

AK “ALROSA”

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004



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AUDITORS' REPORT

**to the Shareholders and Supervisory Council of
Closed Joint Stock Company AK "ALROSA"**

1. We have audited the accompanying consolidated balance sheet of Closed Joint Stock Company AK "ALROSA" (the "Company") and its subsidiaries (the "Group") as of 31 December 2004, and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These financial statements as set out on pages 4 to 33 are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Moscow, Russian Federation
8 July 2005



AK "ALROSA"

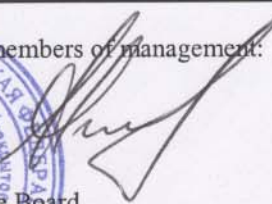
IFRS consolidated financial statements for the year ended 31 December 2004

(in millions of Russian roubles, unless otherwise stated)

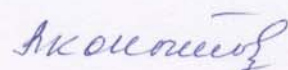
Consolidated Balance Sheet

	Notes	31 December 2004	31 December 2003
Assets			
Non-current Assets			
Restricted cash	4	252	340
Investments in associates	3	1,083	900
Available-for-sale investments	3	518	1,187
Long-term accounts receivable	7	3,973	2,339
Property, plant and equipment	5	113,898	104,443
Total Non-current Assets		119,724	109,209
Current Assets			
Restricted cash	4	184	-
Inventories	6	19,537	15,796
Trade and other receivables	7	8,755	7,235
Prepaid income tax		9	277
Available-for-sale investments		269	505
Cash and cash equivalents	4	1,877	3,347
Total Current Assets		30,631	27,160
Total Assets		150,355	136,369
Shareholders' Equity			
Share capital	8	11,491	11,491
Treasury shares	8	(72)	-
Retained earnings		60,652	49,813
Total Shareholders' Equity		72,071	61,304
Grant	9	9,363	10,498
Minority Interest		2,958	3,035
Liabilities			
Non-current Liabilities			
Long-term debt	10	31,410	24,684
Provision for restoration liability	12	6,492	5,394
Provision for pension obligations	13	1,462	1,963
Other provisions	15	1,095	1,215
Deferred tax liabilities	16	3,866	2,466
Total Non-current Liabilities		44,325	35,722
Current Liabilities			
Short-term loans and current portion of long-term debt	11	10,032	13,883
Trade and other payables	14	8,568	9,122
Taxes payable	16	2,982	2,758
Dividends payable		56	47
Total Current Liabilities		21,638	25,810
Total Liabilities		65,963	61,532
Total Shareholders' Equity, Grant, Minority Interest and Liabilities		150,355	136,369

Signed by the following members of management:



Alexander O. Nichiporuk
President, Chairman of the Board



Valentina N. Kopytova
Deputy chief accountant

8 July 2005

The accompanying notes form an integral part of these consolidated financial statements.



Consolidated Statement of Income

	Notes	Year ended 31 December 2004	Year ended 31 December 2003
Sales	17	77,949	60,004
Cost of sales	18	(36,163)	(29,818)
Royalty	9	(8,665)	(9,096)
Gross profit		33,121	21,090
General and administrative expenses	19	(3,447)	(2,881)
Selling and marketing expenses	20	(1,164)	(1,199)
Other operating income	21	2,852	2,238
Other operating expenses	22	(9,233)	(9,095)
Operating Profit		22,129	10,153
Finance income	23	2,072	2,535
Finance cost	24	(4,804)	(4,728)
Income from associates, net	3	499	400
Profit before Income Tax		19,896	8,360
Income tax	16	(6,933)	(1,718)
Profit after Income Tax		12,963	6,642
Minority interest		(845)	(286)
Net Profit for the Year		12,118	6,356



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IFRS consolidated financial statements for the year ended 31 December 2004

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2004	Year ended 31 December 2003
Net cash Inflow from Operating Activities	25	15,403	9,997
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(15,270)	(11,919)
Proceeds from sales of fixed assets		212	815
Acquisition of available-for-sale investments		(127)	(191)
Proceeds from sale of available-for-sale investments		34	238
Interest received		289	348
Dividends received from associated undertakings		202	392
Net Cash Outflow from Investing Activities		(14,660)	(10,317)
Cash Flows from Financing Activities			
Repayments of loans		(73,472)	(56,373)
Loans received		76,858	61,853
Interest paid		(4,161)	(4,100)
(Payment to) receipt from restricted cash account		(96)	68
Purchase of treasury shares		(151)	-
Dividends paid		(1,191)	(778)
Net Cash (Outflow) Inflow from Financial Activities		(2,213)	670
Net (Decrease) Increase in Cash and Cash Equivalents		(1,470)	350
Cash and cash equivalents at the beginning of the year		3,347	2,997
Cash and Cash Equivalents at the End of The Year		1,877	3,347

Significant non-cash transactions are discussed in note 29.



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IFRS consolidated financial statements for the year ended 31 December 2004

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Changes in Shareholders' Equity

	Number of shares outstanding	Share capital	Treasury shares	Retained Earnings	Total
Balance at 31 December 2002	200,000	11,491	-	44,157	55,648
Dividends (note 8)		-	-	(700)	(700)
Net profit for the year ended 31 December 2003		-	-	6,356	6,356
Balance at 31 December 2003	200,000	11,491	-	49,813	61,304
Dividends (note 8)		-	-	(1,200)	(1,200)
Purchase of treasury shares (note 8)	(1,261)	-	(72)	(79)	(151)
Net profit for the year ended 31 December 2004		-	-	12,118	12,118
Balance at 31 December 2004	198,739	11,491	(72)	60,652	72,071

The accompanying notes form an integral part of these consolidated financial statements.



1. ACTIVITIES

The core activities of Closed Joint Stock Company AK "ALROSA" ("the Company") and its subsidiaries ("the Group") are the exploration and extraction of diamond reserves and the marketing and distribution of raw and cut diamonds. The Company was registered on 13 August 1992 as a closed joint stock company in the Republic of Sakha (Yakutia), which is located within the Russian Federation. The Group operates mining facilities in Mirny, Udachny, Aikhal, Nyurba and Anabar (located in Eastern Siberia) and had 49,390 employees as at 31 December 2004 (31 December 2003: 46,998 employees). 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, the Law on State Secrets of the Russian Federation and requirements to obtain quotas for export of diamonds from the Government of the Russian Federation (note 17).

As at 31 December 2004 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) and individuals (23 percent of shares).

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 measurement 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 measurement 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").

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with 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 had ceased, effective from 1 January 2003 the Group no longer restates its financial statements in accordance with 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 preparation of consolidated financial statements in conformity with IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of revenues and expenses during the reporting period. 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.

Certain amounts have been reclassified in the comparative financial information for the year ended 31 December 2003 to conform to the current year presentation. Other operating expenses for the year ended 31 December 2003 have been decreased by RR'mln 1,199 due to presentation of selling and marketing expenses as a separate line in the statement of income. This change has been made in order to present the information about the Group's activity in a format considered to be more useful to the users of the consolidated financial statements. Finance income and finance cost were presented gross in the statement of income, also net exchange gains for the year ended 31 December 2003 totalling RR'mln 1,910 were included into finance income. This reclassification better reflects the nature of these items.



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Notes to the IFRS consolidated financial statements for the year ended 31 December 2004

(in millions of Russian roubles, unless otherwise stated)

During the period December 2003 to December 2004, the International Accounting Standards Board ("IASB") revised 17 of its standards and issued five new standards. These standards are effective for accounting periods commencing on or after 1 January 2005, except for IFRS 6 "Exploration for and Evaluation of Mineral Resources" effective for periods commencing on or after 1 January 2006, but may be early adopted. The Group has not early adopted any of these revised and new standards in preparing the consolidated financial statements.

(b) 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.

For subsidiaries that are not wholly owned, the minority interest at the balance sheet date represents the minority shareholders' portion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minority shareholders' portion of movements in equity since the date of the business combination. Minority interest is presented separately from liabilities and shareholders' equity on the face of the consolidated balance sheet.

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.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the group has incurred obligations or guaranteed obligations in respect of the associate.

(c) 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 9).

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.

(d) Property, plant and equipment

Property, plant and equipment comprises costs incurred in developing areas of interest as well as the costs related to the construction and acquisition of mining assets. Expenditure related to geophysical analysis is expensed until it is determined to be probable that economically recoverable reserves exist.

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.



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Notes to the IFRS consolidated financial statements for the year ended 31 December 2004

(in millions of Russian roubles, unless otherwise stated)

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	Units of production	4-13 years
Transport	5-13 years	5-13 years
Other	4-17 years	4-17 years

Disposals and retirement

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet along with the corresponding accumulated depreciation (if any). Any gain or loss resulting from such retirement or disposal is included in the consolidated statement of income.

Repair and maintenance costs

Maintenance and repairs are expensed as incurred. Major renewals and improvements that result in the enhancement of the asset beyond its original capacity are capitalised.

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.

(e) 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 note 9). 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.



(f) 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.

(g) 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 year, 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.

All purchases and sales of investments are 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. Trading and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the statement of income in the period in which they arise.

Since the majority of the Group's investments are not publicly traded and no reliable method of fair value estimation exists for those investments, these investments are excluded from fair value valuation.

Those financial assets that are excluded from fair valuation and that have a fixed maturity are measured at amortised cost using the effective interest rate method less impairment. Those that do not have a fixed maturity date are measured at cost less impairment.

Unquoted available-for-sale equity investments are reviewed for impairment losses at every balance sheet date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash inflows. The discount rate applied is based upon the Group's weighted average cost of capital with appropriate adjustment for the risks associated with the investment under assessment. When the level of information available to calculate the net present value of expected future cash inflows makes this exercise unworkable, management uses different valuation techniques (such as net assets test) to estimate whether there is objective evidence of impairment and to determine the likely amount of impairment, if any.

(h) 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.



(i) 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 deductible temporary differences can be utilised. 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.

(j) Foreign currencies

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at 31 December 2004, are translated into the RR at the 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 statement of income.

Exchange rate for US dollar effective at 31 December 2004 was RR 27.75 to US\$ 1 (31 December 2003: RR 29.45 to US\$ 1).

(k) 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 recognized in financial statements in the period when the services are rendered.

Interest income is recognized on accrual basis that takes into account the effective yield on the asset.

Dividend income is recognized when the shareholder's right to receive payment is established.

(l) 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 an 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.

(m) Value added taxes

Value added taxes related to sales are payable to tax authorities upon collection of receivables from customers. Input VAT is generally reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.



(n) 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.

(o) 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 recognized over the average remaining service life of employees.

Pension Fund "Almaznaya Osen", in which the Group holds a 97 percent voting interest, 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 recognized net of the fair value of plan assets at the balance sheet date.

Prior to the year ended 31 December 2004 the assets of Pension Fund "Almaznaya Osen" primary consisted of commercial paper and non-convertible bonds of the Company and its subsidiaries. These assets did not meet the definition of plan assets and were eliminated in the consolidated balance sheet as intercompany balances.

(p) 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.

(q) Non-cash transactions

Non-cash transactions are measured at the fair value of the consideration received or receivable. When it is not possible to measure reliably the fair value of the consideration received or receivable, non-cash transactions are measured at the fair value of the consideration given.

Non-cash transactions have been excluded from the operating, investing and financing activities components in the accompanying consolidated statement of cash flows.

(r) Shareholders' equity

Share capital

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

**AK "ALROSA"**

Notes to the IFRS consolidated financial statements for the year ended 31 December 2004

*(in millions of Russian roubles, unless otherwise stated)***Treasury shares**

Where the Group companies purchase the Company's equity share capital, the consideration paid including any attributable transaction costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are re-sold. Where such shares are subsequently sold, any consideration received is included into shareholders' equity. Treasury shares are recorded at weighted average cost. The gains (losses) arising from treasury share transactions are recognized as a movement in the consolidated statement of changes in shareholders' equity, net of associated costs including taxation.

Dividends

Dividends are recognised as a liability and deducted from shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date.

(s) 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.

3. GROUP STRUCTURE AND INVESTMENTS

The Company's significant consolidated subsidiaries and associates are as follows:

Name	Country of Incorporation	Percentage of voting interest held	
		31 December 2004	31 December 2003
Consolidated Subsidiaries			
"ALROSA Finance" S.A.	Luxembourg	100	100
ZAO "Irelyakhneft"	Russia	100	100
OOO "GRK Aldanzoloto"	(1) Russia	99	-
OAO "Severalmaz"	Russia	92	92
OAO "Viluygesstroy"	Russia	90	90
OOO "MAK-Bank"	Russia	88	88
OAO "ALROSA-Nyurba"	Russia	86	87
OAO "Viluyskaya GES-3"	(2) Russia	76	72
OAO "ALROSA-Gas"	Russia	53	53
OAO "Almazy Anabara"	Russia	51	51
OAO "Investment Group ALROSA"	(3) Russia	50	50
Associates			
"Catoka Mining Company Ltd"	(4) Angola	33	33

(1) In February 2004 OAO "Investment Group ALROSA", a subsidiary of the Group, acquired 91 percent of the share capital of OOO "GRK Aldanzoloto", a gold-mining company located in Republic of Sakha (Yakutia). In July 2004 OAO "Investment Group ALROSA" acquired an additional 8 percent of the share capital of OOO "GRK Aldanzoloto". Total purchase consideration was RR'mln 921, which approximated to the fair value of the acquired net assets of OOO "GRK Aldanzoloto", represented mostly by property, plant and equipment.

(2) In November 2004 the Group acquired 16,181,230 common shares of OAO "Viluyskaya GES-3" from the Ministry of Property of Republic of Sakha (Yakutia) for a total consideration of RR'mln 150. As a result of this transaction the Group increased its shareholding in OAO "Viluyskaya GES-3" to 76 percent.

(3) The Group owned a 50.01 percent of voting interest in OAO "Investment Group ALROSA" at 31 December 2004 and 31 December 2003.

**AK "ALROSA"****Notes to the IFRS consolidated financial statements for the year ended 31 December 2004***(in millions of Russian roubles, unless otherwise stated)*

(4) "Catoka Mining Company Ltd" is a diamond-mining venture located in Angola. The investment in this associate was accounted for by the Group using the equity method. Income of RR'mln 515 was included in the Group's financial statements for the year ended 31 December 2004, with a corresponding income of RR'mln 400 included in the financial statements for the year ended 31 December 2003. In May 2004 "Catoka Mining Company Ltd" declared dividends for the year ended 31 December 2003; the Group's share of these dividends amounted to RR'mln 403. The Group's share of the net assets of "Catoka Mining Company Ltd" included in these financial statements is RR'mln 904 and RR'mln 792 as at 31 December 2004 and 31 December 2003, respectively.

Non-current available-for-sale investments

	Year ended 31 December 2004	Year ended 31 December 2003
Available-for-sale investments at the beginning of the year	1,187	1,427
Additions	128	69
Disposals	(85)	(339)
Transfer to current available-for-sale investments	(248)	-
Change in provision for impairment of available-for-sale investments (note 22)	(464)	30
Available-for-sale investments at the end of the year	518	1,187

All equity investments classified as available-for-sale at 31 December 2004 and 31 December 2003 are carried at cost less impairment, because they are not publicly traded and no reliable method for their fair valuation exists.

4. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH**Cash and cash equivalents**

As at 31 December 2004, the cash and cash equivalents balance mainly represents current accounts of the Group on which the weighted average interest rate is 1 percent (31 December 2003: 2 percent).

Restricted cash

Included within long-term restricted cash are balances of RR'mln 174 and RR'mln 205 as at 31 December 2004 and 31 December 2003, respectively, which represent deposit accounts held with J.P. Morgan Chase Bank and Vneshtorgbank. The Group is required to maintain a balance equal to the amount of its next scheduled principal and interest payment in accordance with loan agreements with these banks.

The remaining RR'mln 78 as at 31 December 2004 (31 December 2003: RR'mln 135) represents mandatory reserve deposits held with the Central Bank of the Russian Federation by OOO "MAK-Bank", a consolidated subsidiary; these balances are not available for use in the Group's day to day operations.

At 31 December 2004 short-term restricted cash represents cash of RR'mln 184 held with the ZAO "Banque Societe Generale Vostok" and OAO "Web-Invest Bank". According to Russian exchange regulation, these authorised banks reserved 3 percent of loans proceeds received by the Group from foreign banks. These balances are 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.

At 31 December 2004 the weighted average interest rate on the restricted cash balances is approximately nil percent (31 December 2003: approximately nil percent).



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Notes to the IFRS consolidated financial statements for the year ended 31 December 2004

(in millions of Russian roubles, unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Land and Improvements	Plant and Equipment	Transport	Assets under Construction	Other	TOTAL
Cost at 31 December 2003	44,927	35,594	28,362	15,435	29,533	843	154,694
Additions through acquisition of subsidiaries	679	7	342	17	69	26	1,140
Additions	321	314	1,837	794	12,905	887	17,058
Transfers	2,644	3,479	2,170	41	(8,605)	271	-
Disposals	(1,251)	(307)	(1,247)	(585)	(703)	(275)	(4,368)
Change in estimate of provision for restoration liability (see note 12)	479	174	33	5	-	1	692
Impairment of property, plant and equipment (see note 22)	(185)	(93)	-	-	(42)	-	(320)
Cost at 31 December 2004	47,614	39,168	31,497	15,707	33,157	1,753	168,896
Accumulated depreciation at 31 December 2003	(13,185)	(14,146)	(13,808)	(8,830)	-	(282)	(50,251)
Charge for the year	(1,332)	(1,668)	(2,934)	(1,379)	-	(176)	(7,489)
Disposals	853	222	1,071	517	-	79	2,742
Accumulated depreciation at 31 December 2004	(13,664)	(15,592)	(15,671)	(9,692)	-	(379)	(54,998)
Net book value at 31 December 2003	31,742	21,448	14,554	6,605	29,533	561	104,443
Net book value at 31 December 2004	33,950	23,576	15,826	6,015	33,157	1,374	113,898

Refer to note 9 for property, plant and equipment included above which is subject to the Lease Agreement with the Republic of Sakha (Yakutia).

6. INVENTORIES

	31 December 2004	31 December 2003
Diamonds	9,187	5,245
Ores and concentrates	2,146	2,133
Mining and construction materials	6,998	7,255
Consumable supplies	1,206	1,163
	19,537	15,796



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7. TRADE AND OTHER RECEIVABLES

Long-term accounts receivable	31 December 2004	31 December 2003
Long-term VAT recoverable	1,967	1,214
Loans issued	948	189
Long-term advances to suppliers	515	122
Receivables from related parties (see note 28)	283	670
Long-term prepaid royalty	260	144
	3,973	2,339

Current accounts receivable	31 December 2004	31 December 2003
Notes receivable	2,297	108
Taxes recoverable	2,160	1,859
Loans issued	1,026	352
Advances to suppliers	708	894
Prepaid taxes, other than income tax	686	1,055
Receivables from related parties (see note 28)	582	524
Trade receivables for supplied diamonds	22	488
Other receivables	1,274	1,955
	8,755	7,235

Taxes recoverable relate to input Value Added Tax (VAT) incurred with respect to purchases. The amount is available for offset against future output VAT following the settlement of outstanding balances payable in relation to the inventories and services purchased.

Long-term VAT recoverable, which relates to the materials and services used for construction of property, plant and equipment, becomes available for offset against future output VAT after the respective asset is put into use.

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

Long-term accounts receivable	31 December 2004	Interest on impaired receivables	Bad debt expense	31 December 2003
Long-term prepaid royalty	56	(15)	-	71
	56	(15)	-	71

Current accounts receivable				
Prepaid taxes, other than income tax	29	(16)	(1)	46
Receivables from related parties (see note 28)	283	-	(24)	307
Notes receivable	251	-	-	251
Loans issued	176	-	80	96
Other receivables	1,756	4	271	1,481
	2,495	(12)	326	2,181

Long-term accounts receivable	31 December 2003	Interest on impaired receivables	Bad debt written-off	Bad debt expense	31 December 2002
Long-term VAT recoverable	-	(278)	-	-	278
Receivables from related parties (see note 28)	-	-	(160)	-	160
Long-term prepaid royalty	71	(31)	-	14	88
	71	(309)	(160)	14	526

Current accounts receivable					
Prepaid taxes, other than income tax	46	(16)	-	(17)	79
Receivables from related parties (see note 28)	307	-	-	(42)	349
Notes receivable	251	(12)	-	47	216
Loans issued	96	-	-	-	96
Other receivables	1,481	(10)	(23)	691	823
	2,181	(38)	(23)	679	1,563



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Notes to the IFRS consolidated financial statements for the year ended 31 December 2004

(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 2004	31 December 2003
Receivable from related parties	12%	30%
Loans issued	25%	17%
Long-term prepaid royalty	10%	10%

8. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR'mln 11,491 at 31 December 2004 and 31 December 2003 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 2004 and 31 December 2003, the statutory profit of the Company as reported in the published statutory reporting forms was RR'mln 13,917 and RR'mln 9,673, 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 2004 OOO "Management Company Almaz", a subsidiary of the Group, held 1,261 ordinary shares of the Company (at 31 December 2003 – nil shares). The Group management controls the voting right of these shares.

Dividends

On 21 June 2003, the Company's shareholders approved dividends for the year ended 31 December 2002 totalling RR'mln 700. Dividends per share amounted to RR 3,500.

On 19 June 2004, the Company's shareholders approved dividends for the year ended 31 December 2003 totalling RR'mln 1,200. Dividends per share amounted to RR 6,000.

9. 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 has a term of 25 years and provides the Company with the right to use certain production and non-production assets for exploring, mining and operating diamond deposits. The agreement requires the Company to return the assets in 2017 and reimburse the Government of Republic of Sakha (Yakutia) for depreciation of assets. The Government in turn is required to reimburse the Company for qualifying repair and maintenance costs. The precise mechanism for determining the value and nature of the assets to be returned to the Republic of Sakha (Yakutia) under the terms of the Lease Agreement is being negotiated between the parties.

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 (e) and 12).

The agreement stipulates that its certain terms should be renegotiated every five years. The agreement also stipulates that the Company is 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. The main subject of the renegotiations relates to the amount and timing of royalty and other payments.

Royalty payments expensed during the year ended 31 December 2004 totalled RR'mln 8,665 (year ended 31 December 2003: RR'mln 9,096). Ecology fund payments expensed during the year ended 31 December 2004 totalled



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Notes to the IFRS consolidated financial statements for the year ended 31 December 2004

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RR'mln year 906 (year ended 31 December 2003: RR'mln 856).

Pursuant to an addendum to the Lease Agreement dated 22 December 2002, the Company and the Republic of Sakha (Yakutia) agreed that the royalty payments, including ecology fund payments and value added tax, due in 2003 are fixed at RR'mln 10,680.

Pursuant to an addendum to the Lease Agreement dated 17 September 2003, the Company and the Republic of Sakha (Yakutia) agreed that the royalty payments, including ecology fund payments and value added tax, due in 2004 are 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 2004 was RR'mln 929 (for the year ended 31 December 2003 – RR'mln 728).

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)	31 December 2004	31 December 2003
Net book value of granted assets received in 1993	9,363	10,498
Net book value of Company owned assets subsequently transferred to the lease	5,309	4,939
Net book value at the end of the year	14,672	15,437

10. LONG-TERM DEBT

	31 December 2004	31 December 2003
Banks:		
US\$ denominated floating rate	6,870	2,843
US\$ denominated fixed rate	5,746	4,665
RR denominated fixed rate	400	4,963
	13,016	12,471
Eurobonds	19,594	14,463
RR denominated non-convertible bonds	3,921	4,870
Commercial paper	175	235
Other US\$ denominated fixed rate loans	511	-
Other RR denominated fixed rate loans	467	375
	37,684	32,414
Less: current portion of long-term debt (see note 11)	(6,274)	(7,730)
	31,410	24,684

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 2004	31 December 2003
Banks:		
US\$ denominated floating rate	6.0%	5.1%
US\$ denominated fixed rate	9.6%	10.1%
RR denominated fixed rate	14.0%	16.8%
Eurobonds	8.9%	8.7%
RR denominated non-convertible bonds	13.8%	14.0%
Commercial paper	51.6%	35.3%
Other US\$ denominated fixed rate	11.0%	-
Other RR denominated fixed rate loans	10.3%	11.4%



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Notes to the IFRS consolidated financial statements for the year ended 31 December 2004

(in millions of Russian roubles, unless otherwise stated)

At 31 December 2004 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	982	2,688	2,888	312	-	6,870
US \$ denominated fixed rate	702	4,141	638	-	265	5,746
RR denominated fixed rate	400	-	-	-	-	400
Eurobonds						
RR denominated non-convertible bonds	3,921	-	-	11,379	8,215	19,594
Commercial paper	-	8	75	40	52	175
Other US\$ denominated fixed rate loans	179	78	72	66	116	511
Other RR denominated fixed rate loans	90	217	20	-	140	467
	6,274	7,132	3,693	11,797	8,788	37,684

At 31 December 2003 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	971	835	261	479	297	2,843
US \$ denominated fixed rate	3,275	1,372	18	-	-	4,665
RR denominated fixed rate	2,433	2,000	-	-	530	4,963
Eurobonds						
RR denominated non-convertible bonds	1,051	3,819	-	-	14,463	14,463
Commercial paper	-	106	30	38	61	235
Other RR denominated fixed rate loans	-	163	52	20	140	375
	7,730	8,295	361	537	15,491	32,414

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

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

	31 December 2004		31 December 2003	
	Carrying amounts	Fair values	Carrying amounts	Fair values
Banks	13,016	13,054	12,471	12,855
Eurobonds	19,594	20,623	14,463	14,759
Non-convertible bonds	3,921	3,972	4,870	4,917
Commercial paper	175	841	235	545
Other US\$ denominated fixed rate loans	511	511	-	-
Other RR denominated fixed rate loans	467	493	375	390

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 2004, long-term debt totalling RR'mln 42 (31 December 2003: RR'mln 1,283) 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.

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Notes to the IFRS consolidated financial statements for the year ended 31 December 2004

*(in millions of Russian roubles, unless otherwise stated)***Eurobonds**

	Year ended 31 December 2004	Year ended 31 December 2003
Balance at the beginning of the year	14,463	-
Issuance	8,491	15,280
Amortisation of discount	61	35
Repayment	(2,315)	-
Exchange gains	(1,106)	(852)
Balance at the end of the year	19,594	14,463

In May 2003 "ALROSA Finance S.A.", a wholly owned subsidiary of the Group, issued Eurobonds in the amount of RR'mln 15,280 (nominal value - US\$'mln 500) due for repayment on 6 May 2008 with an interest rate of 8.125 percent per annum. In December 2004 part of these Eurobonds in the amount of RR'mln 2,315 (nominal value - US\$'mln 83) was early repaid and cancelled. In November 2004 "ALROSA Finance S.A." issued Eurobonds in the amount of RR'mln 8,491 (nominal value - US\$'mln 300) due for repayment on 17 November 2014 with an interest rate of 8.875 percent per annum.

RR denominated non-convertible bonds

	Year ended 31 December 2004	Year ended 31 December 2003
Balance at the beginning of the year	4,870	6,720
Issuance	104	30
Amortisation of discount	39	39
Repayment	(1,092)	(1,919)
Balance at the end of the year	3,921	4,870

Non-convertible bonds of the Company of the 19th series totalling RR'mln 2,968 at 31 December 2004 (31 December 2003: RR'mln 2,929) have fixed coupon rates of 16 percent. Other non-convertible bonds have variable interest rate. The first coupon on these bonds is determined by the Supervisory Council of the Company and the following coupons are linked to certain indicators, such as the Central Bank of the Russian Federation refinancing rate or the yields on government bonds.

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

	31 December 2004	31 December 2003
Banks:		
US\$ denominated floating rate	277	148
US\$ denominated fixed rate	1,380	4,227
RR denominated fixed rate	217	207
	1,874	4,582
Commercial paper	482	450
Other US\$ denominated fixed rate loans	161	171
Other RR denominated fixed rate loans	1,241	950
	3,758	6,153
Add: current portion of long-term debt (see note 10)	6,274	7,730
	10,032	13,883

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Notes to the IFRS consolidated financial statements for the year ended 31 December 2004

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

	31 December 2004	31 December 2003
Banks:		
US\$ denominated floating rate	4.0%	6.2%
US\$ denominated fixed rate	10.5%	9.5%
RR denominated fixed rate	13.3%	8.8%
Commercial paper	18.6%	22.5%
Other US\$ denominated fixed rate loans	6.0%	6.5%
Other RR denominated fixed rate loans	3.5%	2.9%

As at 31 December 2004, short-term loans totalling RR'mln 139 (31 December 2003: RR'mln 6,825) included above were 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.

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 amortized cost.

12. PROVISION FOR RESTORATION LIABILITY

	Year ended 31 December 2004	Year ended 31 December 2003
At the beginning of the year	5,394	2,743
Change in estimate of provision for restoration liability	692	2,266
Increase in the discounted amount during the year	406	385
At the end of the year	6,492	5,394

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(e) and 9). The discount rate used to calculate the net present value of the restoration liability at 31 December 2004 was 6.7 percent (31 December 2003: 8.2 percent), which is pre-tax real rate and is considered appropriate to the Group in the economic environment in the Russian Federation at the balance sheet date.

Under the Lease Agreement the Company is 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) is 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. The Company and the Republic of Sakha (Yakutia) determined the amount to be reimbursed by the Company on a net basis as 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. Reimbursement is 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 are, subsequent to their transfer, treated as leased property, plant and equipment (see note 9).

Prior to 1 January 2003 Republic of Sakha (Yakutia) was obliged to reimburse to the Company the actual amount of qualified repair and maintenance expense incurred by the Company in relation to the leased property, plant and equipment. Pursuant to an addendum to the Lease Agreement dated 17 September 2003, starting from 1 January 2003 the Republic of Sakha (Yakutia) is obliged to reimburse qualified repair and maintenance expense incurred by the Company, subject to such expense being limited to 30 percent of the depreciation on leased property, plant and equipment. This new limitation, in combination with the decrease of discount rate from 10.5 to 8.2 percent, resulted in a change in the estimate of the amount of provision for restoration liability in the year ended 31 December 2003 totalling RR'mln 2,266, which was added to the cost of the related assets.

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In the year ended 31 December 2004 a further decrease of discount rate from 8.2 to 6.7 percent resulted in a change in the estimate of provision for restoration liability totalling RR'mln 692, which was added to the cost of the related assets (see note 5).

13. PROVISION FOR PENSION OBLIGATIONS

The amounts recognised in the consolidated balance sheet are as follows:

	31 December 2004	31 December 2003
Present value of obligations	7,513	5,387
Fair value of plan assets	(1,544)	-
Unrecognized actuarial losses	(4,507)	(3,424)
Net liability	1,462	1,963

Due to changes in pension legislation Pension Fund "Almaznaya Osen" reinvested the major part of its funds into financial instruments issued by third parties. These financial instruments are considered the Pension Fund plan assets.

The amounts recognised in the consolidated statement of income are as follows:

	Year ended 31 December 2004	Year ended 31 December 2003
Current service cost	253	110
Interest cost	789	641
Net actuarial losses	289	244
Net expense recognised in the statement of income	1,331	995

Total expenses associated with pension obligations are included within wages, salaries and other staff costs within cost of sales in the consolidated statement of income.

Movements in the net liability recognized in the balance sheet are as follows:

	Year ended 31 December 2004	Year ended 31 December 2003
Net liability at the beginning of the year	1,963	1,268
Net expense recognized in the statement of income during the year	1,331	995
Contributions made	(1,544)	-
Benefits paid	(288)	(300)
Net liability at the end of the period	1,462	1,963

Principal actuarial assumptions used:

	31 December 2004	31 December 2003
Discount rate (nominal)	9%	9%
Future pension increases (nominal)	9%	9%
Employees average remaining working life (years)	13	11



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Notes to the IFRS consolidated financial statements for the year ended 31 December 2004

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14. TRADE AND OTHER PAYABLES

	31 December 2004	31 December 2003
Accrual for employee flights and holidays	3,133	3,053
Trade payables	2,435	2,757
Wages and salaries	1,411	1,051
Interest payable	511	397
Current accounts of third parties in OOO "MAK-Bank"	455	293
Advances from customers	210	1,251
Payables to related parties	40	85
Other payables and accruals	373	235
	8,568	9,122

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.

15. OTHER PROVISIONS

	31 December 2004	31 December 2003
Provision for guarantee given	866	972
Provision for legal claim	229	243
	1,095	1,215

Provision for guarantee given

	Year ended 31 December 2004	Year ended 31 December 2003
At the beginning of the year	972	-
Principal amount recognised	-	916
Interest accrued	89	56
Interest paid	(139)	-
Exchange gain	(56)	-
At the end of the year	866	972

In April 2003 the Company guaranteed a US\$ denominated fixed rate loan issued by OAO "Investment Bank Trust" to ZAO "Nazymyskaya Oil and Gas Research Expedition", which is due for repayment in 2006. The Company management expects the Group to incur an outflow of economic resources in connection with this guarantee and therefore the Group has recognized a provision for the principal amount of the loan and accrued interest in the financial statements at 31 December 2003 and 31 December 2004. In the year ended 31 December 2004 ZAO "Nazymyskaya Oil and Gas Research Expedition" failed to pay the interest installments to the bank. The Company as guarantor paid the interest installments to the bank totalling RR'mln 139.

Provision for legal claim

Bateman Projects Limited, a South African company, and its Dutch subsidiary, Bateman International B.V. (collectively "Bateman"), a third party construction firms, which were involved in the development of the Nyurba processing plant, filed an arbitration claim against the Company claiming damages for alleged loss of profit under the contracts concluded between the Company and Bateman and damages allegedly resulting from use of Bateman's intellectual property rights. As the Company management expects the Group to incur an outflow of economic resources in connection with this US\$ denominated legal claim, the Group has recognized a provision in the financial statements at 31 December 2003 and 31 December 2004. The Company management does not expect any additional material outflows of economic resources in relation to this claim.



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Notes to the IFRS consolidated financial statements for the year ended 31 December 2004

*(in millions of Russian roubles, unless otherwise stated)***16. INCOME AND OTHER TAX ASSETS AND LIABILITIES**

Taxes payable comprise the following:

	31 December 2004	31 December 2003
Unified social tax	831	869
Value added tax	566	243
Extraction tax	472	506
Income tax	341	202
Property tax	277	385
Personal income tax (employees)	218	242
Tax penalties	160	154
Royalty payable to Republic of Sakha (Yakutia)	-	118
Other taxes and accruals	117	39
	2,982	2,758

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

	Year ended 31 December 2004	Year ended 31 December 2004
Property tax	1,003	1,125
Ecology fund	906	856
Tax penalties	65	128
Other taxes and accruals	370	131
	2,344	2,240

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 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 31 December 2004 and 31 December 2003 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 2004 and year ended 31 December 2003.

Income tax expense comprises the following:

	Year ended 31 December 2004	Year ended 31 December 2003
Current tax expense	5,533	3,438
Deferred tax expense (benefit)	1,400	(1,720)
	6,933	1,718

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

	Year ended 31 December 2004	Year ended 31 December 2003
Profit before income tax and minority interest	19,896	8,360
Theoretical tax charge at statutory rate of 24 percent thereon	4,775	2,006
Income not assessable for income tax purposes	(655)	(1,007)
Expenses and losses not deductible for income tax purposes	2,813	719
	6,933	1,718



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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 (2003: 24 percent).

	31 December 2004	Tax effect of movement in temporary differences	31 December 2003
Deferred tax liabilities			
Property, plant and equipment	3,889	183	3,706
Inventories	2,237	1,253	984
Long-term investments	185	66	119
Deferred tax assets			
Accrual for employee benefits	(1,000)	(13)	(987)
Exploration costs written off	(265)	(91)	(174)
Impairment of accounts receivable	(80)	440	(520)
Provision for pension obligations	(246)	(91)	(155)
Write-down of inventories	(509)	(129)	(380)
Other deductible temporary differences	(345)	(218)	(127)
Net deferred tax liability	3,866	1,400	2,466

	31 December 2003	Tax effect of movement in temporary differences	31 December 2002
Deferred tax liabilities			
Property, plant and equipment	3,706	(1,081)	4,787
Inventories	984	163	821
Long-term investments	119	(142)	261
Deferred tax assets			
Accrual for employee benefits	(987)	(140)	(847)
Exploration costs written off	(174)	54	(228)
Impairment of accounts receivable	(520)	(138)	(382)
Provision for pension obligations	(155)	(46)	(109)
Write-down of inventories	(380)	(292)	(88)
Other deductible temporary differences	(127)	(98)	(29)
Net deferred tax liability	2,466	(1,720)	4,186

17. SALES

	Year ended 31 December 2004	Year ended 31 December 2003
Revenue from diamond sales:		
Export (predominantly one customer)	34,923	27,196
Domestic	35,484	27,595
	70,407	54,791
Other revenue:		
Transport	1,954	1,584
Gold	1,272	-
Social infrastructure	929	765
Trading	832	1,105
Construction	602	539
Other	1,953	1,220
	77,949	60,004

Export duties totalling RR'mln 2,311 for the year ended 31 December 2004 (year ended 31 December 2003: RR'mln 1,641) were netted against revenues from export of diamonds.

Sales of gold were performed by OOO "GRK Aldanzoloto", a subsidiary of the Group, acquired during the year ended 31 December 2004 (see note 3).



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During the years ended 31 December 2004 and 31 December 2003 sales to De Beers occurred on the basis of separate agreements for each individual shipment of diamonds. Contingencies related to the trade agreement with De Beers, covering the period from 1 January 2002 to 31 December 2006 are disclosed in note 27 (h).

Pursuant to existing federal legislation, the Government of the Russian Federation issued, on an annual basis, an export quota for rough diamonds. The quota stipulated the maximum amount of diamonds that might be exported in a given year. The physical volume in carats provided in any quota constituted a State secret.

In November 2002, the President of the Russian Federation signed a decree liberalizing the Russian diamond market. The decree authorised the Government of the Russian Federation to grant multi-year quotas, not to exceed five years, and in February 2003 the Company was granted a five-year quota to export up to US\$'mln 1,450 of diamonds each year, based on current market prices. In September 2004 OAO "ALROSA-Nyurba", a subsidiary of the Group, was granted quota for the year ended 31 December 2004 to export up to US\$'mln 93 of diamonds based on current market prices.

18. COST OF SALES

	Year ended 31 December 2004	Year ended 31 December 2003
Wages, salaries and other staff costs	12,437	10,809
Depreciation	6,821	5,487
Fuel and energy	6,029	4,626
Extraction tax	5,907	3,878
Materials	5,396	4,861
Services	1,955	1,207
Transport	1,068	1,066
Write down of inventory	160	235
Other	345	441
Movement in inventories	(3,955)	(2,792)
	36,163	29,818

Depreciation totalling RR'mln 735 (year ended 31 December 2003: RR'mln 1,033) and staff costs totalling RR'mln 1,907 (year ended 31 December 2003: RR'mln 1,911) were incurred by the Group's construction divisions and were capitalized in the year.

19. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2004	Year ended 31 December 2003
Administrative expenses	3,121	2,188
Bad debt expense	326	693
	3,447	2,881

Wages, salaries and other staff costs totalling RR'mln 711 (year ended 31 December 2003: RR'mln 567) were included into administrative expenses.

20. SELLING AND MARKETING EXPENSES

Wages, salaries and other staff costs totalling RR'mln 576 (year ended 31 December 2003: RR'mln 521) are included into selling and marketing expenses.



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Notes to the IFRS consolidated financial statements for the year ended 31 December 2004

*(in millions of Russian roubles, unless otherwise stated)***21. OTHER OPERATING INCOME**

	Year ended 31 December 2004	Year ended 31 December 2003
Amortisation of Grant (see note 9)	1,135	1,062
Other	1,717	1,176
	2,852	2,238

22. OTHER OPERATING EXPENSES

	Year ended 31 December 2004	Year ended 31 December 2003
Social costs	2,491	2,695
Taxes other than income tax and extraction tax (see note 16)	2,344	2,240
Exploration expenses	1,858	1,308
Loss on disposal of property, plant and equipment	590	1,044
Provision for (reversal of provision for) impairment of available-for-sale investments	464	(30)
Impairment (reversal of impairment) of property, plant and equipment	320	(74)
Provisions for guarantee given and legal claim (see note 15)	89	1,215
Other	1,077	697
	9,233	9,095

Social costs consist of:

	Year ended 31 December 2004	Year ended 31 December 2003
Maintenance of local infrastructure	1,302	1,194
Charity	369	871
Hospital expenses	215	138
Education	185	200
Other	420	292
	2,491	2,695

23. FINANCE INCOME

	Year ended 31 December 2004	Year ended 31 December 2003
Interest income	316	625
Exchange gains, net	1,756	1,910
	2,072	2,535

24. FINANCE COSTS

	Year ended 31 December 2004	Year ended 31 December 2003
Interest expense:		
Bank loans	2,051	2,244
Eurobonds	1,326	835
Non-convertible bonds	830	912
Commercial paper	123	258
Other	68	94
Provision for restoration liability (see note 12)	406	385
	4,804	4,728

**AK "ALROSA"****Notes to the IFRS consolidated financial statements for the year ended 31 December 2004***(in millions of Russian roubles, unless otherwise stated)***25. CASH GENERATED FROM OPERATIONS**

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December 2004	Year ended 31 December 2003
Profit before income tax	19,896	8,360
Adjustments for:		
Income from associates, net	(499)	(400)
Interest income (note 23)	(316)	(625)
Interest expense (note 24)	4,804	4,728
Provision for (reversal of provision for) impairment of available-for-sale investments (note 22)	464	(30)
Impairment (reversal of impairment) of property, plant and equipment (note 22)	320	(74)
Provisions for guarantee given and legal claim (note 22)	89	1,215
Loss on disposal of property, plant and equipment (note 22)	590	1,044
Amortisation of Grant (note 21)	(1,135)	(1,062)
Depreciation (note 18)	6,821	5,487
Adjustments for non-cash investing activity (note 29)	(1,314)	(1,738)
Adjustments for non-cash financing activity (note 29)	230	(296)
Unrealized foreign exchange effect on non-operating items	(1,633)	(2,053)
Net operating cash flow before changes in working capital	28,317	14,556
Net increase in inventories	(3,741)	(2,157)
Net (increase) decrease in trade and other receivables, excluding dividends receivable	(2,963)	632
Net (decrease) increase in provisions, trade and other payables, excluding interest payable	(1,169)	1,034
Net increase (decrease) in taxes payable other than income tax	85	(467)
Cash generated from operations	20,529	13,598
Income tax paid	(5,126)	(3,601)
Net cash flows from operating activities	15,403	9,997

26. 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 10 and 11) give rise to foreign exchange exposure.

At 31 December 2004 the Group does not have arrangements to mitigate the foreign exchange risks of the Group's operations



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(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 majority of interest rates on long-term borrowings are fixed, and are disclosed in note 10. The Group's principal interest bearing assets are current accounts opened with a number of banks (see note 4), loans issued and notes receivable.

At 31 December 2004 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 2004 and 31 December 2003. At 31 December 2004 and 31 December 2003 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 (note 10).

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

27. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment

Whilst there have been improvements in economic trends in the country, the Russian Federation 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, restrictive currency controls, 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 2004 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



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that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group as at 31 December 2004, 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 2004, the Group has contractual commitments for capital expenditures of approximately RR'mln 4,078 (31 December 2003: RR'mln 1,364).

(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 9). 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.

(g) Guarantees

As at 31 December 2004, the Group has guaranteed a US\$ denominated loan issued by National Bank of Republic of Belarus to AKB "Rosbank", totalling RR'mln 694. Management of the Company does not expect the Group to incur any outflow of economic resources or economic benefits in connection with this guarantee.

(h) Trade agreement with De Beers

On 17 December 2001, a trade agreement between the Company and De Beers was signed, covering the period 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 requires the regulatory permission of the European Commission. Currently, the Company is in the process of negotiating the resolution of certain objections raised by the European Commission. Management of the Company believes that the result of these negotiations would not adversely affect the Group.

In addition, the European Commission could seek to impose fines of up to 10 percent of the Company's European sales in respect of the Company's previous trade agreements with De Beers, which were not notified to the European Commission. Management of the Company does not anticipate that any material liabilities will arise from this contingent liability.

28. 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.

The Company's principal shareholders are the Russian Federation and the Republic of Sakha (Yakutia). IAS 24 specifically

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excludes government departments and agencies in the course of their normal dealings with enterprise and government controlled entities from the definition of related parties, and therefore transactions under those exemptions between, and balances due to or from entities, under government or other state control and government departments and agencies in the course of their normal dealings and the Group's companies are not detailed in this note.

Information related to the Lease Agreement with the Republic of Sakha (Yakutia) is disclosed in notes 9 and 12.

Remuneration to the members of Supervisory Council and Management Board of the Company incurred during year ended 31 December 2004 totalled RR'mln 207 (year ended 31 December 2003: RR'mln 134).

In the year ended 31 December 2004 the Group entered into various transactions principally with the following related parties:

Name of the related party	Nature of relationships	Percentage of ownership interest held		Types of transactions
		31 December 2004	31 December 2003	
OAo "Yuzhno-Verkhoyanskaya Gornaya Company"	Associate	50	50	Financing, sales of inventory and other sales
ZAO "PIC Orel Almaz"	Associate	34	34	Sales of diamonds
Catoca Mining Company Ltd. (see note 3)	Associate	33	33	Receipt of dividends
OAo "Tuymaada Diamond"	Associate	13	13	Sales of diamonds

As at 31 December 2004 and 2003 percentage of ownership interest of the Group in associates is equal to percentage of voting interest.

Significant related party transactions are summarized as follows:

Long-term accounts receivable	31 December 2004	31 December 2003
OAo "Sobinbank" and its affiliates, loans issued	-	670
OAo "Yuzhno-Verkhoyanskaya Gornaya Company", loans issued	283	-
	283	670

As of 31 December 2004 the Group does not exercise significant influence over OAo "Sobinbank", therefore loans issued to OAo "Sobinbank" and its affiliates totalling RR'mln 670 were reclassified from long-term receivables from related parties to long-term loans issued (see note 7).

Long-term loans issued to OAo "Yuzhno-Verkhoyanskaya Gornaya Company" are RR denominated, unsecured, bearing a weighted average interest rate of 12 percent per annum and maturing in 2006.

Current accounts receivable	31 December 2004	31 December 2003
OAo "Yuzhno-Verkhoyanskaya Gornaya Company", loans issued	206	391
OAo "Yuzhno-Verkhoyanskaya Gornaya Company", other receivables	97	-
Catoca Mining Company Ltd., dividends receivable (see note 3)	193	2
ZAO "PIC Orel Almaz", receivables for supplied diamonds	165	167
OAo "Tuymaada Diamond", receivables for supplied diamonds	145	174
Other	59	97
Less: provision for bad debt	(283)	(307)
	582	524

Short-term loans issued to OAo "Yuzhno-Verkhoyanskaya Gornaya Company" are US\$ and RR denominated, unsecured, bearing a weighted average interest rate of 12 percent per annum.



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29. SIGNIFICANT NON-CASH TRANSACTIONS

	Year ended 31 December 2004	Year ended 31 December 2003
Non-cash investing activities:		
Inventory used in construction	(1,192)	(1,470)
Purchase of property, plant and equipment	-	(337)
Other	(122)	69
	(1,314)	(1,738)
Non-cash financing activities:		
Commercial paper issuance	230	662
Commercial paper and loans redemption	-	(958)
	230	(296)

30. 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. The performance measurement systems employed by the Group to review overall profitability are based on the results of the Group determined using Russian statutory accounting books and records. Russian statutory accounting differs in many significant respects from IFRS.

An analysis of revenue by type is disclosed in note 17. 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 2004	Year ended 31 December 2003	31 December 2004	31 December 2003	Year ended 31 December 2004	Year ended 31 December 2003
Russian Federation	43,026	32,808	148,405	135,009	16,595	15,593
Western Europe	21,925	19,564	-	-	-	-
Other countries	12,998	7,632	858	183	463	56
	77,949	60,004	149,263	135,192	17,058	15,649
Associates	-	-	1,083	900	-	-
Unallocated assets	-	-	9	277	-	-
Total	77,949	60,004	150,355	136,369	17,058	15,649

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

The Group has one individual customer, De Beers, that accounted for 23 percent of its sales during the year ended 31 December 2004 (year ended 31 December 2003: 30 percent).

31. POST BALANCE SHEET EVENTS

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.

Borrowings

In January 2005 "ALROSA Finance S.A." issued additional Eurobonds in the amount of US\$'mln 200 due for repayment on 17 November 2014 with an interest rate of 8.875 percent per annum.

In March 2005 "ALROSA Finance S.A." established a program for issuing euro-commercial paper (ECP) totalling US\$'mln 300. The program allows for the issue of short-term commercial paper with maturity dates within 364 days.