-	15	712
Accumulated depreciation at 30 June 2006	**(15,404)**	**(15,162)**	**(19,181)**	**(9,983)**	**(89)**	**-**	**(478)**	**(60,297)**
Net book value at 30 June 2006	**36,121**	**29,780**	**15,562**	**6,548**	**6,510**	**36,436**	**979**	**131,936**
Cost at 31 December 2006	**53,582**	**47,138**	**36,477**	**16,334**	**10,626**	**39,234**	**1,449**	**204,840**
Foreign exchange differences	-	-	(1)	(22)	-	(42)	(2)	(67)
Additions	69	628	611	466	101	8,594	161	10,630
Transfers	344	1,144	491	16	-	(2,078)	83	-
Disposals	(178)	(337)	(415)	(315)	-	(11)	(113)	(1,369)
Change in estimate of provision for restoration liability (note 13)	174	63	12	2	-	-	-	251
Provision for land recultivation (note 14)	-	3	-	-	-	-	-	3
Impairment of property, plant and equipment	-	-	-	-	-	(394)	-	(394)
Cost at 30 June 2007	**53,991**	**48,639**	**37,175**	**16,481**	**10,727**	**45,303**	**1,578**	**213,894**
Accumulated depreciation at 31 December 2006	**(16,114)**	**(16,018)**	**(20,363)**	**(10,016)**	**(345)**	**-**	**(525)**	**(63,382)**
Charge for the period ended 30 June 2007	(816)	(1,409)	(1,768)	(566)	(136)	-	(97)	(4,792)
Disposals	26	276	392	305	-	-	11	1,010
Accumulated depreciation at 30 June 2007	**(16,904)**	**(17,151)**	**(21,739)**	**(10,277)**	**(481)**	**-**	**(611)**	**(67,164)**
Net book value at 31 December 2006	**37,468**	**31,120**	**16,113**	**6,318**	**10,281**	**39,234**	**924**	**141,458**
Net book value at 30 June 2007	**37,087**	**31,488**	**15,436**	**6,204**	**1,246**	**45,303**	**967**	**146,730**

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 include an aircraft which the Group received under a finance lease agreement (see also note 11). As at 30 June 2007 the carrying value of this aircraft is RRômln 1,020.

(in millions of Russian roubles, unless otherwise stated)

7. INVENTORIES

	30 June 2007	31 December 2006
Diamonds	7,840	7,247
Ores and concentrates	4,552	2,995
Mining and construction materials	10,192	7,785
Consumable supplies	694	775
Diamonds for resale	718	634
	23,996	19,436

Diamonds for resale represent the diamonds purchased by the Group from Angolan diamond producers for the purpose of the subsequent resale on the open market.

8. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	30 June 2007	31 December 2006
Receivables from associates (see note 27)	2,754	2,710
Loans issued	1,381	1,762
Long-term VAT recoverable	1,296	1,308
Notes receivable	1,102	723
Other long-term receivables	16	68
	6,549	6,571

Current accounts receivable	30 June 2007	31 December 2006
Notes receivable	9,854	10,704
Loans issued	3,662	3,338
Advances to suppliers	2,916	549
Prepaid taxes, other than income tax	2,043	1,787
Receivables for sale of gold mining operations	1,997	1,997
Receivables for disposed non-current assets held for sale	1,196	1,220
Receivables from associates (see note 27)	1,066	236
VAT recoverable	898	888
Trade receivables for supplied diamonds	53	120
Other receivables	3,386	2,449
	27,071	23,288

As at 30 June 2007 notes receivable include non-interest bearing discounted promissory notes of ʆ ɸʆ ñVneshtorgbankò with carrying amount of RRømln 8,554 and maturity on presentation not earlier than 21 November 2007.

Accounts receivables in amount of RR'mln 1,997 represent receivables for gold mining operations sold by OAO ñInvestment Group ALROSAò, a subsidiary of the Group, in September 2005 (99 percent interest in OOO ñGRK Aldanzolotoò, 100 percent interest in OAO ñYakutskaya Gornaya Companyò and 50 percent interest in OAO ñYuzhno-Verkhoyanskaya Gornaya Companyò).

(in millions of Russian roubles, unless otherwise stated)

The impairment provisions offset against individual receivable balances are as follows:

Long-term accounts receivable	**30 June 2007**	**Bad debt write-off**	**Bad debt expense**	**31 December 2006**
Loans issued	27	-	(3)	30
	27	-	(3)	30
Current accounts receivable				
Receivables from associates (see note 27)	103	-	-	103
Notes receivable	146	(80)	-	226
Loans issued	89	-	-	89
Other receivables	1 603	(4)	92	1,515
	1 941	(84)	92	1,933

Long-term accounts receivable	**30 June 2006**	**Bad debt write-off**	**Interest on impaired receivables**	**Bad debt expense (reversal)**	**31 December 2005**
Loans issued	35	(11)	1	-	45
	35	(11)	1	-	45
Current accounts receivable					
Receivables from associates	186	-	-	(1)	187
Notes receivable	226	-	-	-	226
Loans issued	89	11	-	-	78
Other receivables	1,710	(41)	-	40	1,711
	2,211	(30)	-	39	2,202

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

Long-term accounts receivable	**30 June 2007**	**31 December 2006**
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 RRômln 11,491 at 30 June 2007 and 31 December 2006 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 periods ended 30 June 2007 and 30 June 2006, the statutory profit of the Company as reported in the published statutory reporting forms was RRômln 5,944 and RRômln 4,819 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 30 June 2007 OOO ñManagement Company Almazò and OOO ñMAK-Bankò, subsidiaries of the Group, held 341 ordinary shares of the Company (at 31 December 2006ï 2,267 shares). The Group management controls the voting right of these shares.

(in millions of Russian roubles, unless otherwise stated)

Dividends

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

On 23 June 2007, the Companyô s shareholders approved dividends for the year ended 31 December 2006 totalling RRômln 2,240. Dividends per share amounted to RR 11,200.

Minority interest

	Six months ended 30 June 2007	Six months ended 30 June 2006
Minority interest at the beginning of the period	4,610	4,027
Minority interest share of net profit of subsidiaries	200	258
Purchase of minority interest	(99)	-
Dividends paid to minority shareholder by OAO ñAlmazy Anabaraò	(28)	(71)
Purchase of subsidiaries	-	69
Purchase of own equity shares by OAO ñInvestment Group ALROSAò	(2,218)	-
Minority interest at the end of the period	2,465	4,283

During the period ended 30 June 2007 OAO ñInvestment Group ALROSAò acquired its own equity shares from the minority shareholders for a total purchase consideration of RRômln 86 following the decision of extraordinary general shareholder's meeting. This decision was taken for the purpose of subsequently withdrawal of these equity shares and of reduction of the share capital. At 30 June 2007 the liability for the treasury shares was not settled (see note 15). As a result of this transaction the Groupô s interest in retained earnings of OAO ñInvestment Group ALROSAò increased by RRômln 2,132 that was recognised in statement of changes in equity.

As a result of the acquisition of additional 0.12 percent in OAO ñALROSA- Nyurbaò in March 2007 and 4.5 percent in OAO ñViluyskaya GES-3ò in May 2007 minority interest decreased by RRômln 99.

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 ñtransfer of rights to use and exploit land, diamond deposits, main production and non-production facilitiesò. 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 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 ***ñ****Provisions, Contingent Liabilities and Contingent Assets****ò***, have calculated and recorded the net present value of the restoration liability (see notes 13).

Royalty payments expensed during the period ended 30 June 2007 totalled RRômln 2,172 (period ended 30 June 2006 - RRômln 4,226).

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 RRômln 10,500.

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 RRômln 930. Since 1 January 2007 the Company is no longer obliged to make payments to ecology fund.

(in millions of Russian roubles, unless otherwise stated)

Pursuant to an agreement dated 27 January 2007, OAO ñALROSA-Nyurbaò, a subsidiary of the Group, and the Republic of Sakha (Yakutia) agreed that the royalty payments due in 2007 were fixed at RRômln 3,509.

Recoverable value added tax related to royalty 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 period ended 30 June 2007 was RRômln 23 (for the period ended 30 June 2006 ï RRômln 559, including VAT related to ecology fund payments).

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

Assets subject to the agreement with the Republic of Sakha (Yakutia)	**30 June 2007**	**31 December 2006**
Net book value of granted assets received in 1993	7,729	8,044
Net book value of Company owned assets subsequently transferred to the lease	4,870	5,053
Net book value at the end of the period	12,599	13,097

11. LONG-TERM DEBT

	30 June 2007	**31 December 2006**
Banks:		
US$ denominated floating rate	7,836	5,092
US$ denominated fixed rate	25,583	26,242
RR denominated fixed rate	294	313
	33,713	31,647
Eurobonds	20,625	21,005
Finance lease obligation	700	722
Commercial paper	601	662
Other US$ denominated fixed rate loans	324	318
Other RR denominated fixed rate loans	691	677
	56,654	55,031
Less: current portion of long-term debt (see note 12)	(27,502)	(17,791)
	29,152	37,240

Included within US$ denominated floating rate bank loans are RRômln 3,614 (US$ômln 140) of deferred purchase consideration payable to an investment bank in December 2007 for acquisition of 100 percent in ñNew Technologies Holdings Ltd.ò. This amount is secured by shares of ñNew Technologies Holdings Ltd.ò 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 RRômln 7,745 (US$ômln 300), which represents the amount payable to Morgan Stanley Dean Witter in October 2007 to repurchase shares of ñRolant Investments Ltd.ò within the framework of a series of option agreements concluded between the bank and the Group in April 2006.

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

	30 June 2007		**31 December 2006**	
	Carrying amounts	**Fair values**	**Carrying amounts**	**Fair values**
Banks	33,713	32,855	31,647	30,806
Eurobonds	20,625	22,467	21,005	21,709
Commercial paper	601	1,288	662	822
Other US$ denominated fixed rate loans	324	324	318	318
Other RR denominated fixed rate loans	691	714	677	713

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.

(in millions of Russian roubles, unless otherwise stated)

As at 30 June 2007, long-term debt totalling RRômln 11,359 (31 December 2006: RRômln 11,585) 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

	Six months ended 30 June 2007	Six months ended 30 June 2006
Balance at the beginning of the period	21,005	25,441
Amortisation of discount	24	52
Exchange gain	(404)	(1,492)
Early repayment	-	(2,451)
Balance at the end of the period	20,625	21,550

Finance lease obligation

	30 June 2007		31 December 2006	
	Minimum lease payments	Net present value of minimum lease payments	Minimum lease payments	Net present value of minimum lease payments
Within 1 year	59	17	72	16
Between 1 to 5 years	354	104	355	108
6 years and thereafter	603	579	633	598
	1,016	700	1,060	722

In September 2006 the Group entered into a finance lease agreement with Stsciete 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

	30 June 2007	31 December 2006
Banks:		
US$ denominated fixed rate	4,333	1,960
RR denominated fixed rate	1,631	1,732
	5,964	3,692
European commercial paper	7,393	-
Commercial paper	805	1,208
Other US$ denominated fixed rate loans	38	92
Other RR denominated fixed rate loans	2,813	2,294
	17,033	7,286
Add: current portion of long-term debt (see note 11)	27,502	17,791
	44,515	25,077

Commercial paper

Commercial paper comprises unsecured notes, denominated in RR, issued by the Group to provide short- and medium-term working capital facilities. The short - term commercial paper is typically discounted non-interest bearing instrument, with defined maturity dates ranging from 1 month to 1 year and is carried at amortised cost.

European commercial paper

In February 2007 ñALROSA Finance S.A.ò, a subsidiary of the Group, 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 ñALROSA Finance S.A.ò issued four series of short-term European commercial paper in the total amount of RRômln 7,393 (nominal value - US$ômln 300) during the period ended 30 June 2007.

As at 30 June 2007 and 31 December 2006 there were no short-term loans secured with the assets of the Group.

(in millions of Russian roubles, unless otherwise stated)

13. PROVISION FOR RESTORATION LIABILITY

	Six months ended 30 June 2007	Six months ended 30 June 2006
At the beginning of the period	7,214	8,517
Change in estimate of provision for restoration liability	251	(907)
Unwinding of discount	194	215
At the end of the period	7,659	7,825

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 note 10). The discount rate used to calculate the net present value of the restoration liability at 30 June 2007 was 5.2 percent (31 December 2006: 5.9 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. During the period ended 30 June 2007 the decrease in the discount rate resulted in a change in the estimate of the amount of provision for restoration liability totalling RRômln 251, which was added to the cost of the related asset (see note 6).

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 Companyõs 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 not 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 not obliged to reimburse to the Company the amount of qualified repair and maintenance expense incurred in relation to the leased property, plant and equipment.

On 19 December 2006 the Governments of the Russian Federation and the Republic of Sakha (Yakutia) signed an Amicable Agreement in respect to the property, plant and equipment subject to the Lease Agreement. The parties agreed to do the following:

- the parties should establish the mutual property right of the Russian Federation and the Republic of Sakha (Yakutia) for the property, plant and equipment, which were subject to the Lease Agreement;
- the Company should issue new shares and the Russian Federation and the Republic of Sakha (Yakutia) should contribute this property, plant and equipment to the share capital of the Company in agreed proportions as payment for these new shares.

As a result of the share capital contribution the Russian Federationõs share in the Companyõs share capital should increase to at least 50 percent plus one share and the share of Republic of Sakha (Yakutia) and its regions 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:

- parties agreed to early terminate the Lease Agreement;
- 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 30 June 2007 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 30 June 2007 there is no effect on recognised amounts of the leased property, plant and equipment, grant and provision for restoration liability.

(in millions of Russian roubles, unless otherwise stated)

14. OTHER PROVISIONS

	Six months ended 30 June 2007	Six months ended 31 December 2006
Provision for land recultivation	506	484
Legal claim provision	229	229
	735	713

In October 2006 Management Board of the Company approved the ñProgram for improvement of environmental situation in the area of operating activity of the Companyò. 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. The discount rate used to calculate the net present value of the future cash outflows relating to land recultivation at 30 June 2007 was 12.6 percent (31 December 2006: 12.7 percent). The decrease of the discount rate resulted in an insignificant change in the estimate of the amount of provision for land recultivation, which was added to the cost of the related assets (see note 6)

15. TRADE AND OTHER PAYABLES

	30 June 2007	31 December 2006
Accrual for employee flights and holidays	3,963	3,951
Trade payables	2,572	2,169
Wages and salaries	1,259	1,523
Current accounts of third parties in OOO ñMAK-Bankò	989	837
Interest payable	663	419
Advances from customers	544	268
Deferred purchase consideration payable for acquisition of interests in OOO ñKupol-NGò and OAO ñSevernaya Expeditionò	374	-
Payables to associates	96	92
Payable for acquisition of own equity shares of OAO ñInvestment Group ALROSAò	86	-
Deferred purchase consideration payable for acquisition of minority interest in OAO ñALROSA-Gazò	-	277
Other payables and accruals	908	540
	11,454	10,076

In accordance with Russian legislation, the Group entities are required to pay for the holiday entitlement and the cost of travel for employees and their family members to an agreed-upon destination and back, or a pre-determined allowance.

16. INCOME AND OTHER TAX ASSETS AND LIABILITIES

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

	30 June 2007	31 December 2006
Unified social tax	900	796
Extraction tax	520	711
Value added tax	292	298
Personal income tax (employees)	258	250
Tax penalties	189	183
Property tax	85	75
Other taxes and accruals	116	182
	2,360	2,495

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

	Three months ended		Six months ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Property tax	385	371	768	744
Ecology fund	-	216	-	429
Tax penalties	3	11	4	17
Other taxes and accruals	85	68	157	114
	473	666	929	1,304

(in millions of Russian roubles, unless otherwise stated)

In accordance with Resolution ¯ 795 of the Government of the Russian Federation dated 23 December 2006, in addition to the taxes noted above, the Group is obliged to pay 6.5 percent on the value of diamonds sold for export in the form of an export duty (see note 17).

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 30 June 2007 and 31 December 2006 was 24 percent, which reflects the fact that, based on their decisions in respect of tax rates, substantially all regional and local tax authorities in the regions in which the Group operates assessed the maximum supplementary amount in respect of the period ended 30 June 2007 and year ended 31 December 2006.

Income tax expense comprises the following:

	Three months ended		**Six months ended**	
	30 June 2007	**30 June 2006**	**30 June 2007**	**30 June 2006**
Current tax expense	1,182	1,551	2,845	3,306
Deferred tax (benefit) expenses	146	(200)	536	(305)
	1,328	1,351	3,381	3,001

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

	Three months ended		**Six months ended**	
	30 June 2007	**30 June 2006**	**30 June 2007**	**30 June 2006**
Profit before income tax and minority interest	4,444	4,625	10,890	9,746
Theoretical tax charge at statutory rate of 24 percent thereon	1,067	1,110	2,614	2,339
Income not assessable for income tax purposes	(85)	(156)	(200)	(211)
Expenses and losses not deductible for income tax purposes	346	397	967	873
Income tax	1,328	1,351	3,381	3,001

17. SALES

	Three months ended		**Six months ended**	
	30 June 2007	**30 June 2006**	**30 June 2007**	**30 June 2006**
Revenue from diamond sales:				
Export	11,463	8,754	22,720	19,813
Domestic	5,981	8,805	12,614	16,229
Revenue from diamonds for resale	651	1,226	2,023	1,767
	18,095	18,785	37,357	37,809
Other revenue:				
Transport	960	792	1,585	1,255
Social infrastructure	402	490	886	827
Construction	163	195	348	312
Trading	102	161	202	310
Gas	246	100	502	198
Other	637	482	1,267	1,086
	20,605	21,005	42,147	41,797

Export duties totalling RRûmln 1,091 for the period ended 30 June 2007 (period ended 30 June 2006: RRûmln 1,192) 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 millions of Russian roubles, unless otherwise stated)

18. COST OF SALES

	Three months ended		Six months ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Wages, salaries and other staff costs	3,693	4,014	7,777	7,135
Fuel and energy	2,001	1,669	4,372	3,965
Depreciation	2,253	1,880	4,358	3,668
Extraction tax	1,571	1,491	3,117	2,977
Cost of diamonds for resale	561	1,012	1,818	1,503
Materials	1,360	1,202	2,237	1,907
Services	712	803	1,063	1,053
Transport	272	184	497	306
Write down of inventory (reversal)	(59)	14	(83)	107
Other	28	26	66	75
Movement in inventories	(1,766)	(693)	(2,150)	(663)
	10,626	11,602	23,072	22,033

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 17).

Depreciation totalling RRômln 434 (period ended 30 June 2006: RRômln 445) and staff costs totalling RRômln 1,252 (period ended 30 June 2006: RRômln 1,038) were incurred by the Groupôs construction divisions and were capitalised in the year.

19. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Administrative expenses	1,159	682	2,409	1,822
Bad debt expense (reversal)	49	(8)	89	39
	1,208	674	2,498	1,861

Wages, salaries and other staff costs totalling RRômln 876 (period ended 30 June 2006: RRômln 591) were included into administrative expenses.

20. OTHER OPERATING INCOME

	Three months ended		Six months ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Net gain from foreign exchange forward contracts (see note 4)	467	-	1,532	-
Amortisation of Grant (see note 10)	136	137	315	291
Net income from disposal of available-for-sale investments	677	-	677	-
Net gain from operating income of ñSunland Mining Ltd.ò	-	753	-	753
Other	62	354	271	761
	1,342	1,244	2,795	1,805

(in millions of Russian roubles, unless otherwise stated)

21. OTHER OPERATING EXPENSES

	Three months ended		Six months ended	
	30 June 2007	**30 June 2006**	**30 June 2007**	**30 June 2006**
Social costs	930	819	1,742	1,530
Exploration expenses	880	685	1,603	1,436
Taxes other than income tax and extraction tax (see note 16)	473	666	929	1,304
Impairment of property, plant and equipment	151	67	394	124
Loss on disposal of property, plant and equipment	168	21	206	154
Other	309	520	601	828
	2,911	2,778	5,475	5,376

Social costs consist of:

	Three months ended		Six months ended	
	30 June 2007	**30 June 2006**	**30 June 2007**	**30 June 2006**
Maintenance of local infrastructure	408	419	866	835
Charity	238	140	363	252
Hospital expenses	83	112	183	180
Education	37	56	61	86
Other	164	92	269	177
	930	819	1,742	1,530

22. FINANCE INCOME

	Three months ended		Six months ended	
	30 June 2007	**30 June 2006**	**30 June 2007**	**30 June 2006**
Interest income	284	191	510	363
Exchange gains	573	1,437	1,678	2,489
	857	1,628	2,188	2,852

23. FINANCE COSTS

	Three months ended		Six months ended	
	30 June 2007	**30 June 2006**	**30 June 2007**	**30 June 2006**
Interest expense:				
Eurobonds	455	665	923	1,225
Bank loans	666	560	1,175	999
Commercial papers	74	199	114	212
European commercial papers	123	125	142	131
Other	34	31	64	90
Provision for restoration liability (see note 13)	91	104	194	215
	1,443	1,684	2,612	2,872

(in millions of Russian roubles, unless otherwise stated)

24. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Six months ended 30 June 2007	Six months ended 30 June 2006
Profit before income tax	10,890	9,746
Adjustments for:		
Share of net profit of associates (note 3)	(456)	(398)
Net income from disposal of available-for-sale investments (note 20)	(677)	-
Interest income (note 22)	(510)	(363)
Interest expense (note 23)	2,612	2,872
Loss on disposal of property, plant and equipment (note 21)	206	154
Impairment of property, plant and equipment (note 21)	394	124
Net gain from foreign exchange forward contracts (note 20)	(1,532)	-
Amortisation of Grant (note 20)	(315)	(291)
Depreciation (note 18)	4,358	3,668
Adjustments for non-cash investing activity (note 28)	(609)	(740)
Adjustments for non-cash financing activity (note 28)	12	516
Unrealised foreign exchange effect on non-operating items	(1,378)	(2,654)
Net operating cash flow before changes in working capital	12,995	12,634
Net increase in inventories	(4,560)	(3,495)
Net increase in trade and other receivables, excluding dividends receivable	(2,587)	(11,384)
Net increase (decrease) in provisions, trade and other payables, excluding interest payable	1,109	(79)
Net decrease in taxes payable other than income tax	(134)	(20)
Cash generated from operations	**6,823**	**(2,344)**
Income tax paid	(3,869)	(2,444)
Net cash inflows (outflows) from operating activities	**2,954**	**(4,788)**

25. 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 Groupѓs 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 Groupôs 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 Groupôs principal interest bearing assets are current accounts opened with a number of banks (see note 5), loans issued and notes receivable.

At 30 June 2007 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 30 June 2007 and 31 December 2006. At 30 June 2007 and 31 December 2006 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.

26. 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. Managementôs 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 proceeding the year of review. Under certain circumstances reviews may cover longer periods.

At 30 June 2007 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Groupôs 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 30 June 2007 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 30 June 2007 and 31 December 2006 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 30 June 2007, other than amounts that have been accrued in the consolidated financial statements.

(d) Insurance

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

(e) Capital commitments

At 30 June 2007, the Group has contractual commitments for capital expenditures of approximately RRômln 4,976 (31 December 2006: approximately RRômln 4,229).

(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.

27. 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 ***ñ****Related Party Disclosures****ò***. 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 ñALROSAò and have a controlling interest of over 50 percent in AK ñALROSAò. As at 30 June 2007 69 percent of AK ñALROSAò issued shares were directly owned by the Governments of the Russian Federation and the Republic of Sakha (Yakutia). Following the General Meeting of Shareholders in June 2007, the 15 seats on the Supervisory Council include 12 representatives of the Russian Federation and the Republic of Sakha (Yakutia), two management representatives and one representative of districts of the Republic of Sakha (Yakutia). Governmental, federal and local, economic and social policies affect the Groupôs financial position, results of operations and cash flows.

Tax balances are disclosed in notes 8 and 16. Tax transactions are disclosed in note 16. Information related to the Lease Agreement with the Republic of Sakha (Yakutia) is disclosed in notes 10 and 13.

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 30 June 2007 the accounts payable to the parties under Governmental control totalled RRâmln 249 (31 December 2006 - RRâmln 246). As at 30 June 2007 the accounts receivable from the parties under Governmental control totalled RRâmln 9,058, including promissory notes of OAO ñVneshtorgbankò in total amount of RRâmln 8,554 (31 December 2006 - RRâmln 8,763, including promissory notes of OAO ñVneshtorgbankò in total amount of RRâmln 8,592, see note 8).

During the periods ended 30 June 2007 and 30 June 2006 the Group had the following significant transactions with parties under Governmental control:

	Three months ended 30 June 2007	Three months ended 30 June 2006	Six months ended 30 June 2007	Six months ended 30 June 2006
Sales of diamonds	1,383	3,065	3,709	6,234
Other sales	326	237	708	518
Electricity and heating expenses	1,060	817	2,494	2,434
Other purchases	208	36	396	264

As at 30 June 2007 the amount of loans received by the Group from entities under Governmental control totalled RRâmln 8,214 (31 December 2006 ï RRâmln 4,800). As at 30 June 2007 the amount of loans issued by the Group to entities under Governmental control totalled RRâmln 1,570 (31 December 2006 ï RRâmln 1,127).

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, three 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 30 June 2007 totalling RRâmln 272 (year ended 30 June 2006: RRâmln 114).

Associates

Significant transactions with associates are summarised as follows:

Long-term accounts receivable	30 June 2007	31 December 2006
ñEscom-ALROSA Ltdò, loan issued and interest receivable	2,754	2,710
	2,754	2,710

Current accounts receivable	30 June 2007	31 December 2006
ñCatoca Mining Company Ltd.ò, dividends receivable and loan given	891	111
ZAO ñPIC Orel Almazò, receivables for supplied diamonds	78	78
ñEscom-ALROSA Ltdò, loan issued	75	74
Other	125	76
Less: provision for bad debt	(103)	(103)
	1,066	236

Management believes that in the periods ended 30 June 2007 and 30 June 2006 transactions with associates were performed under market terms.

(in millions of Russian roubles, unless otherwise stated)

28. SIGNIFICANT NON-CASH TRANSACTIONS

	Six months ended 30 June 2007	Six months ended 30 June 2006
Non-cash investing activities:		
Inventory used in construction	(629)	(788)
Other	20	48
	(609)	(740)
Non-cash financing activities:		
Commercial paper issuance	505	516
Commercial paper and loans redemption	(493)	-
	12	516

29. SEGMENT INFORMATION

The Group has one reportable business segment, which is the production and sale of diamonds. The Group evaluates performance and makes investment and strategic decisions based upon review of profitability for the Group as a whole.

An analysis of revenue by type is disclosed in note 17. Revenue from sales by geographical location of the customer, and capital expenditures by geographical location of the asset are as follows:

	Sale				Capital Expenditures			
	Three months ended		Six months ended		Three months ended		Six months ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Russian Federation	8,819	11,025	17,678	20,217	5,293	4,749	10,326	9,196
Western Europe	6,495	4,899	11,613	10,809	-	-	1	234
Other countries	5,291	5,081	12,856	10,771	202	282	303	561
Total	**20,605**	**21,005**	**42,147**	**41,797**	**5,495**	**5,031**	**10,630**	**9,991**

Assets by geographical location of assets are as follows:

	30 June 2007	31 December 2006
Russian Federation	210,806	189,561
Western Europe	2,497	2,402
Other countries	3,847	5,343
	217,150	**197,306**
Associates	1,187	1,562
Unallocated assets	407	46
Total	**218,744**	**198,914**