



## **LAZARE KAPLAN INTERNATIONAL INC. Commitment to Higher Standards**

As a concerned member of the international diamond industry and global community at large, Lazare Kaplan International Inc. (LKI) fully supports and complies with policies which prohibit the trade in conflict diamonds, prevent money laundering and combat financing of terrorism, a position reflective of the company's leadership in the industry. LKI fully complies with clean diamond trading and anti-money laundering legislation adopted by the United States Government, such as the USA PATRIOT Act and the Clean Diamond Trade Act, and supports relevant resolutions of concerned regional governments and international organizations including the OECD and the United Nations.

The United Nations Global Compact was launched in 2000 by the Secretary General Kofi Annan to "initiate a global compact of shared values and principles which will give a human face to the global market". LKI joined on May 1, 2001, as the Global Compact's 78<sup>th</sup> member. By November 2008, the initiative has grown to more than 6200 participants, including over 4700 businesses in 120 countries around the world.

### **Corporate Social Responsibility Statement**

Since its founding in 1903, Lazare Kaplan International Inc. (LKI) has become an acknowledged leader among the world's diamond cutting and polishing companies. Every Lazare Diamond<sup>®</sup> is cut to produce the optimal balance of brilliance, scintillation, and fire. Likewise, LKI has consistently set and adhered to the highest ethical and professional standards in the industry. This tradition of excellence gives every LKI stakeholder the confidence that they share in one of the richest and most honorable diamond traditions anywhere.

LKI is the only company specializing in diamond manufacturing publicly listed on a major U.S. stock exchange (AMEX) and by virtue of such listing is subject to the fullest oversight of U.S. law and regulation. No other company in its field worldwide is subject to comparably stringent disclosure and compliance requirements. LKI has, in addition, taken a leading role in developing self-regulatory industry protocols and procedures to promote ethical conduct.

LKI has been a committed partner of the people in those countries on five continents where it does business, pursuing policies and projects that yield tangible local benefits. The consistency of the company's commitment to local communities reflects LKI's operating philosophy of long-term dedication to its partners, within and without the industry.

LKI is proud of its record of leadership in promoting ethical, social, and environmental accountability in today's global diamond market place.

### ***GOOD CORPORATE GOVERNANCE***

**Public Disclosure** - Founded more than 105 years ago, LKI went public in 1972, becoming the first U.S. diamond-cutting firm to become a publicly listed corporation. U.S. public listing entails adherence to high reporting and ethical requirements, as well as maintenance of the institutional infrastructure necessary to meet these requirements.

**Financial Transparency and Auditing** – Being publicly listed, LKI is required by the Securities and Exchange Commission (SEC) to submit quarterly financial statements and to publish fully audited accounts every year. The requirement that auditors be independent, and the rule that audit staff be rotated every five years, yields further confidence in the transparency and probity of LKI's business.

**Code of Ethics** – LKI's Board has adopted and enforced a Code of Ethics for senior company officers, mandating adherence to a rigorous set of substantive and procedural safeguards.

**Policy on Human Rights** – Human Rights is an overarching area of policy linked to a number of specific related policies including: equal opportunity, freedom of association, forced labor, non-discrimination, non-retaliation and working conditions and hours. LKI undertakes to ensure for all employees and stakeholders -- without distinction of any kind, such as race, color, sex, language, religion, political or other opinion, national or social origin, property, birth or other status -- the fundamental human rights expressed in the Universal Declaration of Human Rights, the UN Global Compact, and in relevant International Labor Organization Conventions.

### ***PROMOTION OF DIAMOND INDUSTRY BEST PRACTICE***

As a concerned leader of the global diamond industry, LKI has helped develop and fully supports policies which prohibit the trade in conflict diamonds, prevent money laundering, combat the financing of terrorism, and promote transparency, fair dealing and disclosure throughout the diamond pipeline. It is LKI's strict policy to clearly identify its prospective suppliers and its customers before entering into any business transaction.

**Zero Tolerance For Conflict Diamonds** – LKI's rough diamond traders are trained to recognize conflict diamonds as defined by UN Resolution 55/56 of 2001. The LKI system of controls was instituted even before the existence of this UN Resolution, and received special commendation from the UN for its contribution to stemming the flow of conflict diamonds. All of LKI's rough diamond buyers are required to sign and abide by a written code of ethical diamond trading conduct as a condition of continued employment.

**Kimberley Process Certification Scheme (KPCS)** - LKI actively participated in the inaugural meeting of diamond industry stakeholders in Kimberley, South Africa in May 2000 and participated in all subsequent deliberations that led to the January 2003 adoption of the KPCS and its system of controls over rough diamond trading. With over 70 participating countries, the KPCS has proved to be a significant tool for combating the trade in conflict diamonds, contributing to peace and security, and protecting the legitimate diamond industry. LKI will not import or export rough diamonds without an accompanying Kimberley Process Certificate of origin.

**World Diamond Council (WDC) Industry Self-Regulation** – Established in conjunction with the KPCS, the WDC has established a system of buyer-seller warranties to extend the reach and

effectiveness of the KPCS throughout the entire diamond pipeline. LKI trades only with companies that provide such warranties, guaranteeing the conflict-free origin of the diamonds on their invoices. All sales and consignments of LKI diamonds are themselves accompanied by LKI's own warranty statement. This flow of warranties in and warranties out is audited and reconciled on an annual basis by LKI's financial auditors.

**Leadership in Disclosure** – Just as LKI has been an industry leader in technological breakthroughs relating to diamond enhancement, it has been the first to insist on full disclosure of all such treatments.

**Corporate Compliance Officer** - LKI has appointed a senior executive with full-time oversight responsibility in the areas of corporate social responsibility and KPCS/WDC/AML/CFT compliance. Under this executive's oversight, each of the company's employees engaged in buying, selling and/or accounting for diamonds and precious minerals has been trained, among other things, to recognize, prevent and report any attempt by prospective business partners to use LKI to further or engage in criminal activity, including illicit diamond trading.

**Trade Association Membership** – LKI and its officers are members of a wide variety of diamond and jewelry industry associations including, but not limited to, the American Gem Society, the Jewelers Vigilance Committee, the Jewelers Board of Trade, the Diamond Manufacturers and Importers Association, the Jewelers Credit Interchange Group, the Jewelers Security Alliance, the New York Diamond Dealers Club, and the Council for Responsible Jewelry Practices.

**Best Practice Principles Assurance Program** - LKI fully subscribes to, and is certified compliant by independent third party audit with, the DTC's BPP Assurance Program developed to demonstrate to supply chain partners, consumers and other interested stakeholders that the exploration, extraction, sorting, cutting and polishing of diamonds, and the manufacture and sale of diamond jewelry is undertaken in a professionally, ethically, socially and environmentally friendly and accountable way.

### **Good Corporate Citizenship**

LKI is committed to embracing, supporting and implementing, within the scope of its influence, a set of core values in the areas of human rights, development, labor standards and environmental sustainability.

**Social Accountability International** - LKI's diamond cutting and polishing facility in Puerto Rico, believed to be the largest diamond cutting and polishing factory in North America, was the first such factory in the world to be certified by Social Accountability International (SAI), for compliance with the highest standard of workplace norms as measured by SAI's internationally recognized social accountability measuring system (SA 8000). (See below.) The SA 8000 standard and verification system provides a credible, comprehensive and efficient measure of humane workplace practices and public responsibility. <http://www.sa-intl.org/>

**The UN Global Compact** - In 1999, UN Secretary-General Kofi Annan challenged business leaders to join an international initiative – the Global Compact – that would bring companies together with UN agencies, labor and civil society to support universal environmental and social principles. In 2001, LKI became the 78<sup>th</sup> member of the Global Compact, which has today grown to 6,200 members, including over 4,700 private sector participants in 120 countries. [http://www.unglobalcompact.org/ParticipantsAndStakeholders/search\\_participant.html?submit\\_x=page](http://www.unglobalcompact.org/ParticipantsAndStakeholders/search_participant.html?submit_x=page)

**The Clinton Global Initiative** - The Clinton Global Initiative (CGI) convenes global leaders to devise and implement innovative solutions to some of the world's most pressing challenges. Since 2005, CGI members have made nearly 1,000 Commitments to Action to improve more than 200 million lives in over 150 countries around the world. LKI's specific commitment to CGI includes the provision of \$1.5 million over three years in an effort to ensure that basic education and health clinics are available to Angolans in the post war period. (See below.)  
<http://www.clintonglobalinitiative.org/NETCOMMUNITY/Page.aspx?pid=2612&srcid=2384>

**The Madison Dialogue** - The Madison Dialogue is a cross-sector initiative established to promote communication and collaboration among companies, civil society groups and others seeking to encourage best practices, sustainable economic development, and verified sources of responsible gold, diamonds and other minerals. LKI is represented on the Madison Dialogue Diamonds Working Group. <http://www.madisondialogue.org/participants.html>

**The Global Sullivan Principles** of Social Responsibility - LKI endorses and subscribes to the Global Sullivan Principles, a code of conduct designed to promote social justice, human rights and economic opportunity. Reverend Dr. Leon H. Sullivan announced the inauguration of the Global Sullivan Principles during a special ceremony at the United Nations on November 2, 1999, with UN Secretary General Kofi Annan. <http://www.globalsullivanprinciples.org/principles.htm>

**Leadership on Africa** – LKI pioneered diamond beneficiation in sub-Saharan Africa, and apart from investing heavily in the continent, the company and its principal shareholders have over the past half-century played a leading role in launching and sustaining numerous organizations and initiatives that have built bridges between Africa and the US, to Africa's developmental benefit. Prominent examples include

- **The Corporate Council on Africa**, on which LKI's Chairman serves as Chairman *Emeritus* and member of the Executive Committee of this leading organization dedicated to enhancing United States investment in Africa; [http://www.africacncl.org/\(ujez1qg3umawsd45kzbvcl55\)/Default.aspx](http://www.africacncl.org/(ujez1qg3umawsd45kzbvcl55)/Default.aspx)
- **The Business Council for International Understanding (BCIU)**, which LKI's longstanding support (LKI's Chairman has served on BCIU's board since the 1960s) has helped become a principal forum for public-private partnership initiatives, particularly focused on Africa; <http://www.bciu.org/wip01/public/index.asp>
- **The Africa-America Institute (AAI)**, which over the years has promoted and financed higher education programs for more than 20,000 African students and of which LKI has been a leading sponsor, as symbolized by the five decades of service on AAI's Board by LKI's Chairman; <http://www.aaionline.org/>
- **The National Democratic Institute (NDI)**, which works to strengthen and expand democracy around the globe and has acquired a special legitimacy in Africa due to its effective investments in peace and stability on the continent, with LKI's Chairman having served as Chair of NDI's Africa Subcommittee for over 20 years; <http://www.ndi.org/>
- **The Harvard AIDS Initiative (HAI)**, of which LKI's Chairman, Maurice Tempelman was a founder, and which has been introduced to Botswana and other African countries by LKI, resulting, in the case of Botswana, in the establishment of a state-of-the-art medical research facility (the Botswana-Harvard AIDS Institute HIV Reference Laboratory) of a caliber and scale unmatched on the continent. In recognition of his vision, leadership, and courage in the world-wide struggle against AIDS, Mr. Tempelman will receive the HAI's Leadership Award for 2009 in January. <http://www.aids.harvard.edu/>

**Angola - The Municipal Development Programme** – The Municipal Development Programme (MDP) is a three year pilot decentralization project working in 5 of the 163 municipalities of Angola. MDP aims to assist local governments and communities to develop best practices for participatory municipal development. The MDP has a three-pronged approach which aims to: 1) stimulate dialogue and exchanges between communities and their local government; 2) build the capacity of communities and the Municipal Administration to work together to find solutions to sustainable development; and 3) establish participatory, transparent, accountable structures and mechanisms for local decision-making. LKI has partnered with USAID to extend the MDP project to the Chitato Municipality of Lunda Norte Province. <http://www.mdp-angola.org/>

In June 2005, LKI and the United States Agency for International Development (USAID), in cooperation with the Government of Angola, signed an agreement to promote increased economic opportunity at the community level in Lunda Norte Province. In February 2006, LKI, USAID and the Fundo de Apoio Social (FAS), in close cooperation with the Ministry of Territorial Administration (MAT), signed a Memorandum of Understanding to undertake a joint program of assistance to strengthen capacity and improve social service delivery in Lunda Norte. LKI pledged to make U.S. \$1,500,000 available to these efforts in Lunda Norte over three years. FAS and USAID agreed to at least match LKI's contribution. In July 2006, USAID signed an agreement with a consortium led by CARE-Angola, and including Development Workshop, to implement the project on the ground through the Municipal Development Program (MDP).

Good progress is being made in the program's implementation at the Chitato municipal level. The MDP has created Community Based Organizations and trained members of municipal and community forums in project design and implementation and in navigating proposals through the municipal system to the Municipal Administrator's Integrated Development Plan for Chitato. Projects already accepted and underway, or in the pipeline, include micro enterprise development, vocational training, construction of schools, teacher housing, community centers, village water supply and sanitation units, adult literacy and support for local midwives.

What distinguishes the MDP Program is its production of these deliverables through a participatory process, and – most importantly – the enhanced demand and value for participatory governance that the project cultivates within local populations and municipal administrations.

### ***Statement of Continued Support***

From Lazare Kaplan's 2008 Annual Report

#### **To Our Shareholders:**

The company's fiscal year ending May 31, 2008 saw dramatic change in the overall economic environment – particularly in the United States where a substantial percentage of GDP is driven by consumer spending. The housing and mortgage crisis, serious structural issues and liquidity problems in the financial industry, stock market declines and tightening availability of credit coming on top of unprecedented increases in fuel and food prices, diminished the availability of consumer discretionary resources and the consumers' willingness to spend on non-essential purchases. While we have confidence in the resilience and strength of the American economy and its capacity to self correct, it will take some time to work through the serious problems it now confronts. Economic conditions in other parts of the world – China, India, and the Middle East among others – remain buoyant. However we do not feel that they will be unaffected as the United States economy works through its challenges. While consumer

spending in these new, well to do markets is growing and is benefiting the diamond and jewelry industry, it is insufficient to make up for the decline in U.S. demand. While the company's global diversification strategy is serving it well and acts as a buffer, market uncertainties make it necessary to continue to manage the Company's operations with prudence, paying particular attention to liquidity, expenses and the balance sheet.

The Company's revenue in fiscal year 2008 was \$369.7 million as compared to \$434.4 million for fiscal year 2007. Net profit after taxes was \$7.2 million as compared to a loss of \$3.0 million for fiscal 2007.

Although the diamond industry continues to evolve irreversibly from a supply driven model to a demand driven one, the demand and pricing of rough diamonds continues to outpace demand and pricing for polished diamonds. And while there are justified exceptions for specific qualities and sizes where availability is limited, we do not believe that the present overall pattern is sustainable over the long run. The immediate consequences of this inexplicable pricing anomaly are pressure on manufacturing margins and overleveraged financing of a growing polished diamond inventory in the pipe line. An adjustment in the price curve of rough diamonds to more closely follow the price curve of polished diamonds is unavoidable, particularly in these times when demand is reduced and credit is tight.

As forecast, the rough diamond industry is moving from its historical center in London to the producing countries in Southern Africa – particularly Botswana. The DTC – the largest supplier of rough diamonds - is moving its sorting and aggregating functions to Botswana. At the same time, it is accommodating a limited number of sightholders in Botswana, Namibia and South Africa to comply with the political decisions of these governments to encourage a local beneficiation industry. The company has been granted cutting licenses by the Governments of all three countries and these operations are, or will be, supplied by the DTC, within the framework of DTC's commitment to the Governments of Botswana, Namibia and South Africa to make a sufficient and increasing quantity of suitable rough diamonds available to the local cutting industry. The company's relationship with the DTC continues to be satisfactory and the company is one of the sightholders that have a three year supply agreement.

Construction of the Company's well located building that will house the new manufacturing operation in Botswana is nearing completion. State of the art equipment has been ordered and is scheduled for timely delivery; a first group of workers is in training; LKI Puerto Rico is providing some of the technical management; and LKI New York is assisting in the establishment of systems. The company expects the Botswana facility to be operational before year end. Though the company has a commitment for rough diamond supply to begin as soon as it is operational, that supply is inadequate and will have to be renegotiated with Botswana DTC with the assistance of the Botswana Government. The Government of Botswana is looking to establish a viable, sustainable local beneficiation industry, and this can only be achieved by making substantial investments, deploying technical and marketing skills as well as a reliable assurance of an adequate and suitable supply of rough diamonds.

In Namibia, NamGem has stepped up its manufacturing capacity and efficiency and has achieved a skill level that enables it to cut and polish the majority of rough diamonds supplied to it. The restructuring of NamGem ownership is nearly complete, as are the negotiations with the U.S. Government's Overseas Private Investment Corporation (OPIC). This pioneering ten years \$25.2 million line of project financing is based on the economic viability of the project, an adequate supply of the appropriate quantity and quality of rough diamonds and encompasses as well as a development component to encourage local employment and skills.

In South Africa, LKI's joint venture with a broad based women's empowerment consortium, Nozala Diamonds, continues to develop. While it is in the forefront of the cutting industry in implementing the spirit and substance of the Government of South Africa's stated policy and legislation mandating local

empowerment and value addition through beneficiation, its further growth is dependent principally on the availability of the right quantity and quality of rough diamonds.

Angola's economy, now benefiting from peace and high oil prices, is growing at an exceptionally rapid rate. Building on its established track record, LKI expanded its activities in purchasing and marketing rough diamonds from the informal and formal sectors in conjunction with Sodiam – the parastatal legally charged with marketing rough diamonds produced in Angola. Additional field work in exploration for new Kimberlite deposits is continuing in geologically interesting areas, as well as a diversification in construction. LKI continues its participation in a corporate responsibility program in Lunda Norte. This post war, three year, reconstruction project is a groundbreaking public/private partnership with U.S. AID and other participants. Considerable and noticeable progress is being made in implementation on the ground.

Russia continues to be a major rough diamond producer and increasingly is focused on developing independent channels of rough diamond distribution as its sales agreement with DTC approaches its end.

LKI's position in Russia remains anchored by its agreement and successful cooperation with the country's major diamond mining company AK Alrosa for local processing and international distribution of polished diamonds. The existing ten year agreement is expiring in the coming year and discussions are under way to modify and expand the relationship to include rough as well as polished diamonds.

While the company anticipates a further market slowdown in U.S. sales of diamonds and jewelry, it continues its efforts to expand market share by working closely with the quality jewelry stores that stock and market the company's ideal cut "Lazare Diamond" brand. At the same time the Company is expanding its outreach in the international markets where consumer demand remains more active. In this light, the company has come to a 30 year agreement with a major diamond and jewelry marketer in Japan to be the exclusive supplier of branded Lazare Diamonds for the expanding chain of Lazare stores.

The company has also broadened its product offering to include fine quality commercial cut diamonds and has expanded its bulk sale capacity in wholesale markets. The Company has signed an exclusive agreement for jewelry design with Bondanza, a well established jewelry designer, and it expects to step up sales of jewelry with particular emphasis on high diamond content and simplicity of design.

LKI has been and remains attentive to the size and composition of its diamond and jewelry inventory and management will continue to give particular attention to this area of operations.

The company's Bellataire® line of HPHT processed diamonds continues to be a niche product with an increased demand for larger diamonds. The Company continues to review growth possibilities that are limited by supply constraints of suitable rough diamonds.

The Company has and will continue to defend its intellectual property and technical innovations. While it is disappointed that it did not prevail in the trial on the validity of its laser patents, it is its intention to further pursue all available legal avenues.

The Company's polishing factory in Puerto Rico, while it continues to specialize in precision diamond cutting, is also increasingly fulfilling its functions as a service center and a provider of technical support for operations in Botswana, Namibia and South Africa.

The Company remains committed to upholding the standards and values of transparency, accountability and good corporate citizenship. The company's operations are aligned not only with such binding measures as the U.S.A. Patriot Act and Kimberly Process, but also with voluntary systems of warranty disclosure and proactive engagement developed by such bodies as the World Diamond Council and the United Nations Global Compact.

While the Company does not expect overall economic conditions to improve rapidly, it is well satisfied with its strategic positioning. The investments made will enable it to benefit from the opportunities and manage the risks brought about by the structural changes taking place in the diamond industry.

To effectively pursue its objectives and implement its policies, the Company relies on the performance, professionalism and dedication of its employees all over the world. In this important area the Company is well served by its people and we thank all our employees for their efforts and achievements during the past year.



---

Maurice Tempelsman  
Chairman of the Board



---

Leon Tempelsman  
Vice Chairman of the Board





# Certificate of Registration

Certificate No.: LA-3/2008-13519

**LAZARE KAPLAN PUERTO RICO**  
(A DIVISION OF LAZARE KAPLAN INTERNATIONAL INC)

The Social Accountability System of the above Company has been assessed and is verified to be in compliance with:

**SA8000: 2001**

The Social Accountability System of the above Company is applicable to:  
**Diamond cutting and polishing**

Initial Certificate Date: 23 April 2008

Certificate Renewal Date: 24 April 2011



Authorized Signature

Title

SA80000 GLOBAL DIRECTOR

Date

23 April 2008

Intertek Central Office



Accredited by Social  
Accountability Accreditation  
Services

The approval is valid for three years from the initial certificate date to the certificate renewal date and subject to the organization maintaining their system in accordance with Intertek Testing Services' rules and regulations for certification.