The Long and Short for Diamond Prices

Israeli Rough Diamond Conference

Tel Aviv February 2008

Key Inputs for Forecasts

- Segmented supply models
- Econometric models for 64 countries
- Models based on IMF World Economic Outlook

  (This presentation is based upon the January 29th 2008 Update to the October 2007 Outlook)
- Estimates are based on % of GDP spent on diamond jewellery
- PolishedPrices.com
  - The only published polished diamond index based on actual transactions
  - Current weekly average of transactions through Polished prices is +/-7,000 or about +/-$45m.

Diamond Pipeline 2007 ($bn)

Mine Production

$14.4
2006 $13.1
2005 13.4

Supply To Manu- facturers

$16.6
2006 $14.7
2005 $14.7

Equiva- lent Polished Available For Market

$18.3
2006 $19.6
2005 $20.0

Decreased Stocks $0.8

Stronger Prices 1.3%

Increasing Stocks
2006 $1.5
2005 $1.6
Rising Prices
2006 3%
2005 8%

Value of Diamonds Consumed in Jewellery

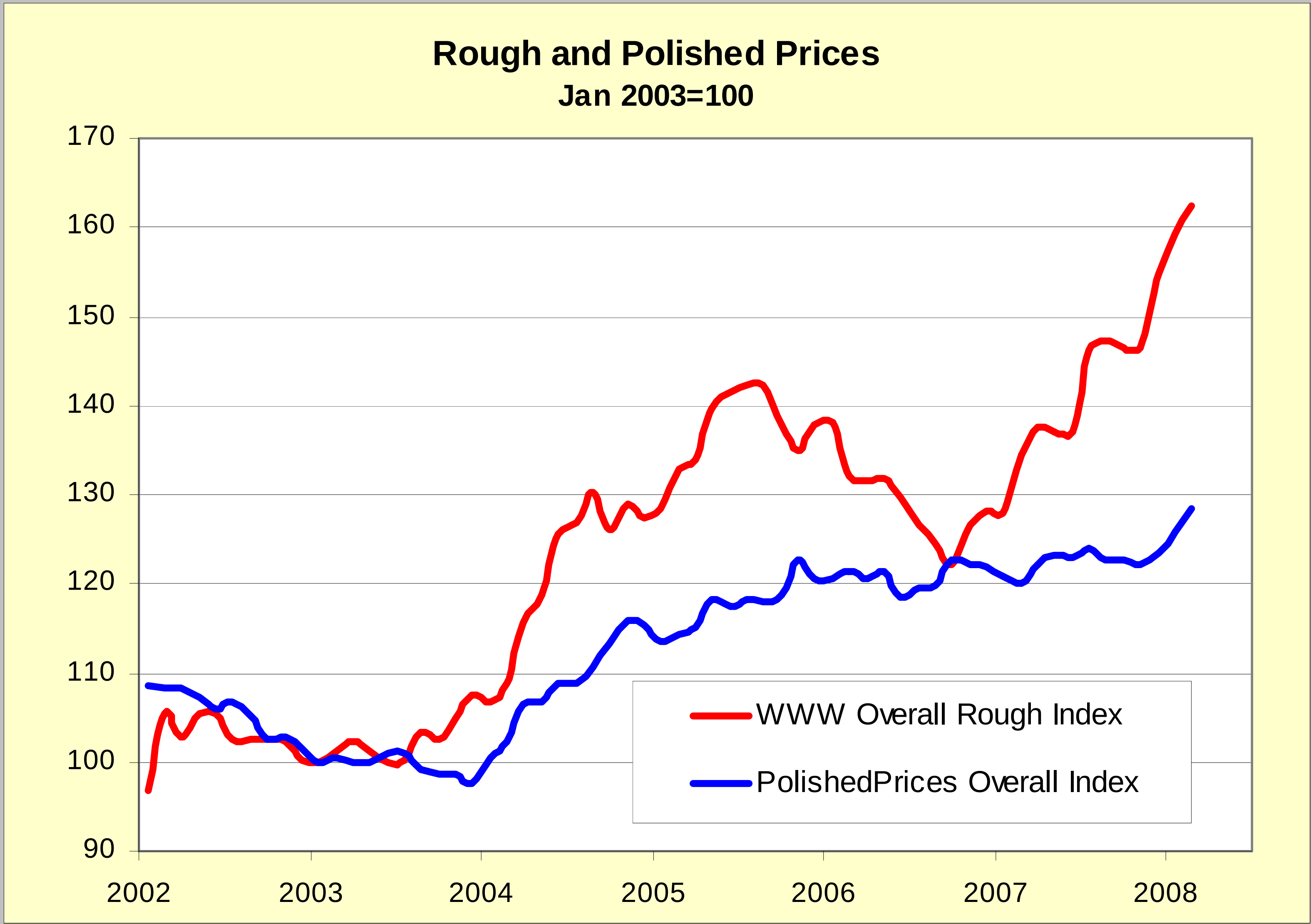
$19.2
2006 $17.7
2005 $17.0

Diamond Jewellery Retail Sales

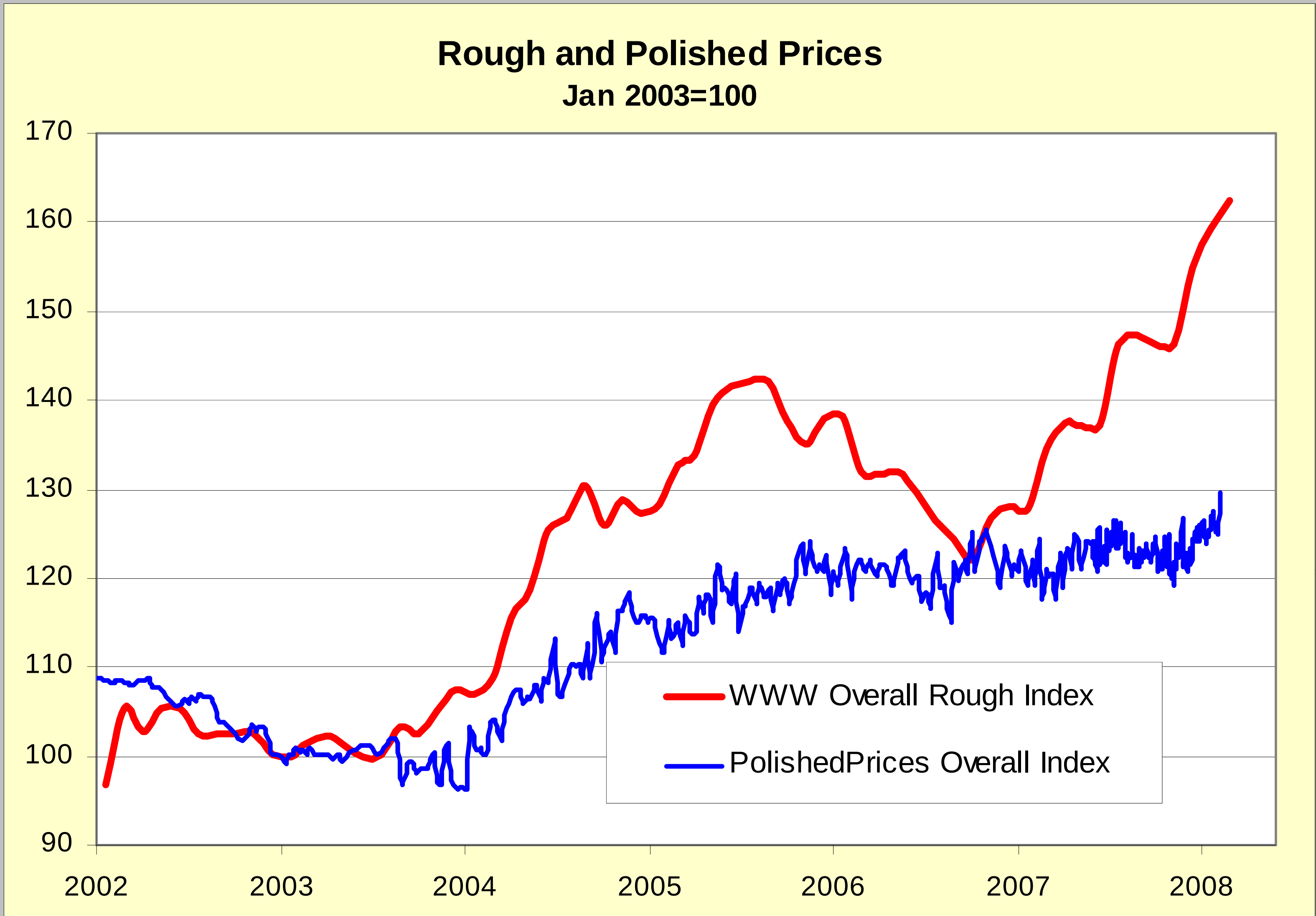
$79.3
2006 $74.0
2005 $69.3

2007 compared to 2006 and start of 2008

- Positives
  - 2007 cf to 2006 a good year for the industry
  - Rough prices up sharply (+/- 20 % increase or 10% average increase)
  - Reduction in stocks
  - Consumer demand held up
- Negative
  - 2/3rds Reduction in Manufacturing margin to around 10%
  - Success of 2007 for industry based on trading rough not cutting
  - America?
  - Minimal increase in polished prices (2007 +1.3%,2006 +3%, 2005 +8%)
- 2008
  - Surge in Rough Prices (January +/-10%)
  - Spectacular Rough / Polished Tender Prices
  - New highs for Polished index (however briefly)



Rough and Polished Prices
Jan 2003=100
170
160
150
140
130
120
110
100
90
2002
2003
2004
2005
2006
2007
2008
WWW Overall Rough Index
PolishedPrices Overall Index



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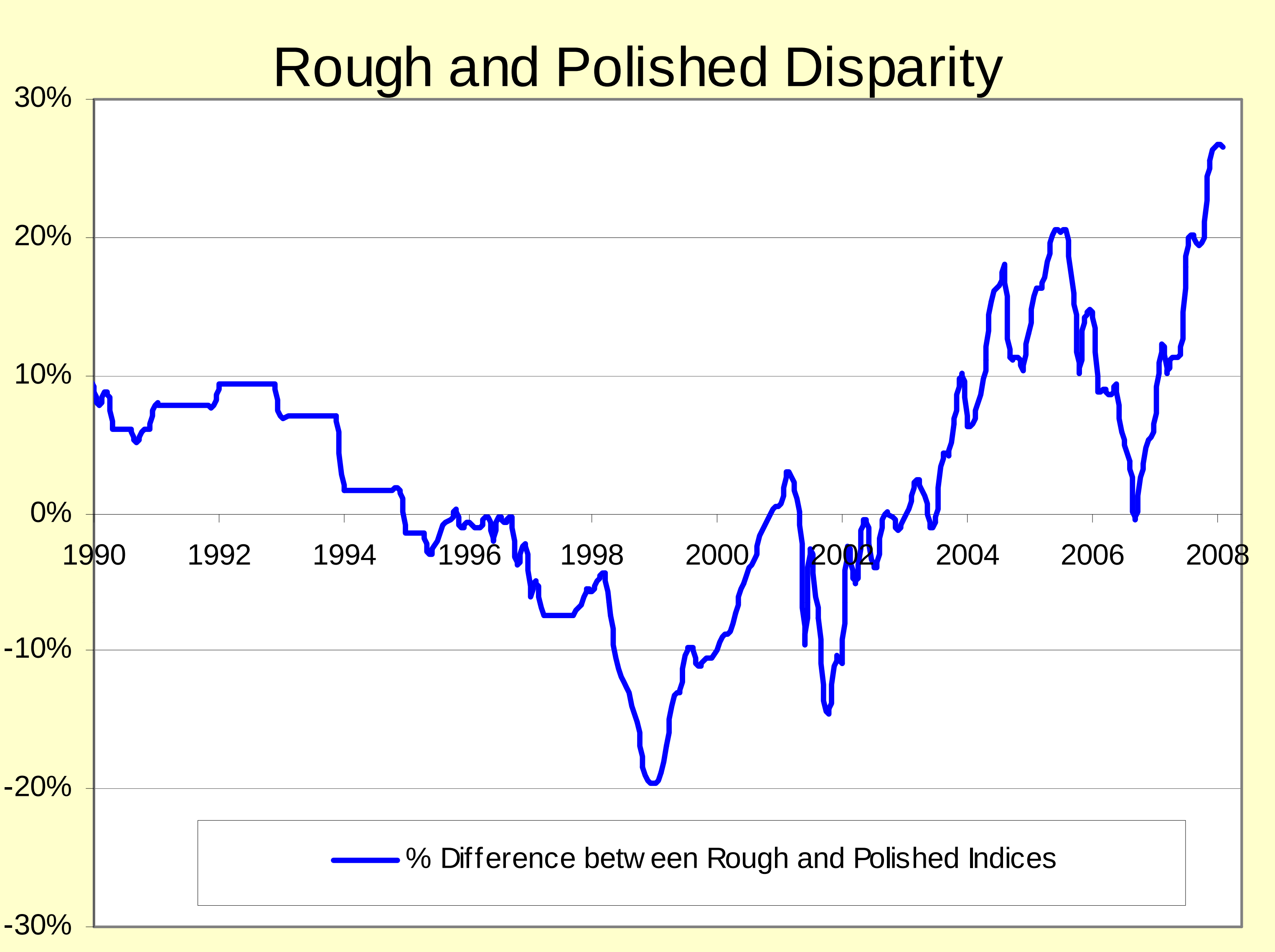
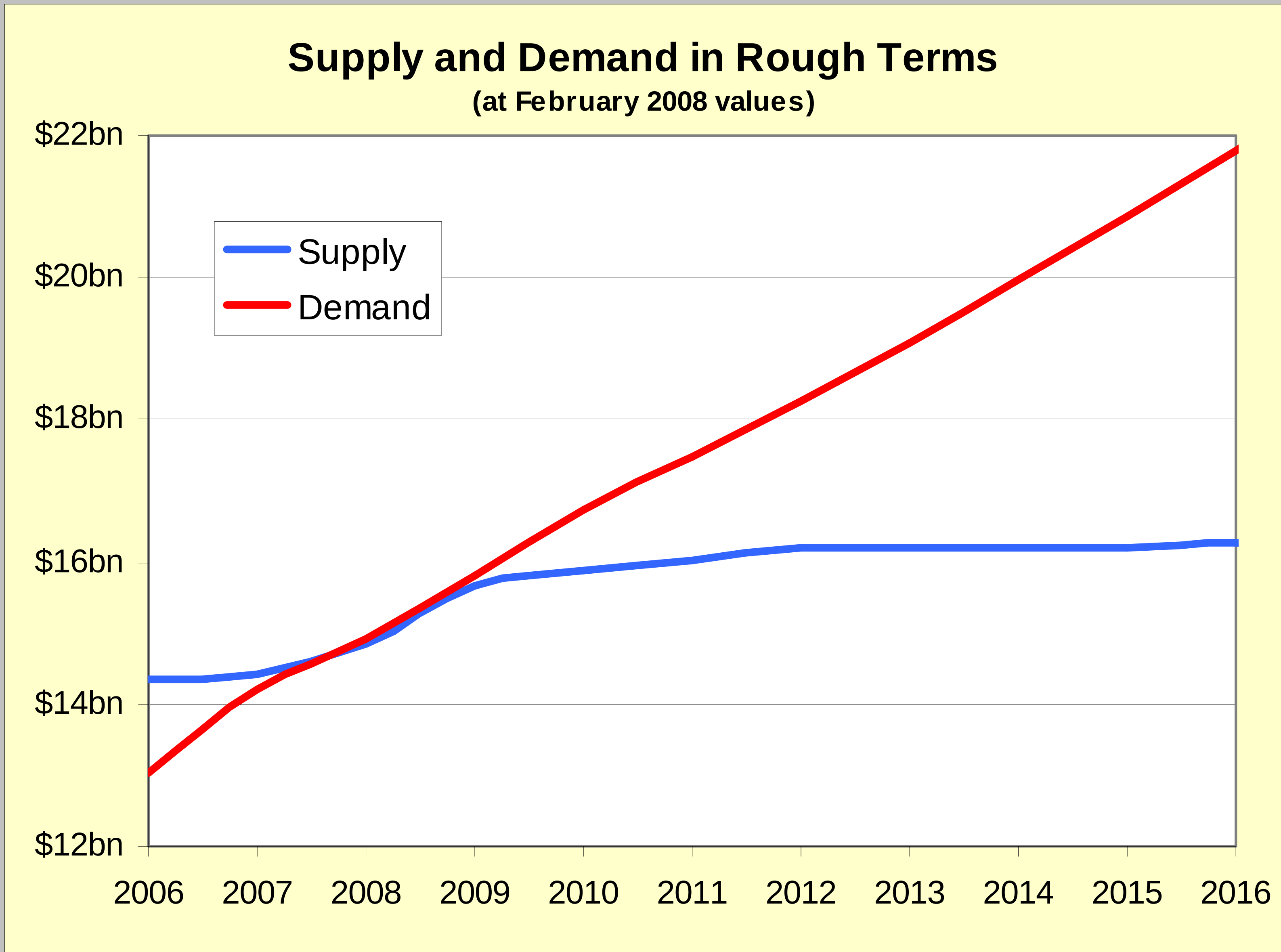

Rough and Polished Disparity
30%
20%
10%
0%
-10%
-20%
-30%
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
% Difference betw een Rough and Polished Indices

From History to Forecasts

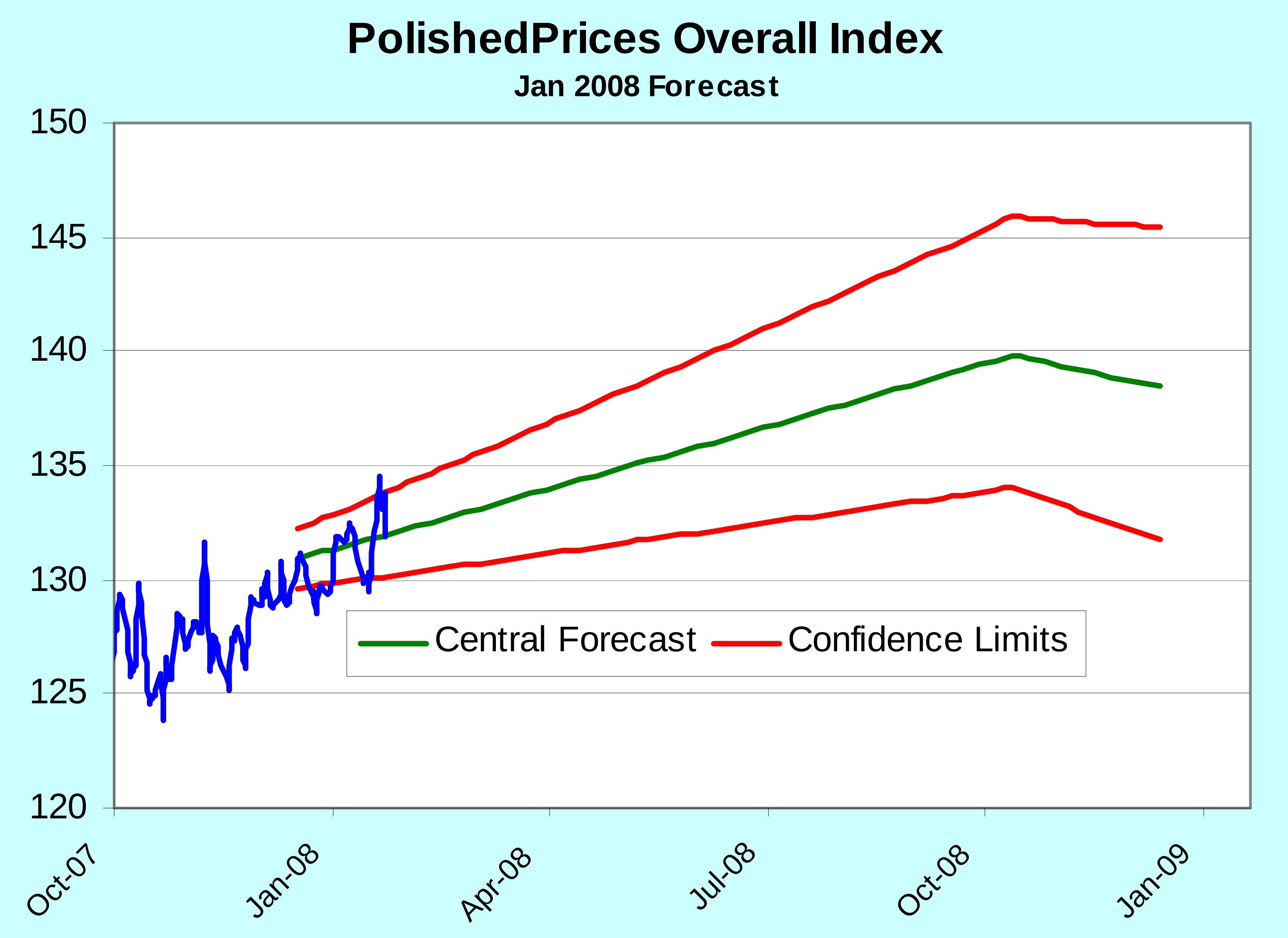
“ I was convinced that I was totally incompetent at predicting market prices- but that others were generally incompetent also but did not know it, or did not know that they were taking massive risks.”

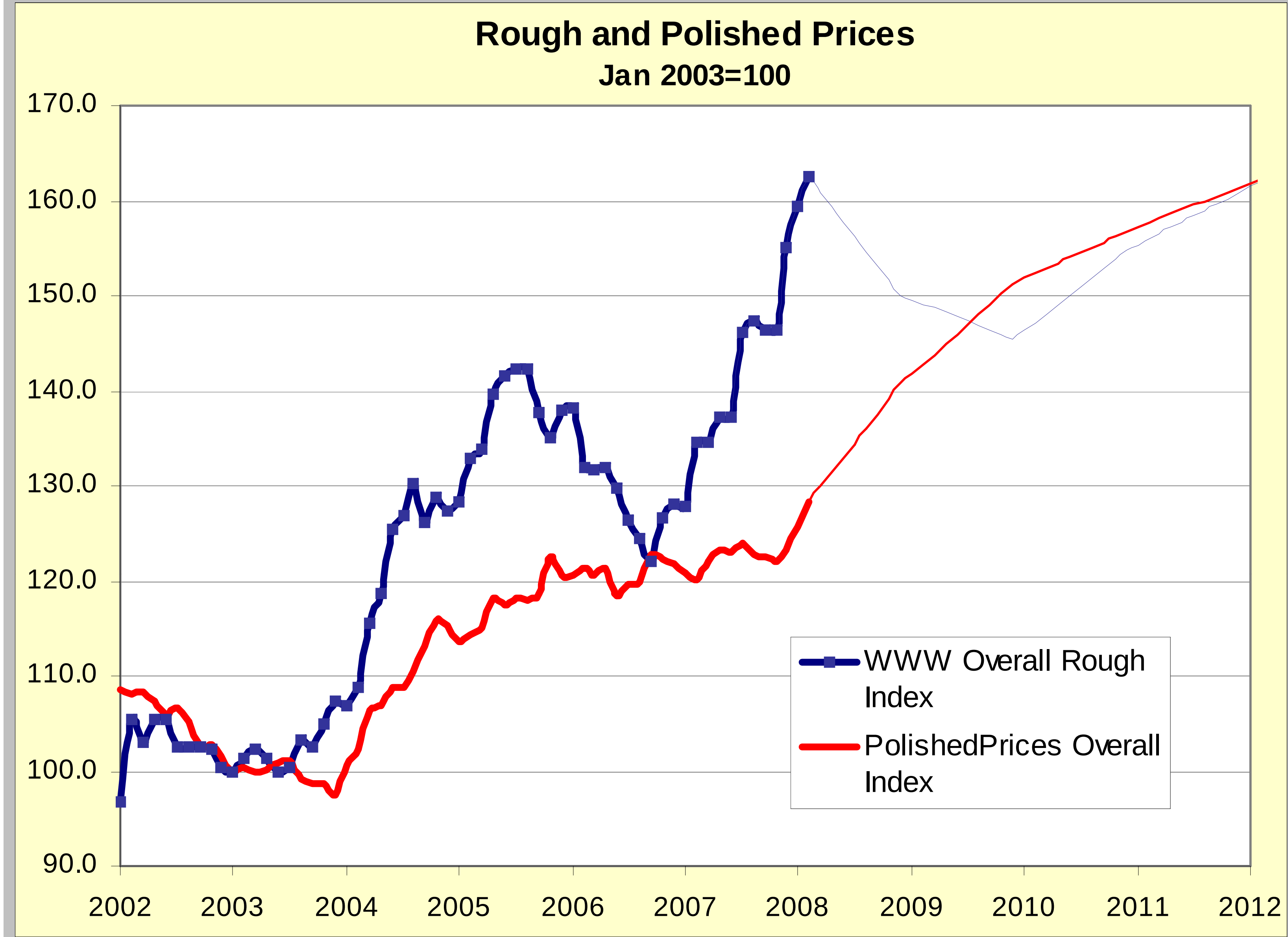
Nassim Taleb ‘The Black Swan’.


Supply and Demand in Rough Terms
(at February 2008 values)
$22bn
$20bn
$18bn
$16bn
$14bn
$12bn
Supply
Demand
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016

Some Immediate Uncertainties/Issues

- America 45% of the market
  - Recession?
  - Bankruptcies
  - Impossible for the diamond industry to ignore.
  - China and India not the answer
  - $ (profitability, mining costs etc)
- Africa
  - Power shortages – impact on rough supplies? (no adjustments have been made in our models for this eventuality yet, we are waiting to see just how significant the impact actually turns out to be)
  - Impact of Beneficiation
- Corporate
  - BHP / Rio
  - Anglo / De Beers
  - ABN Amro
- Industry
  - Restructuring
  - Legal issues
  - Producer Supply policies


PolishedPrices Overall Index
Jan 2008 Forecast
150
145
140
135
130
125
120
Oct-07
Jan-08
Apr-08
Jul-08
Oct-08
Jan-09
Central Forecast
Confidence Limits



Rough and Polished Prices
Jan 2003=100
170.0
160.0
150.0
140.0
130.0
120.0
110.0
100.0
90.0
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
WWW Overall Rough Index
PolishedPrices Overall Index

2008 Forecast

- In this forecast Polished prices ‘will’ rise this year by 14%, and on average 2008 prices ‘will’ be 9% above 2007
- Rough, on the other hand ‘will’ on average in 2008 be 10% higher than 2007, however by the end of 2008 prices are 8% below current values
- This is an overall forecast, different segments rough and polished will perform very differently
- 2008 has started very well, almost too well…..