

**REGULATIONS**  
**ON THE PROCEDURE AND TERMS OF SALES**  
**OF NATURAL ROUGH DIAMONDS**  
**BY OJSC ALROSA**

Moscow  
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## 1. BACKGROUND AND APPLICATION

1.1. These Regulations have been developed in compliance with the ALROSA Company Limited Sales Policy Concept for 2010-2012 approved by a resolution of the ALROSA Company Limited Supervisory Board (minutes No. 155 of December 29, 2009) that provides for modernization of the existing system of rough diamond sales and forming a clientele in connection with an altered world market situation, the requirements of UN General Assembly Resolution 55/56 of December 1, 2000 concerning diamond market participants and other provisions of the Kimberley Process, as well as the requirements of the legislation of the Russian Federation, including those related to prevention of legitimization (laundering) of the proceeds of crime and the financing of terrorism.

1.2. These Regulations have been drawn up in view of the norms of substantive laws of the Russian Federation, including Federal Law No. 41-FZ of March 26, 1998 'On Precious Metals and Gems', Federal Law No. 135-FZ of July 26, 2007 'On Protection of Competition', as well as regulatory acts regulating the procedure of trade in natural rough diamonds in the territory of the Customs Union within the borders of the Eurasian Economic Community and the Russian Federation.

Should any amendments be made to the regulatory acts of the Customs Union and the Russian Federation regulating the procedure of the trade in natural rough diamonds, these Regulations should be applied to the extent they do not contradict the amendments.

1.3. These Regulations shall be a local regulatory act of OJSC ALROSA (hereinafter—the Company) determining the main principles of commercial relations between the Company's sales divisions and the purchasers of natural rough diamonds, the procedure and terms of rough diamond sales by the Company.

These Regulations shall be a public document and shall be made available for familiarization to third parties interested in the establishment of contractual relations with the Company. For convenience of familiarization, these Regulations shall be posted on the Company's official website at [www.alrosa.ru](http://www.alrosa.ru).

In case of any discrepancy or inconsistency between the Russian version and the English version of the provisions of these Regulations, the Russian version shall prevail.

## 2. TERMS AND DEFINITIONS

The following terms and definitions shall be used in these Regulations:

**Rough diamonds, diamonds** – natural rough (industrial and non-industrial) diamonds produced from the mines operated by the Company and its subsidiaries and intended for sale in the form of boxes and lots, as well as other proprietors' diamonds sold by the Company under commission agreements and agency contracts;

**Box** – an indivisible collection of rough diamonds of a certain assortment mix composed in accord with the Technical Requirements to finished goods and to box structures accepted in the Company;

**Diamond Sale Agreement (contract)** – a sales contract of diamonds concluded in the Company's standard form on the basis of the results of competitive sales, or upon execution of single non-competitive transactions for the sale of rough diamonds, or within the framework of Diamond Supply Agreements.

**Diamond Supply Agreement** – an agreement concluded for a term not exceeding three years in the Company’s standard form within the framework whereof rough diamond supplies are formalized by contracts.

**Competitive Sales Committee** – a plural body of the Company carrying out on its behalf all the functions connected with the organization, holding and announcement of the results of competitive sales and acting by authority of the Regulations ‘On the Procedure and Terms of Sales of Natural Rough Diamonds by OJSC ALROSA’.

**Market Conjuncture Analysis Panel** – a plural body of the Company forming the Company’s marketing policy and responsible for assessing conformity of a business entity to the requirements provided for herein.

**Lot** – a set of diamonds traded as a single whole and consisting of one or more diamonds;

**Non-industrial diamonds** – rough or sawn, cleaved or bruted natural diamonds that may be used for manufacturing into polished diamonds;

**Purchaser** – a business entity meeting the requirements established by Section 5 hereof;

**Industrial diamonds** – rough or sawn, cleaved or bruted natural diamonds, as well as diamond grits and diamond powders, that may be used for manufacturing diamond tools and other industrial and technical products;

**Competitive sale** – a method of concluding diamond sale agreements in the form of auctions/tenders;

**Business entity** – a legal entity or an individual entrepreneur.

### **3. REPRESENTATIONS BY OJSC ALROSA**

Polished natural diamonds are regarded by all consumers on the world market as a symbol of social status and luxury item.

Natural rough diamonds are raw materials for processing to manufacture polished diamonds, diamond tools and other kinds of products for industrial and technical use.

Pursuant to the Russian Federation legislation and international commitments, the Company declares its principles based on high professionalism and competence, irreproachable business ethics and advanced technologies, to be achieved through strengthening consumer confidence and excluding any unfair practices, inter alia, in the matters related to information disclosure, and in the process of effecting rough diamond sales transactions.

Within the framework of its commitments as imposed on diamond market players by the UN General Assembly Resolution No. 55/56 of December 1, 2000 and the Kimberley Process regulations, and the regulatory acts and laws of the Russian Federation concerning counteraction of the legitimization (laundering) of the proceeds of crime and the financing of terrorism, ALROSA seeks unconditional support of purchasers of rough diamonds as to the provision of relevant information and undertakes to guarantee its confidentiality.

In view of the necessity to represent the interests of an international network of rough and polished diamond producers and marketers; taking into account the necessity of building and enhancing end consumers' confidence in rough and polished diamonds as investment media and the embodiment of natural purity, the Company attaches great importance to the choice of rough diamond consumers, seeking to enter into business relations only with those who are able to demonstrate the necessary level of compliance with legal norms, ensure business robustness and financial solvency, living up to the high standards of ethics and business reputation.

The Company's sales policy is aimed at building reliable and long-term partner relations that would ensure an uninterrupted inflow of significant funds required for the Company's activities. Only those business entities that are rough diamond consumers who meet the criteria specified in these Regulations would qualify.

The underlying reason for such a policy is that existing diamond production license agreements provide for a long-term period of exploitation of diamond deposits by open-cast or underground mining. However, they do not have a provision for the possibility of decreasing production volumes, unless it is specifically provided by the respective mine development projects. Diamond mine development projects that include core production operations (mining and processing), industrial and social infrastructure are worked out and implemented in keeping with the licensed volume of diamonds production. Apart from being fraught with irreparable financial, production, social and economic losses, production stoppage may result in the license recall. Therefore, selection and availability of reliable commercial partners are of strategic importance for the Company.

The Company produces diamonds in the harsh climatic conditions of the Far North. Continuous operation is the basis for efficient performance of its mining and processing production facilities and stable daily life activities of the towns and villages in the region where the Company core production personnel resides.

The Company attracts significant borrowed funds in order to support production and daily life activities in the extreme conditions of the Far North. International financial and trade operations of the Company's trading partners fall within the scope of the laws of the European Economic Community, the United States of America, the United Kingdom and other countries insofar as they relate to prevention of legitimization (laundering) of the proceeds of the crime and the financing of terrorism. As a consequence, the Company cannot maintain business relations with purchasers that are subject to the restrictions stipulated by such laws.

The Company's activities come under scrutiny of the entire international community. Any kind of incorrect behavior of the Company's trading partners may affect its goodwill, negatively impact the Company's market capitalization and generate reputation risks for it. In view of the above, the Company deems itself obliged to exercise extra caution in selecting rough diamonds purchasers, including but not limited to assessing their business reputation in accordance with the criteria specified herein.

#### **4. Fundamental Principles of Rough Diamond Pre-Sale Preparation and Sales Terms**

4.1. Unified (non-discriminatory) conditions of access to rough diamonds sold by the Company shall be provided on the basis of the following principles:

4.1.1. rough diamonds shall be sorted according to the unified procedures using the unified master samples, irrespective of the sales destination;

4.1.2. standard boxes of rough diamonds shall be collected in accord with the Technical Requirements to finished goods and to the box structures accepted in the Company, irrespective of the sales destinations; Technical Requirements concerning the assortment of diamonds in identically titled boxes shall be adhered to;

4.1.3. rough diamond purchasers shall be granted equal access to rough diamonds pursuant to the legislation of the Russian Federation and its international commitments, in view of the requirements, criteria and access norms specified in Section 5 hereof, and natural resource limitations of the Company;

4.1.4. prices used by the Company shall be determined by expertise on the basis of the price lists analogous to those acting on the world market, with due consideration of the market fluctuations as of the day of sale;

4.1.5. the Company shall apply the unified criteria and use uniform procedures in the process of trading, irrespective of the rough diamond assortment and the sales objectives.

4.2. Pursuant to Federal Law No. 41-FZ of March 26, 1998 'On Precious Metals and Gems', the priority right to purchase precious stones shall be afforded to a specially authorized federal executive body and the executive bodies of the constituent entities of the Russian Federation in whose territories rough diamonds were produced for the purpose of replenishment of the State Fund of Precious Metals and Gems of the Russian Federation and the respective state funds of the constituent entities of the Russian Federation.

4.3. Natural diamonds that were not sold on a first refusal basis to the purchasers listed in Clause 4.2 of these Regulations may be sold to any business entities:

4.3.1. pursuant to diamond sale agreements/contracts concluded on the basis of the results of competitive sales;

4.3.2. pursuant to diamond sale contracts concluded upon execution of single non-competitive transactions for the sale of rough diamonds;

4.3.3. pursuant to diamond supply agreements.

4.4. Standard forms of diamond sale contracts concluded on the basis of the results of competitive sales and upon execution of single non-competitive transactions for the sale of rough diamonds, as well as diamond supply agreements, shall be provided upon request to the business entities that were deemed conforming to the requirements provided for by these Regulations, based on the volume of submitted information/documents.

4.5. Trading/sales shall take place in accordance with the Regulations on the Procedure of Rough Diamond Competitive Sales by OJSC ALROSA. The competitive sales rules are published on ALROSA's website at [www.alrosa.ru](http://www.alrosa.ru).

4.6. Pricing of natural rough diamonds:

4.6.1. Contractual prices of the boxes intended for sale to purchasers under the terms of diamond supply agreements and diamond sale contracts concluded upon execution of single non-competitive transactions for the sale of rough diamonds shall be quoted by the Company.

4.6.2. Starting prices of the lots to be sold at auctions/tenders shall be quoted by the Competitive Sales Committee.

## **5. Requirements, Criteria and Norms Applied by OJSC ALROSA to Purchasers of Rough Diamonds**

5.1. Pursuant to Article 2 of Federal Law No. 41-FZ of March 26, 1998 'On Precious Metals and Gems', the priority right to conclude agreements on the purchase of natural rough diamonds with the entities producing them shall be granted to:

5.1.1. a specially authorized federal executive body for the purpose of replenishment of the State Fund of Precious Metals and Gems of the Russian Federation;

5.1.2. authorized executive bodies of the constituent entities of the Russian Federation in whose territories those precious metals and gems were produced for the purpose of replenishment of the respective state funds of precious metals and gems of the constituent entities of the Russian Federation.

5.2. Depending on the rough diamond trading methods/forms stipulated by this Section, business entities shall be subject to requirements set forth in the Table of Requirements in Appendix 1 hereto (hereinafter, Appendix 1). Appendix 1 also contains the compliance criteria and the list of documents required to verify such conformity. The requirements, criteria and the list of documents set forth in Appendix 1 shall be exhaustive.

5.3. The competitive sales resulting in conclusion of diamond sale agreements/contracts can be attended by business entities that meet the following requirements:

5.3.1. Due legal capacity (including special capacity) – Section 1, Appendix 1;

5.3.2. Reliable business reputation – Section 2, Appendix 1.

5.4. Diamond sale contracts concluded upon execution of single non-competitive transactions for the sale of rough diamonds may be concluded with the business entities that meet the requirements specified in Clause 5.3 hereof and are financially solvent as well – see Section 3, Appendix 1.

5.5. Diamond supply agreements can be concluded with the business entities that meet the requirements specified in Clauses 5.3 and 5.4 hereof, as well as the following requirements:

5.5.1. Production stability – Section 4, Appendix 1;

5.5.2. Solvency level sufficient to perform obligations to pay for purchased rough diamonds – Section 5, Appendix 1.

5.6. The requirements, criteria and the list of documents in Appendix 1 may be revised and amended with the approval of the anti-monopoly authority not more often than once a year.

5.7. Under otherwise equal conditions, the business entities that purchased natural rough diamonds from the Company during the global market slowdown shall have the priority right to conclude diamond supply agreements.

5.8. Should the number of purchasers deemed to meet the requirements stipulated by Clause 5.3 hereof exceed the Company's organizational and technical capabilities, the Company shall be entitled to invite to competitive sales the number of purchasers that was determined in view of the above capability.

5.9. Single non-competitive transactions for the sale of rough diamonds can be concluded with the purchasers that are deemed to meet the requirements stipulated by Clause 5.4 hereof in view of the economical and/or technological opportunities of natural rough diamonds production or supply available at the moment of such transactions conclusion.

5.10. Diamond supply agreements can be concluded with the purchasers that are deemed to meet the requirements stipulated by Clause 5.5 hereof in view of the economical and/or technological opportunities of natural rough diamonds production or supply available at the moment when such a transaction was effected.



## **6. SUBMISSION OF INFORMATION (DOCUMENTS) BY A BUSINESS ENTITY**

6.1. To be checked for conformity to the requirements stipulated hereby, a business entity shall send a Cover Letter (Appendix 2) accompanied by the Questionnaire (Appendix 3) and the following documents:

6.1.1. For the business entities that plan to participate in competitive sales: pursuant to Clauses 1.1.1.–2.2.1 of Appendix 1;

6.1.2. For the business entities that plan to effect single non-competitive transactions for the sale of rough diamonds: pursuant to Clauses 1.1.1.–3.4.1 of Appendix 1;

6.1.3. For the business entities that plan to conclude a diamond supply agreement: pursuant to Clauses 1.1.1.–5.1.4 of Appendix 1;

Business entities shall be entitled to submit any other data/documents that are not specified in Appendix 1 in order to confirm their compliance with the requirements stipulated hereby.

6.2. Should any discrepancies be found in the data/documents submitted by the business entities as per Clause 6.1 hereof, the Company shall be entitled to send follow-up requests to them. The respective business entities shall be obliged to respond to these requests exhaustively (provide the relevant documents where necessary).

6.3. In case there are any changes in the data/documents stipulated by Sections 1 and 2 of Appendix 1 and submitted pursuant to Clause 6.1 hereof, the business entities shall be obliged to dispatch the data/documents confirming such changes to the Company within fifteen days of the date thereof.

6.4. For the purpose of confirming the purchasers' compliance with the requirements provided hereby, the Company shall be entitled to request the data/documents stipulated by Clause 6.1. hereof not more often than once a year.

6.5. In the cases mentioned in Clauses 6.1-6.4 hereof the data/documents shall be submitted to the Company by one of the following methods:

6.5.1. by a courier with a statement of receipt;

6.5.2. by a registered letter with advice of receipt;

6.5.3 for the purposes of meeting the deadline mentioned in Clause 6.3 hereof, it shall be permitted to the business entities to submit the data/documents by mail, telegraph, e-mail or other means of communication permitting one to establish conclusively that the data/documents come from such a business entity. Whereupon it shall be obligatory to subsequently submit originals of these data/documents by the methods specified in Clauses 6.5.1 and 6.5.2 hereof as soon as possible.

The date of the receipt of the above data/documents by the Company shall be deemed to be the date of submission thereof to the Company.

6.6. The Company shall keep the data/documents submitted pursuant to this Section confidential as instructed by the respective business entities that have submitted them.

6.7. The Company shall publish information required for business entities planning to purchase diamonds to apply to the Company on its official website at [www.alrosa.ru](http://www.alrosa.ru). Forms of documents to be submitted in compliance herewith, the competitive sales rules, contact telephone, fax numbers, email and webpage address with an electronic request form enabling express feedback are available on the webpage devoted to the Company's sales.

## **7. MAKING DECISIONS CONCERNING THE POSSIBILITY OF COOPERATION WITH A BUSINESS ENTITY**

7.1. The review of the data/documents provided by business entities pursuant to Clause 6.1 hereof (hereinafter, the Internal Audit) shall be performed by the Company in compliance with the procedure stipulated by this Section.

7.2. The Internal Audit shall be performed by the Company's functional services within their respective fields of competence provided by in-house enactments, with the purpose of assessing the business entity's conformity with the requirements stipulated hereby.

7.3. The Internal Audit shall be performed within thirty days of the date of the Company's receipt of the data/documents specified in Clause 6.1 hereof in full.

In the cases stipulated by Clause 6.2 hereof, the Internal Audit period may be extended, but it shall not exceed 90 days as a whole. The Company shall notify the respective business entity about an extension of the Internal Audit period, specifying the reason therefor.

7.4. A motivated decision regarding the respective business entity conformity/non-conformity with the requirements stipulated hereby shall be made:

7.4.1. in respect of the business entities planning to participate in tenders/auctions – by the Competitive Sales Committee.

7.4.2. in respect of the business entities planning to effect single non-competitive transactions for the sale of rough diamonds or to conclude a diamond supply agreement – by the Market Conjunction Analysis Panel.

A written notification of the decision made shall be dispatched to the registered/residential address of the respective business entity by a registered letter with advice of receipt.

7.5. Should the business entity be found non-conforming with the requirements stipulated hereby as a result of the Internal Audit, the Company shall be entitled to deny sale of natural diamonds to it.

7.6. A decision of the Market Conjuncture Analysis Panel or the Competitive Sales Committee, concerning a business entity's non-compliance with the requirements stipulated hereby, made in compliance with this Section, may be examined by a special commission under the Market Conjuncture Analysis Panel upon application of the respective business entity. As a result of the examination of the above application, the special commission under the Market Conjuncture Analysis Panel shall be entitled to make a decision to refer the matter to the Market Conjuncture Analysis Panel or the Competitive Sales Committee for reconsideration.

7.7. The list of the business entities with which diamond supply agreements have been concluded pursuant to a resolution of the Market Conjuncture Analysis Panel shall be published on OJSC ALROSA's website at [www.alrosa.ru](http://www.alrosa.ru).

7.8. The Market Conjuncture Analysis Panel members shall be appointed by an order of the Company's President.

The Chairman of the Market Conjuncture Analysis Panel shall organize activities of the Market Conjuncture Analysis Panel (including, but not limited to determining the date, time, place and agenda of the Market Conjuncture Analysis Panel meetings) and shall chair its meetings.

The Market Conjuncture Analysis Panel shall meet at least once every two months.

A Market Conjuncture Analysis Panel meeting shall be competent (shall have quorum) if attended by at least two-thirds of the total number of its members.

Should it be impossible for a Market Conjuncture Analysis Panel member to attend a meeting, he/she shall be entitled to hand in his/her written opinion on the agenda items through the Market Conjuncture Analysis Panel's secretary before such a meeting. Such a written opinion shall be made known by the Market Conjuncture Analysis Panel's secretary to the Market Conjuncture Analysis Panel members attending the meeting and taken into account when determining the quorum and the results of voting on the agenda items of such a meeting.

The Market Conjuncture Analysis Panel resolutions shall be included in the minutes of the Market Conjuncture Analysis Panel meetings to be kept at the Company's office (located in Moscow) (10-12, 1-st Kazachy Pereulok, Moscow) and at the Company's branch USO of ALROSA (14, Ulitsa 1812 Goda, Building 3, Moscow) for three years from the date when the resolution was adopted.

## **8. Reasons to Suspend or Cease Rough Diamond Sales**

8.1. The Company shall be entitled to cease natural rough diamond sales to a purchaser in the following cases:

8.1.1. the purchaser has violated the legislation regulating production and trade in precious stones, criminal, tax or customs laws, such a violation being confirmed by judicial acts or acts adopted by the authorized state bodies;

8.1.2. in case of the purchaser's failure to fulfill or inadequate fulfillment of its obligations under diamond supply agreements and/or diamond sale contracts, as well as in case of its evasion of signing the competitive sales results report, substantiated by a court award and/or official correspondence;

8.1.3. In case of an instance of corruption involving the purchaser/its employees, when it is confirmed by an act adopted by an authorized state body.<sup>1</sup>

8.2. The Company shall be entitled to suspend natural rough diamond sales to a purchaser in case such a purchaser fails to submit the data/documents to the Company as per Clauses 6.3 and 6.4 hereof until such data/documents are submitted.

8.3. Decisions concerning the suspension or cessation of natural rough diamond sales shall be made by the Market Conjuncture Analysis Panel depending on the results of review of the data/documents obtained by the Company on its own or provided by the purchaser as per Clauses 6.3 and 6.4 hereof. A motivated written notification of such a decision shall be sent to the registered/residential address of the respective purchaser by a registered letter with advice of receipt. However, such a decision may be reconsidered in accordance with the procedure stipulated by Clause 7.6 hereof.

8.4. Should a purchaser buying natural rough diamonds under diamond supply agreements and/or single non-competitive transactions for the sale of rough diamonds cease to meet the requirements specified in Section 3, Appendix 1, the Company shall cease to sell natural rough diamonds to such a purchaser on the basis of the above transactions. However, such a purchaser shall still be entitled to participate in competitive sales.

8.5. Should a purchaser cease to meet the requirements specified in Clauses 1 and 2, Appendix 1, the Company shall cease to sell natural rough diamonds to such a purchaser.

8.6. Decisions referred to in Clauses 8.4–8.6 hereof shall be made by the Market Conjuncture Analysis Panel depending on the results of review of the data/documents obtained by the Company independently or provided by the purchaser as per Clauses 6.3 and 6.4 hereof. A motivated written notification of such a decision shall be sent to the registered/residential address of the respective purchaser by a registered letter with advice of receipt. However, such a decision may be reconsidered in accordance with the procedure provided for by Clause 7.6 hereof.

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<sup>1</sup> Pursuant to Clause 1, Article 1 of Federal Law No. 273-FZ of December 25, 2008 ‘On Corruption Control’, the following are understood to be corruption: abuse of official position, giving a bribe, taking a bribe, abuse of authority, commercial bribery or other illegal use of an individual’s official position contrary to the legitimate interests of the society and the State and for the purposes of deriving a benefit in the form of money, valuables, other property or services of proprietary nature, other proprietary rights for the individual him/herself or for third persons, as well as illegal granting of such a benefit to the above person by other individuals; as well as committing the above acts on behalf or in the interests of a legal entity.