AK "ALROSA"

IFRS UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2003

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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 of 30 June 2003, unaudited consolidated statements of income, cash flows, and of changes in shareholders' equity for the period ended 30 June 2003 and the related notes to the unaudited interim consolidated financial statements. Management of the Company is responsible for these unaudited interim consolidated financial statements. We have neither audited nor reviewed the accompanying unaudited 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
September 30th 2003

(in millions of Russian roubles expressed on terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

Consolidated Balance Sheet

	Notes	30 June 2003 (unaudited)	31 December 2002
Assets			
Non-current assets			
Restricted cash	4	332	194
Equity accounted investments	3	972	784
Available for sale investments	3	1,369	1,544
Long-term accounts receivable	7	1,565	1,682
Property, plant and equipment	5	102,159	96,440
Total Non-current Assets		**106,397**	**100,644**
Current assets			
Restricted Cash	4	195	214
Inventories	6	15,146	13,639
Trade and other receivables	7	11,247	8,734
Available for sale investments		180	383
Cash and cash equivalents	4	4,381	2,997
Total Current Assets		**31,149**	**25,967**
Total Assets		**137,546**	**126,611**
Shareholders' Equity			
Share capital	8	11,491	11,491
Retained earnings		47,422	44,157
Total Shareholders' Equity		**58,913**	**55,648**
Grant	9	**11,070**	**11,560**
Minority Interest		**3,011**	**2,974**
Liabilities			
Long-term liabilities			
Long-term debt	10	25,325	15,903
Provision for restoration liability	11	4,423	2,743
Provision for pension obligations	12	1,845	1,268
Deferred tax liabilities	14	3,199	4,186
Total Long-term Liabilities		**34,792**	**24,100**
Current Liabilities			
Short-term loans and current portion of long-term debt	15	17,238	19,970
Trade and other payables	13	8,105	8,912
Taxes payable	14	3,696	3,321
Dividends payable		721	126
Total Current Liabilities		**29,760**	**32,329**
Total Liabilities		**64,552**	**56,429**
Total Shareholders' Equity, Grant, Minority Interest and Liabilities		**137,546**	**126,611**

Signed by the following members of management:

Vladimir T. Kalitin
President, Chairman of the Board
September 30th 2003

Olga A. Lyashenko
Chief Accountant

(in millions of Russian roubles expressed on terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

Consolidated Statement of Income

	Notes	Period ended 30 June 2003 (unaudited)	Period ended 30 June 2002 (unaudited)
Sales	16	28,188	28,880
Cost of sales	17	(11,532)	(11,677)
Gross profit		**16,656**	**17,203**
General and administrative expenses	18	(1,555)	(921)
Other operating income	19	960	659
Other operating expenses	20	(9,473)	(10,312)
Operating Profit		**6,588**	**6,629**
Finance cost, net	21	(2,933)	(2,233)
Income from associated undertakings	3	187	178
Monetary gain	22	-	2,199
Foreign currency gains		1,067	(490)
Profit before Profit Tax		**4,909**	**6,283**
Profit tax	14	(907)	(2,868)
Profit after Profit Tax		**4,002**	**3,415**
Minority interest		(37)	(203)
Net Profit for the Period		**3,965**	**3,212**

(in millions of Russian roubles expressed on terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

Consolidated Statement of Cash Flows

	Notes	Period ended 30 June 2003 (unaudited)	Period ended 30 June 2002 (unaudited)
Net cash Inflow from Operating Activities	23	**2,015**	**2,974**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(5,839)	(6,655)
Acquisition of investments		(95)	(213)
Proceeds from sale of investments		243	-
Interest received		202	45
Dividends received from associated undertakings		-	199
Net Cash Outflow from Investing Activities		**(5,489)**	**(6,624)**
Cash Flows from Financing Activities			
Repayments of loans		(35,858)	(20,442)
Loans received		43,209	28,671
Interest paid		(2,269)	(1,403)
Payment to restricted cash account		(119)	(77)
Dividends paid		(105)	(184)
Net Cash Inflow from Financial Activities		**4,858**	**6,565**
Effects of inflation on cash and cash equivalents		-	(251)
Net Increase in Cash and Cash Equivalents		**1,384**	**2,664**
Cash and cash equivalents at the beginning of the period		2,997	1,722
Cash and Cash Equivalents at the End of The Period		**4,381**	**4,386**

(in millions of Russian roubles expressed on terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

Consolidated Statement of Changes in Shareholders' Equity

	Share capital	Retained Earnings	Total
Balance at 31 December 2001	11,491	42,304	53,795
Dividends (note 8)	-	(638)	(638)
Net profit for the Period ended 30 June 2002	-	3,212	3,212
Balance at 30 June 2002 (unaudited)	**11,491**	**44,878**	**56,369**
Balance at 31 December 2002	11,491	44,157	55,648
Dividends (note 8)	-	(700)	(700)
Net profit for the Period ended 30 June 2003	-	3,965	3,965
Balance at 30 June 2003 (unaudited)	**11,491**	**47,422**	**58,913**

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

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 48,391 employees as at 30 June 2003 (31 December 2002 48,757). 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 16).

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 accompanying consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities 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 presentation in accordance with International Accounting Standard 34 *"Interim Financial Reporting"* ("IAS") issued by the International Accounting Standards Board ("IASB").

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 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 hyperinflationary has ceased, effective from 1 January 2003 the Company no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

Corresponding figures, for the year ended 31 December 2002, were restated for the changes in the general purchasing power of the RR at 31 December 2002. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index, published by the Russian State Committee on Statistics, and from indices obtained from other sources for years prior to 1992. The indices used to restate corresponding figures, based on 1988 prices (1988 = 100), and the respective conversion factors for the five years ended 31 December 2002, are:

Year	Index	Conversion factors
1998	1,216,400	2.24
1999	1,661,481	1.64
2000	1,995,937	1.37
2001	2,371,572	1.15
2002	2,730,354	1.00

The significant guidelines followed in restating the corresponding figures were:

- all corresponding amounts, were stated in terms of the measuring unit current at 31 December 2002;
- monetary assets and liabilities held at 31 December 2002 were not restated because they were already expressed in terms of the monetary unit current at 31 December 2002;
- non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current at 31 December 2002) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to 31 December 2002;
- all items in the statement of operations and cash flows were restated by applying the change in the general price index

from the dates when the items were initially transacted to 31 December 2002;

- gains or losses that arose as a result of holding monetary assets and liabilities for the reporting period ended 31 December 2002 were included in the statement of operations as a monetary gain or loss.

The Group has adopted IAS 39, *"Financial Instruments: Recognition and Measurement"* ("IAS 39"), which is effective for accounting periods beginning on or after 1 January 2001. The financial impact of adopting this standard was reported in the consolidated financial statements for the year ended 31 December 2001.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amount of revenues and operating costs during the reporting period. The most significant estimates relate to realization of inventories, investments, allowance for doubtful accounts, 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 2001 to conform to the current year presentation.

The structure of the consolidated statement of income has been amended in order to present the information about the Group's activity in a format considered to be more useful to the users and more appropriate, as suggested by IAS 1, *"Presentation of Financial Statements"*, for a presentation by function. The change in structure, in addition to providing an additional line for "gross profit", has resulted in the inclusion of "royalty payments", "social costs" and "taxes other than profit tax" within "other operating expenses".

(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 associated undertakings are conformed to those of the Company.

A subsidiary is an entity in which the Company has an interest of more than one 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's interest is measured at the pre acquisition carrying amount of the minority's share in the subsidiary at the acquisition date, amended for the minority's share of subsequent dividends, profits and losses.

Associated undertakings over which the Company has a significant but not a controlling influence, are accounted for using the equity method. Significant influence is usually evidenced by the Company 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 associated undertaking reaches zero, unless the group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

(c) Grant

Production assets received from the Republic of Sakha (Yakutia) in 1993 under the terms of a mineral 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 mineral 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 charged to expense 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.

Depreciation and amortisation of buildings, land improvements and fixed plant related to extraction of minerals is calculated on a units of production basis for each area of interest over its expected useful life.

Depreciation of assets not directly associated with production is calculated on a straight line basis over its estimated useful life. The depreciation rates applied are as follows:

	Assets related to extraction of minerals	Other assets
Buildings	Units of production	8-50 years
Land improvements and fixed plant	Units of production	7-50 years
Plant and equipment (moveable)	4-13 years	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.

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 using the depreciation rates as set out above.

(e) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and 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 annually, 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.

Changes in provisions resulting from the passage of time are reflected in the consolidated statement of income each year under finance costs. Other changes in provisions, 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 effect of such changes are added to, or deducted from, the amount recognized as the related asset to the extent the change relates to future periods. The amount that relates to current and past periods is recorded in the statement of income in the year of the change.

The provision for restoration liability is determined based on the terms of the mineral lease agreement (see note 9). Under this agreement the Company is obliged to transfer in 2017 property, plant and equipment subject to the mineral lease agreement to the Republic of Sakha (Yakutia) or settle its liability by effecting a cash payment. Provision for restoration liability is recorded on the balance sheet, with a corresponding amount being recorded as part of property, plant and equipment in accordance with IAS 16, *"Property, Plant and Equipment"* (revised 1998). The property, plant and equipment part is amortized over the life of the property.

(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

At 1 January 2001, the Group adopted IAS 39 and classified 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 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 period, 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 the expressed 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 evaluates 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 exist 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 are measured at cost less impairment. The financial assets without fixed maturity date are carried at actual cost less impairment.

Unquoted available-for-sale equity investments are reviewed for impairment losses 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 use different valuation techniques 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 and balances with banks with a maturity at the date of recognition of less than three months, which are considered by the Group at the time of deposit to have minimal risk of default.

(i) Deferred taxes

Deferred tax is calculated at rates enacted or substantively enacted at the balance sheet date, using the liability method, for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The principal temporary differences arise from application in previous periods of IAS 29 *"Financial Reporting in Hyperinflationary Economies"*, depreciation on property, plant and equipment and provisions and expenses which are charged to the consolidated statement of income before they become deductible for tax purposes.

Deferred tax liabilities are recognised in respect of all taxable temporary differences relating to investments in subsidiaries, unless the Company is able to control the timing of the reversal of the temporary difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets attributable to temporary differences, unused tax losses and credits are recognised only to the extent that it is probable that future taxable profit will be available against which they can be utilised.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to set off current tax assets against current liabilities, when deferred tax balances relate to the same regulatory body (i.e., federal or republic), and when they relate to the same jurisdiction and taxable entity.

(j) Foreign currencies

Transactions denominated in foreign currencies are recorded, on initial recognition, in the measurement currency, by applying the exchange rate between the measurement currency and the foreign currency at the date of the transaction. Outstanding foreign currency monetary items at the balance sheet date are reported at the closing rate. Non monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction, and non monetary items which are carried at fair value denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

Exchange differences arising on the settlement of monetary items or reporting monetary items at rates different from those at which they were initially recorded in the period are recognised in the statement of income in the period in which they arise.

(k) Financial assets and liabilities

Financial assets and liabilities carried in the consolidated balance sheet include cash and cash equivalents, investments, receivables, borrowings, and trade and other payables, and are initially recognised at cost, which is the fair value of the consideration given or received, on the date when the Group becomes a party to the contractual provisions of the instrument. Financial assets are partially or fully de-recognised only when the rights to the separable benefits under the relevant contract are lost, surrendered, or have expired or have been settled. Financial liabilities are de-recognised only when the obligation specified in the relevant contract is discharged, cancelled or has expired.

Financial assets are revalued to fair value at each subsequent balance sheet date, unless they are loans and receivables originated by the Group, in which case they are measured at amortised cost if they have a fixed maturity date, or otherwise at cost.

Financial liabilities with fixed maturity dates are revalued at each subsequent balance sheet date to amortised cost.

The revaluation of financial assets and liabilities respectively to fair value, amortised cost, or cost is based on the receivable or payable amount at the expected settlement date, discounted to net present value. The discount rate used is that considered appropriate to the Group in the economic environment of the Russian Federation at each balance sheet date.

(l) Revenue recognition

Revenues are recognised when goods are shipped to the purchaser, as this is the date that the risks and rewards of ownership are transferred to the customers. 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 revenue is recognized on time proportion basis that takes into account the effective yield on the asset.

Dividends revenue is recognized when the shareholder's right to receive payment is established.

(m) Measurement of trade and other receivables

Accounts receivable are recorded at original invoice amount and include value added taxes. Accounts receivable are written down to estimated recoverable amount by recording an impairment based on analysis of expected future cash flows relating to doubtful receivables. Bad debts are written off when identified.

(n) Value added taxes

In the consolidated balance sheet and the consolidated statement of cash flows, transactions and balances are presented inclusive of the associated Value Added Tax ("VAT") applicable under the legislation of the relevant jurisdiction in which the transaction occurred.

(o) Pension and other post-retirement benefits

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 cost of sales within 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 interest rates of 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.

The Group owns and controls NPF "Almaznaya Osen", which administers the Group's defined benefit plan. The assets of NPF "Almaznaya Osen" primarily consist of commercial paper of the Company and other accounts receivable due from the Company. The parent/subsidiary relationship between the Group and NPF "Almaznaya Osen" means that the assets held by NPF "Almaznaya Osen" do not meet the definition of the plan assets and are eliminated in the consolidated balance sheet as intercompany balances.

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 defined contribution plan, are expensed when incurred and are included within wages, salaries and other staff costs in cost of sales.

(p) Social obligations

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 fund and support social programs and related operations are expensed as incurred.

(q) Non cash transactions

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

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

(r) Share capital

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

(s) Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical 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.

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

3. GROUP STRUCTURE AND INVESTMENTS

The Company's significant subsidiaries and associated undertaking are as follows:

Name	Country of Incorporation	Percentage ownership (2)
Consolidated Subsidiaries		
ZAO "Irelyaktneft"	Russia	100
Pension fund "Almaznaya Osen"	Russia	97
OAO "Viluygesstroy"	Russia	90
OAO "ALROSA-Nyurba"	Russia	88
MAK-Bank	Russia	82
OAO "Severalmaz"	Russia	72
OAO "Viluyskaya GES-3"	Russia	66
OAO "ALROSA-Gas"	Russia	53
Equity accounted associate		
"Catoka Mining Company Ltd" (1)	Angola	33

(1) "Catoka Mining Company Ltd" is a diamond mining venture located in Angola. Investment in this associated undertaking was accounted by the Group under the equity method. Income of RR'mln 187 was included in the Group's financial statements for the period ended 30 June 2003, with a corresponding income of RR'mln 178 included in financial statements for the year ended 31 December 2002. The Group's share of net assets in "Catoka Mining Company Ltd" included in these financial statements is RR'mln 972 and 784 as at 30 June 2003 and 31 December 2002, respectively.

(2) The percentage ownership is determined based on the Group investees charter documents equaled to that determined based on its voting share.

Available-for-sale investments

	30 June 2003 (unaudited)	31 December 2002
Equity investments for which fair value can not be determined	1,369	1,544
	1,369	1,544

Investments available for sale are investments to unconsolidated subsidiaries and associates which does not have marketable securities.

4. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents

As at 30 June 2003, cash and cash equivalents balance mainly represents current accounts of the Group with the weighted average interest rate approximating nil (31 December 2002: nil).

Restricted cash

Long-term portion of restricted cash of RR'mln 174 and RR'mln 82 as at 30 June 2003 and 31 December 2002, respectively, represents deposit accounts held with Chase Manhattan Bank and Vneshtorgbank.

Furthermore, an additional RR'mln 158 as at 30 June 2003 (31 December 2002: RR'mln 112) represents mandatory reserve deposits that are not available for use in the Group's day to day operations, held with the Central Bank of the Russian Federation by MAK-Bank, a consolidated subsidiary.

Current portion of restricted cash of RR'mln 195 and RR'mln 214 as at 30 June 2003 and 31 December 2002, respectively, represents deposit accounts held with the Bank of New York. The Group is required to maintain a balance equal to the amount of its next scheduled principal and interest payment in accordance with its loan agreement with this bank.

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

Weighted average interest rate on the restricted cash balance as at 30 June 2003 is approximately nil (31 December 2002: approximately nil).

5. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Land & Improvement	Plant & Equipment	Transport	Assets under Construction	Other	TOTAL
Cost at 31 December 2002	**37,957**	**31,293**	**24,108**	**14,712**	**34,038**	**661**	**142,769**
Additions	192	21	715	813	6,837	107	8,685
Transfers	828	618	220	73	(1,754)	15	-
Disposals	(476)	(302)	(444)	(234)	(122)	(37)	(1,615)
Change in estimate of provision for restoration liability (see note 11)	510	186	35	6	-	1	738
Cost at 30 June 2003 (unaudited)	**39,011**	**31,816**	**24,634**	**15,370**	**38,999**	**747**	**150,577**
Accumulated Depreciation at 31 December 2002	**(12,813)**	**(13,121)**	**(12,026)**	**(8,175)**	**-**	**(194)**	**(46,329)**
Charge for the year	(573)	(703)	(1,207)	(678)	-	(46)	(3,207)
Disposals	389	76	433	214	-	6	1,118
Accumulated Depreciation at 30 June 2003 (unaudited)	**(12,997)**	**(13,748)**	**(12,800)**	**(8,639)**	**-**	**(234)**	**(48,418)**
Net book value at 31 December 2002	**25,144**	**18,172**	**12,082**	**6,537**	**34,038**	**467**	**96,440**
Net book value at 30 June 2003 (unaudited)	**26,014**	**18,068**	**11,834**	**6,731**	**38,999**	**513**	**102,159**

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

Included in property, plant and equipment above are the local infrastructure assets (housing and civic amenities owned by the Group) put into use. The carrying value of these assets as at 30 June 2003 and 31 December 2002 is as follows:

	30 June 2003 (unaudited)	31 December 2002
Cost	10,350	10,155
Accumulated Depreciation	(1,435)	(1,354)
Net Book Value	8,915	8,801

6. INVENTORIES

	30 June 2003 (unaudited)	31 December 2002
Diamonds	3,910	2,554
Ores and concentrates	2,121	2,032
Mining and construction materials	8,044	7,989
Consumable supplies	1,071	1,064
	15,146	13,639

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

7. TRADE AND OTHER RECEIVABLES

	30 June 2003 (unaudited)	31 December 2002
Long-term accounts receivable		
Receivables from related parties	614	721
Long-term VAT recoverable	337	295
Long-term prepaid taxes	210	174
Loans issued	117	125
Other long-term receivables	287	367
	1,565	1,682
Current accounts receivable		
Taxes recoverable	2,696	1,901
Advances to suppliers	2,487	915
Accounts and notes receivable - trade	1 676	1,197
Prepaid taxes	1 320	1,454
Notes receivable	666	468
Loans issued	504	353
Receivables from related parties	293	891
Prepayment for commercial paper redemption	246	273
Prepaid profit tax	-	210
Other receivables	1,359	1,072
	11,247	8,734

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

Prepaid taxes mainly relate to a receivable from the Republic of Sakha (Yakutia) that the Company intends to offset against royalty (see note 9).

Prepayment for commercial paper redemption relates to receivable from the broker which the Group intends to realise by receiving own commercial papers purchased by broker from the third parties.

Impairment offset against accounts receivable balances as follows:

	30 June 2003 (unaudited)	Interest on impaired receivables	Bad debt written-off	Bad debt expense	31 December 2002
Long-term Accounts Receivable					
Receivable from related parties	160	-	-	-	160
Long-term VAT recoverable	225	(125)	-	73	277
Long-term prepaid taxes	104	(16)	-	11	109
	489	(141)	-	84	546
Current Accounts Receivable					
Accounts and notes receivable - trade	231	(1)	-	89	143
Prepaid taxes, other than profit tax	69	(25)	-	15	79
Receivables from related parties	365	(4)		20	349
Notes receivable	145	(7)	(63)	2	213
Loans issued	161			-	161
Other receivables	948	(7)	(17)	290	682
	1,919	(44)	(80)	416	1,627

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

8. SHARE CAPITAL

	30 June 2003 (unaudited)		31 December 2002	
	Shares	**Amount**	**Shares**	**Amount**
Authorised, issued and fully paid ordinary share capital at RR 57,455 par value per share	200,000	11,491	200,000	11,491

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 period ended 30 June 2003 and for the year ended 30 June 2002, the statutory profit for the Company as reported in the published annual statutory reporting forms was RR'mln 5,431and RR'mln 3,747 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.

Dividends

On 29 June 2002, the Company's shareholders approved dividends for the year ended 31 December 2001 totalling RR'mln 638 (RR'mln 600 in nominal terms). Dividends per share amounted to RR 3,190 (RR 3,000 in nominal terms).

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.

9. GRANT AND ASSETS SUBJECT TO MINERAL LEASE AGREEMENT

On 19 January 1993, the Company entered into a mineral lease agreement ("the 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 stipulates that the terms should be re negotiated 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 period ended 30 June 2003 totalled RR'mln 4,627 (period ended 30 June 2002: RR'mln 4,144). Ecology fund payments expensed during the period ended 30 June 2003 totalled RR'mln 454 (period ended 30 June 2002: RR'mln 414).

Pursuant to an addendum to the mineral lease agreement dated 1 March 2002, the Company and the Republic of Sakha (Yakutia) agreed that the royalty payments including ecology fund payments and value added tax due in 2002 are fixed at RR'mln 9,667.

Pursuant to an addendum to the mineral lease agreement dated 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, with the amount of royalty payable in 2004-2005 to be determined in a separate addendum to the agreement.

Recoverable value added tax related to royalty and ecology fund payments for the period ended 30 June 2003 totalling RR'mln 164 is calculated at 16.7 percent of royalty payments and ecology fund payments and depends on the percentage of paid domestic diamond sales to the total diamond sales of the Company.

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

Carrying values of Company owned and granted assets subject to the mineral 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 2003 (unaudited)**	**31 December 2002**
Net book value of granted assets received in 1993 as at 1 January	11,070	11,560
Net book value of Company owned assets subsequently transferred to leased	4,927	5,142
Net book value at 31 December	15,997	16,702

The Group is required to return certain production assets to the Republic of Sakha (Yakutia) at the end of the mineral lease term. 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 mineral lease agreement is currently being negotiated between the parties.

Management have estimated the restoration liability based upon their interpretation of the mineral 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 11).

10. LONG-TERM DEBT

	30 June 2003 (unaudited)	**31 December 2002**
Banks:		
US$ denominated floating rate	1,525	1,589
US$ denominated fixed rate	7,434	9,633
RR denominated fixed rate	3,205	3,903
	12,164	15,125
Eurobonds	15,026	-
Non-convertible bonds (see note 15)	4,821	6,720
Commercial paper	211	332
Other	395	341
	32,617	22,518
Less: current portion of long-term debt (see note 15)	(7,292)	(6,615)
	25,325	15,903

In May 2003, "Alrosa Finance S.A", a total-lot subsidiary of "Alrosa Finance B.V." which at the same time is a total-lot subsidiary of the Group, placed Eurobonds of US$'mln 500 on a security of AK "Alrosa". Placed item price was 98,996 % of a par value. The maturity date is 6 May 2008. Annual coupon ratio is 8,125%. Interests are to be pay on 6 May and 6 November every year.

AK "Alrosa" and "Alrosa Finance S.A." entered into a loan agreement under which AK "Alrosa" gets fundings received after the placement of Eurobonds by "Alrosa Finance S.A". Redemption date is as 6 May 2008. Annual loan interest rate is 8,188%. Interests are payable on 6 May and 6 November every year.

Long-term commercial paper has defined maturity dates ranging between one and ten years, and is carried at amortised cost.

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

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

	30 June 2003 (unaudited)	31 December 2002
Banks:		
US$ denominated floated rate	3.5%	6.8%
US$ denominated fixed rate	10.4%	10.8%
RR denominated fixed rate	18.1%	18.1%
Eurobonds	8.2%	-
Non-convertible bonds (see note 15)	18.3%	19.3%
Commercial paper	35.1%	30.2%
Other	15.1%	14.8%

At 30 June 2003 long-term loans have the following maturity profile:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years and thereafter	Total (unaudited)
Banks:						
US dollar denominated floating rate	496	301	207	359	161	1,524
US dollar denominated fixed rate	5,996	644	795	-	-	7,435
Russian rouble denominated fixed rate	-	2,433	-	230	542	3,205
	6,492	3,378	1,002	589	703	12,164
Non-convertible bonds (see note 15)	800	1,000	3,021	-	-	4,821
Commercial paper	-	51	80	-	80	211
Eurobonds	-	-	-	-	15,026	15,026
Other	-	180	35	30	150	395
	7,292	4,609	4,138	619	15,959	32,617

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:

	30 June 2003 (unaudited)		31 December 2002	
	Carrying amounts	Fair values	Carrying amounts	Fair values
Banks	12,164	11,839	15,125	15,013
Non-convertible bonds (see note 15)	4,821	4,372	6,720	6,274
Commercial paper	211	642	332	643
Eurobonds	15,026	15,026	-	-
Other	395	309	341	263

Fair value of long-term debt is estimated by discounting the future contractual cash outflows at the market interest rate available at the balance sheet date.

As at 30 June 2003, long-term debt totalling RR'mln 2,631 (31 December 2002: RR'mln 7,196) included above were secured with the assets of the Company. As separate loan agreements do not specify individual pledged items of assets the carrying amount of pledged assets is not disclosed.

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

11. PROVISION FOR RESTORATION LIABILITY

	Period ended 30 June 2003 (unaudited)	Year ended 31 December 2002
At the beginning of the period	2,743	3,047
Change in the estimate of provision for restoration liability	738	(599)
Increase in the discounted amount during the year	942	295
At the end of the period	4,423	2,743

The provision for restoration liability represents the net present value of the estimated future obligation, upon termination of the lease, to return certain property, plant and equipment received from the Republic of Sakha (Yakutia) under the terms of the mineral lease agreement (see notes 2(e) and 9). The discount rate used to calculate the net present value of the restoration liability was 10.5 percent (31 December 2002: 10.5 percent), which was considered appropriate to the Group in the economic environment in the Russian Federation at the balance sheet date.

Pursuant to an addendum to the mineral lease agreement dated 22 December 2002, the method of calculation of maintenance and reconstruction costs and expenses for capital repairs of funds acquired under the mineral lease agreement, as well as costs of assets purchased to renew capital funds acquired under this agreement has changed. Since 1 January 2003 the amount of these costs should not exceed 30% of the amount of variable share of royalty payments, provision for restoration liability and the sum of the interest expenses have been significantly changed (see note 21).

12. PROVISION FOR PENSION OBLIGATIONS

The amounts recognised in the balance sheet are as follows:

	30 June 2003 (unaudited)	31 December 2002
Present value of obligations (unfunded)	4,504	4,391
Unrecognised actuarial losses	(2,659)	(3,123)
Net liability	1,845	1,268

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

	Period ended 30 June 2003 (unaudited)	31 December 2002
Net liability at the beginning of the reporting period	1,268	554
Net expense recognised in the statement of income	697	916
Benefits paid	(120)	(202)
Net liability at the end of the reporting period	1,845	1,268

Principal actuarial assumptions used:

	30 June 2003 (unaudited)	31 December 2002
Discount rate (real)	4.5%	4.5%
Future pension increases (real)	3%	3%
Employees average remaining working life (years)	11	11

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

13. TRADE AND OTHER PAYABLES

	30 June 2003 (unaudited)	31 December 2002
Trade	2,963	3,885
Accrual for employee flights and holidays	2,315	2,500
Wages	832	1,037
Interest payable	459	526
Advances from customers	441	231
Payables to related parties	258	167
Other payables and accruals	837	566
	8,105	8,912

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.

14. PROFIT AND OTHER TAX ASSETS AND LIABILITIES

Taxes payable comprise the following:

	30 June 2003 (unaudited)	31 December 2002
Royalty payments to Republic of Sakha (Yakutia)	1,025	335
Pension tax	911	893
Extraction tax	420	108
Profit tax	419	298
Property tax	331	310
Value added tax	189	162
Income tax (employees)	175	175
Penalties	100	867
Road use tax	-	93
Other taxes and accruals	126	80
Taxes payable	3,696	3,321

Taxes other than profit tax included in the statement of income comprise the following:

	Period ended 30 June 2003 (unaudited)	Period ended 30 June 2002 (unaudited)
Extraction tax	1,715	1,789
Property tax	518	439
Ecology fund	454	414
Resource-recovery tax	-	555
Road use tax	-	304
Tax penalties	(527)	(75)
Other taxes and accruals	152	101
Taxes other than profit tax	2,312	3,527

In accordance with legislation effective 1 January 2002, non recoverable resource tax and resource recovery tax were replaced with an extraction tax, which amounted to 8 percent of value of extracted diamonds.

Road user tax collection has been withdrawn according to the legislation effective since 1 January 2003.

The estimation of the sum of resource recovery payments bases on cash inflows in return for exploration.

Tax penalties for the period ended 30 June 2003 include Company's revenue totalling RR mln 260 earned by the Company as a result of recalculation of the amounts allocated for resource recovery and income tax payments due to a revision of their assesment basis.

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

In accordance with Resolution № 1364 of the Government of the Russian Federation dated 9 December 1999, the Company is obliged to pay 6.5 percent on the value of diamonds sold for export in the form of an export duty in addition to the taxes noted above (see note 16).

Profit tax expense comprises the following:

	Period ended 30 June 2003 (unaudited)	Period ended 30 June 2002 (unaudited)
Current tax expense	1,894	1,894
Deferred tax expense (benefit)- movement in temporary differences	(987)	974
Profit tax	907	2,868

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

	Period ended 30 June 2003 (unaudited)	Period ended 30 June 2002 (unaudited)
Profit before profit tax and minority interest	4,909	6,283
Theoretical tax charge at statutory rate of 24 percent (2001 - 35ercent) thereon	1,178	1,508
Income not assessable for profit tax purposes	(517)	(117)
Expenses and losses not deductible for profit tax purposes	246	562
Non-temporary elements of monetary gain	-	1,129
Inflation effect on deferred tax balance at the beginning of the year	-	(214)
Profit tax	907	2,868

The non temporary impact of monetary gains and losses reflects the effect on the theoretical tax charge of inflation with respect to non monetary items of a non temporary nature (primarily equity and net deferred tax liability).

Differences between IFRS and Russian statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24 percent.

	30 June 2003 (unaudited)	Movement in temporary differences	31 December 2002
Deffered tax liabilities			
Property, plant and equipment	4,304	482	4,786
Inventories	452	368	820
Long-term investments	306	(45)	261
Deferred tax assets			
Accrual for employee benefits	(716)	(131)	(847)
Research and development costs written off	(299)	71	(228)
Impairment of accounts receivable	(533)	151	(382)
Provision for pension obligations	(163)	54	(109)
Write-down of inventories	(130)	42	(88)
Other deductible temporary differences	(22)	(5)	(27)
Net deferred tax liability	3,199	987	4,186

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

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

	30 June 2003 (unaudited)	**31 December 2002**
Banks:		
US$ denominated floating rate	889	782
US$ denominated fixed rate	3,787	8,181
RR denominated fixed rate	1,917	978
	6,593	9,941
Non-convertible bonds	1,078	-
Commercial paper	473	1,513
Other US$ denominated fixed rate loans	550	974
Other	1,252	927
	9,946	13,355
Add: current portion of long-term debt (note 10)	7,292	6,615
	17,238	19,970

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

	30 June 2003 (unaudited)	**31 December 2002**
Banks:		
US$ denominated floating rate	6.6%	6.4%
US$ denominated fixed rate	13.8%	11.5%
RR denominated fixed rate	10.9%	19.4%
Non-convertible bonds (see note 15)	22.2%	0%
Commercial paper	32.7%	29.3%
Other US$ denominated fixed rate loans	8.4%	10.3%
Other	8.4%	8.9%

Exchange rate for US dollar (US$) effective at 31 December 2002 was RR 30.35 to US$ 1.

As at 30 June 2003, short-term loans totalling RR'mln 10,244 (31 December 2002: RR'mln 11,180) included above are secured with the assets of the Company. As separate loan agreements do not specify individual pledged items of assets the carrying amount of pledged assets is not disclosed.

Commercial paper

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

Domestic non-convertible bonds

	Long-term	**Short-term**	**Total**
Balance at 31 December 2002	6,720	-	6,720
Issuance (par value RR 1 thousand totalling RR'mln 127)	127	-	127
Accrued interest	19	-	19
Current portion of long-term debt	(1,078)	1,078	-
Repayment (par value 1 thousand totalling RR'mln 967)	(967)	-	(967)
Balance at 30 June 2003	4,821	1,078	5,899

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

16. SALES

	Period ended 30 June 2003 (unaudited)	Period ended 30 June 2002 (unaudited)
Revenue from diamond sales		
Export (predominantly one customer)	12,261	13,380
Republic of Sakha (Yakutia)	4,031	3,668
Other, domestic	9,577	9,416
	25,869	26,464
Other revenue		
Transport	753	773
Trading	455	606
Social infrastructure	406	386
Construction	253	132
Exploration	4	15
Other	448	504
	28,188	28,880

Export duties totalling RR'mln 719 for the period ended 30 June 2003 (period ended 30 June 2002: RR'mln 793) were netted against revenues from export of diamonds.

	Period ended 30 June 2003 (unaudited) US$'mln	Period ended 30 June 2002 (unaudited) US$'mln
Hard currency revenue from export diamond sales including export duties (predominantly one customer)	417	418
US dollar denominated domestic diamond sales settled in Russian roubles	435	386
	852	804

Pursuant to a trade agreement with De Beers, dated 3 November 1998 and covering the period from 1 January 2000 to 31 December 2001, the Company agreed to sell and De Beers agreed to buy a minimum of US$'mln 550 (including the sales of diamonds on behalf of the Committee for Precious Metals and Stones under agency agreements concluded between the Company and the Committee) in value of the Company's annual diamond production at the current market prices.

During the period ended 30 June 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 24 (i).

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 may be exported in a given year. The amount 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 800 of diamonds each year, based on current market prices. The amount provided in any quota constitutes a State secret.

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

17. COST OF SALES

	Period ended 30 June 2003 (unaudited)	Period ended 30 June 2002 (unaudited)
Wages, salaries and other staff costs	4,640	3,856
Depreciation	2,743	2,094
Materials	1,817	1,906
Fuel and energy	2,309	2,379
Transport	696	627
Services	461	311
Other	154	129
Write down of (reversal of provision for) inventory	157	218
Movement in inventories	(1,445)	157
	11,532	11,677

Depreciation totalling RR'mln 464 (period ended 30 June 2002: RR'mln 444) and staff costs totalling RR'mln 784 (period ended 30 June 2002: RR'mln 710) were incurred by the Company's construction division and included in capital costs for the period.

18. GENERAL AND ADMINISTRATIVE EXPENSES

	Period ended 30 June 2003 (unaudited)	Period ended 30 June 2002 (unaudited)
Administrative expense	1,055	878
Bad debt expense	500	43
	1,555	921

19. OTHER OPERATING INCOME

	Period ended 30 June 2003 (unaudited)	Period ended 30 June 2002 (unaudited)
Amortization of Grant (see note 9)	490	491
Other	470	168
	960	659

20. OTHER OPERATING EXPENSES

	Period ended 30 June 2003 (unaudited)	Period ended 30 June 2002 (unaudited)
Royalty (see note 9)	4,627	4,144
Taxes other than profit tax (see note 14)	2,312	3,527
Social costs	1,247	841
Exploration expenses	551	717
Selling and marketing expenses	407	402
Loss on disposal of property, plant and equipment	48	281
Loss from flooding in Lensk	-	139
Other	281	261
	9,473	10,312

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

Social costs

	Period ended 30 June 2003 (unaudited)	Period ended 30 June 2002 (unaudited)
Maintenance of local infrastructure	536	524
Charity	488	109
Hospital expenses	55	56
Education	40	37
Other	128	115
	1,247	841

Charity costs for the period ended 30 June 2003 include expenses for restoration of Konstantinovsky Palace park complex in the amount of RR mln 316.

21. FINANCE COSTS, NET

	Period ended 30 June 2003 (unaudited)	Period ended 30 June 2002 (unaudited)
Interest expense:		
Bank loans	1,585	951
Commercial papers	102	754
Bonds	523	305
Change in provision for restoration liability (see note 11)	942	64
Other	95	148
Interest income	(202)	(45)
Provision for impairment of (reversal of provision for) available-for-sale investments, net	(112)	56
	2,933	2,233

22. MONETARY GAIN

As the characteristics of the economic environment of the Russian Federation indicate that hyperinflationary has ceased, effective from 1 January 2003 the Company no longer applies the provisions of IAS 29 "*Financial Reporting in Hyperinflationary Economies*". In the current period monetary gain is not calculated (see Accounting policies).

	Period ended 30 June 2003 (unaudited)	Period ended 30 June 2002 (unaudited)
Monetary gain	-	2,199
	-	2,199

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

23. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Period ended 30 June 2003 (unaudited)	Period ended 30 June 2002 (unaudited)
Profit before profit tax	4,909	6,283
Adjustments for:		
Interest income (note 21)	(202)	(45)
Income from associated undertakings (see note 3)	(187)	(178)
Interest expense (note 21)	3,247	2,222
Provision for impairment of (reversal of provision for) available-for-sale investments (note 21)	(112)	56
Adjustments for non-cash investing activity	(1,870)	(1,221)
Adjustments for non-cash financing activity	495	2,080
Depreciation (note 17)	2,743	2,094
Amortisation of Grant (note 19)	(490)	(491)
Disposal of assets (note 20)	48	281
Exchange differences	(1,260)	671
Monetary effect on non-operating balances	-	(2,414)
Net operating cash flow before changes in working capital	7,321	9,338
Net increase in inventories	(1,508)	308
Net increase in trade and other receivables, excluding dividends receivable and prepayment for own commercial paper redemption	(2,326)	(3,761)
Net decrease in provisions, trade and other payables, excluding interest payable	(163)	(380)
Net increase in taxes payable other than profit tax	255	(1,384)
Cash generated from operations	**3,579**	**4,121**
Profit tax paid	(1,564)	(1,147)
Net cash flows from operating activities	**2,015**	**2,974**

24. FINANCIAL RISKS MANAGEMENT

(a) Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of accounts receivable. 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 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 countries and the United States of America and attracts 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 15) give rise to foreign exchange exposure.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

(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, which are disclosed in notes 10 and 15. The Group has no significant interest bearing assets.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of 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 carrying amounts of financial assets and liabilities with maturity of less than one year are assumed to approximate their fair values.

25. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Operating environment

Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some 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 prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments.

(b) Taxes

Russian tax legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company and the Group's entities may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company's group entities may be assessed additional taxes, fines and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years.

In December 2002 and April 2003, the tax authorities filed certain claims against the Company for tax penalties totalling RR'mln 1,030. The Company intends to dispute the total amount of the tax authorities' claims, as management believes the Company is in compliance with the tax legislation. Accordingly no accrual has been recorded. The Company management does not believe that the financial effect of this contingency will be material to the Group.

(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 2003.

In addition to litigation arising in the ordinary course of business, the Company is involved in a civil claim relating to the technologies used at the Nyurba mines. Bateman Projects Limited, a South African company, and its Dutch subsidiary, Bateman International B.V. (collectively, "Bateman"), the outside construction firms involved in the development of the Nyurba processing plant, have filed an arbitration claim against the Company which alleges that technology used in the Nyurba plant infringes Bateman's intellectual property rights. The claim seeks damages of approximately US$'mln 43 and requests that a Stockholm based arbitration panel issue an order to prevent the Company from performing further work on the construction of the Nyurba diamond processing plant. The Company intends to vigorously defend this action and management believes the resolution of this claim will not have a material adverse effect on the results of operations or the financial positions of the Group.

(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) Social obligations

The Group makes contributions to mandatory and voluntary local social programs. The Group's local infrastructure assets as well as local social programs benefit the local communities at large and are not normally restricted to the Group's employees. The Group is negotiating the transfer of certain social assets to the local authorities; however, the Group expects to continue funding these social programs for the foreseeable future.

(f) Capital commitments

At 31 December 2002, the Group has contractual commitments for capital expenditures of approximately RR'mln 11,280 (31 December 2001: RR'mln 2,823).

(g) 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 mineral 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.

(h) Guarantees

As at 30 June 2003, the Group has guaranteed US dollar denominated loans issued by AKB "Rosbank" to OOO "Interrosleasing" totalling RR'mln 57, and by National Bank of Republic of Belarus to AKB "Rosbank", totalling RR'mln 759.

(i) 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 objections raised by the European Commission. Management of the Company does not believe that the financial effect of these negotiations will be material to the Group.

In addition, the European Commission could seek to impose fines of up to 10 percent of the Company's 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 believes that risk of the European Commission ruling against the Company is remote.

26. RELATED PARTY TRANSACTIONS

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

IAS 24, *"Related Party Disclosures"*, specifically 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 mineral lease agreement with the Republic of Sakha (Yakutia) is disclosed in notes 9 and 11.

(in millions of Russial roubles expressed in terms of the purchasing power of the Russian rouble at 31 December 2002, except as noted)

Remuneration to the members of Board of Directors and Management Board of the Company incurred during the year ended 30 June 2003 totalled RR'mln 94 (year ended 30 June 2002: RR'mln 44).
Significant related party transactions are summarised as follows:

Long-term accounts receivable	**30 June 2003 (unaudited)**	**31 December 2002**
OAO "Sobinbank" and its affiliates, receivable secured by the loan payable	774	848
ZAO PIC "Orel Almaz", an associated undertaking	-	33
Less: provision for bad debt	(160)	(160)
	614	721

Current accounts receivable	**30 June 2003 (unaudited)**	**31 December 2002**
OAO "Sobinbank" and its affiliates, receivable secured by the loan payable	123	679
OAO "Tuymaada Diamond"	166	260
ZAO PIC "Orel Almaz", an associated undertaking	174	105
Other	195	196
Less: provision for bad debt	(365)	(349)
	293	891

Loans provided by related parties:

Name of bank	**Interest rate**	**30 June 2003 (unaudited)**	**31 December 2002**
US dollar denominated			
OAO "Sobinbank"	12 percent	-	636
Committee for Precious Metals and Stones (Komdragmet) of Republic Sakha (Yakutia)	3-10 percent	324	564
Russian rouble denominated			
OAO "Sobinbank"	15-25 percent	812	1,201
		1,136	2,401

27. SEGMENT INFORMATION

The Group has one reportable business segment, which is the production and sales 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 16. 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**	
	Period ended 30 June 2003 (unaudited)	**Period ended 30 June 2002 (unaudited)**	**30 June 2003 (unaudited)**	**31 December 2002**	**Period ended 30 June 2003 (unaudited)**	**Period ended 30 June 2002 (unaudited)**
Russian Federation	15,927	15,500	136,210	125,344	8,685	8,803
Western Europe	8,838	11,081	-	-	-	-
Other countries	3,423	2,299	364	273	-	-
Associated undertakings	-	-	972	784	-	-
Unallocated assets	-	-		210	-	-
Total assets	28,188	28,880	137,546	126,611	8,685	8,803

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

The Company has one individual customer - De Beers that accounts for 33 percent of its revenue during the year ended 30 June 2003 (Year ended 30 June 2002: 40 percent).