

Executive Summary

Polished Prices Strengthen

- Average prices for certified polished diamonds rose 3.4 percent in February 2011.
- Prices have increased by 4.7 percent so far this year (January – February).
- Trade was driven by dealer demand in the manufacturing centers and high expectations that the Hong Kong International Jewellery Show will signal continued growth in the Far East.

Rough on the Rampage

- De Beers raised prices by an estimated average 7 percent at the Diamond Trading Company's (DTC) February sight.
- Premiums on DTC boxes remain in the high single digits, despite the price hike.
- Prices at rough tenders increased by about 7 percent to 10 percent.
- Despite strong demand, rough supplies remain in line with 2010 levels.

Retail Uptrend Continues

- Positive jewelry sales growth during Chinese New Year.
- U.S. retail continued year on year improvement during the Valentine's Day buying season.
- Wholesalers are maintaining a cautious control over their inventory levels.
- Jewelry prices continue to rise.

Conclusion

There is very positive sentiment in the market following the recent increases in polished prices. The rise in rough prices, however, means that cutting profit margins are still tight. Further pressure on these margins is anticipated, given that demand for rough remains strong, keeping prices on the uptrend.

An influx of rough to the market could help ease price pressures, but there is little indication that a significant enough volume of rough will enter, through legal channels, to facilitate this relief. The two largest mining companies – De Beers and ALROSA - are expected to maintain their 2010 supply levels throughout 2011.

There remains deep concern regarding the potential impact that geopolitical and macro-economic factors may have on the market. Political unrest in Libya, and to a lesser extent for now, in Iran, has pushed oil prices above \$100 per barrel for the first time since September 2008. These events have raised concern that a prolonged oil crisis could derail the recovery.

The diamond market has been eagerly awaiting the Hong Kong show, which begins on March 4, for a better indication of Far East demand. Feedback from Hong Kong, as well as the Baselworld show at the end of March, may also illustrate the level of investment demand in the diamond market.

Polished Market

Average prices of certified polished diamonds rose 3.4 percent in February 2011. A number of factors influenced the increase:

- Strong dealer trading in the manufacturing centers;
- Pressure emanating from the rising rough prices;
- Positive jewelry retail growth in the Far East during the Chinese New Year season;
- High expectations for the March Hong Kong show; and
- Continued year-on-year uptrend in U.S. sales during Valentine's Day;

The average price of 0.5-carat stones rose 2.5 percent during the month, while average 1-carat diamonds increased 4.2 percent and average prices of 3-carat stones grew 4.5 percent (see Figure 1 and column titled "Feb.-11" in Figure 2).

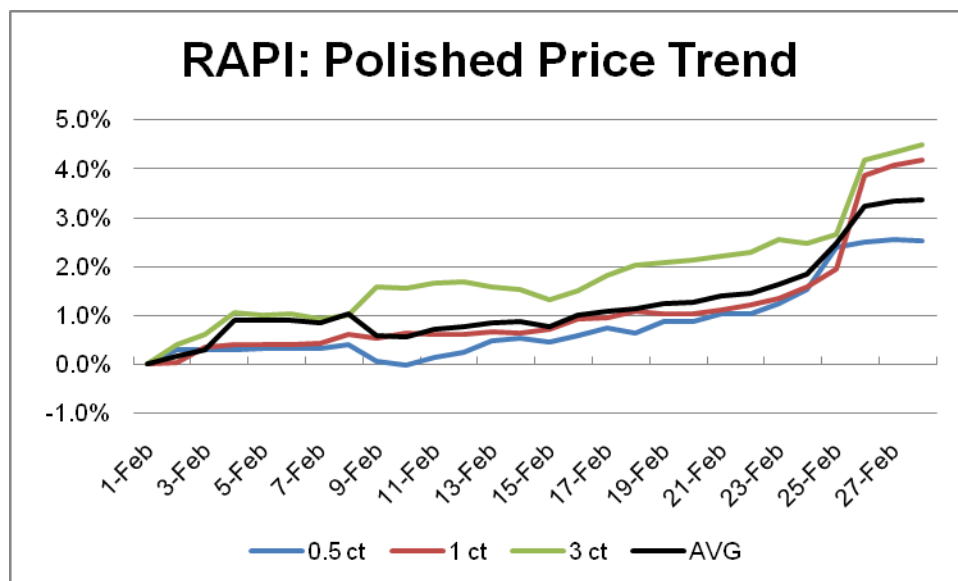


Figure 1

*RapNet Asking Price Index (RAPI) is the average asking price for D-H, IF-VS2, VG diamonds on RapNet.

*Rapaport Spec 2, Round, D-H, IF, X, X-VG, GIA-HRD-AGS.

The increases extended the uptrend in the polished market, which has been evident since November and December 2010. During the first two months of 2011, average prices rose by 4.7 percent (see column titled "Jan./Feb.-11" in Figure 2). Prices at the end of February were 11.3 percent higher than a year earlier (see column titled "Y2Y Changes" in Figure 2).

RAPI: Certified Polished Diamond Price Changes			
Categories	Feb-11	Jan/Feb-11	Y2Y Changes
Average	3.4%	4.7%	11.3%
0.5 ct	2.5%	4.2%	6.2%
1 ct	4.2%	6.8%	13.5%
3ct	4.5%	4.6%	24.1%

Figure 2

*RapNet Asking Price Index (RAPI) is the average asking price for D-H, IF-VS2, VG diamonds on RapNet.
*Rapaport Spec 2, Round, D-H, IF, X, X-VG, GIA-HRD-AGS.

Growth in the Far East and India continued to drive trade in February. While a clear rise in consumer demand was apparent in these markets, as well as year-on-year improvements in the U.S. retail market, it appears that dealer demand for polished had a greater impact on prices.

This trend was evident in the high level of polished imports sent to India and Belgium during January (see Figure 3), the month offering the most up-to-date data, with the trend reportedly continuing through February.

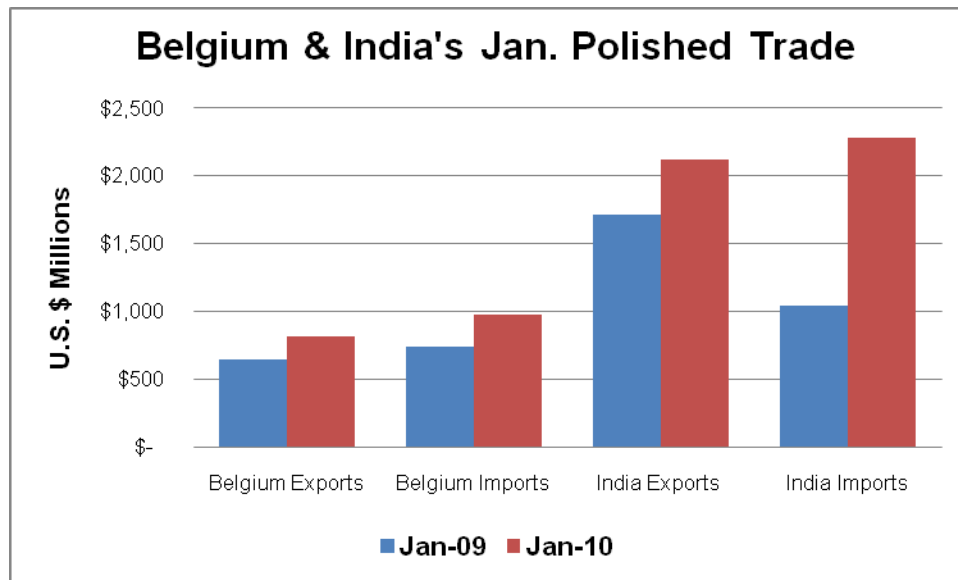


Figure 3

*Data collected from the Antwerp World Diamond Centre (AWDC) and the Gem & Jewellery Export Promotion Council (GJEPC).

Demand has been strong in most categories, particularly for small stones up to 0.50-carat, in SI and lower qualities, 1-carat, H-J, VS-SI goods, and for larger stones above 3 carats.

Dealers and manufacturers have been largely focused on preparing for the Hong Kong show, which begins on March 4. Many are hoping that the show will provide a barometer for the sustainability of demand and price trends in the Far East.

Rough Market

Demand for rough remained strong throughout February, despite the price hikes implemented by mining companies.

DTC raised prices by an estimated average of 7 percent, with some boxes, notably those consisting of smaller goods, increasing by up to 20 percent. Premiums on DTC boxes remained in the high single digits, even after the price hike.

Prices at various tenders also increased, with BHP Billiton's spot prices rising by an estimated 10 percent. Petra Diamonds reported that average prices at its February tender rose 6 percent to 8 percent and both Namakwa Diamonds and Trans Hex reported significant price increases were achieved at their respective tenders.

The DTC's February sight had an estimated value of around \$600 million (see Figure 4), an increase of 8 percent from a year earlier, indicating that De Beers supply for the year to date is about the same as last year, after adjusting for inflation.

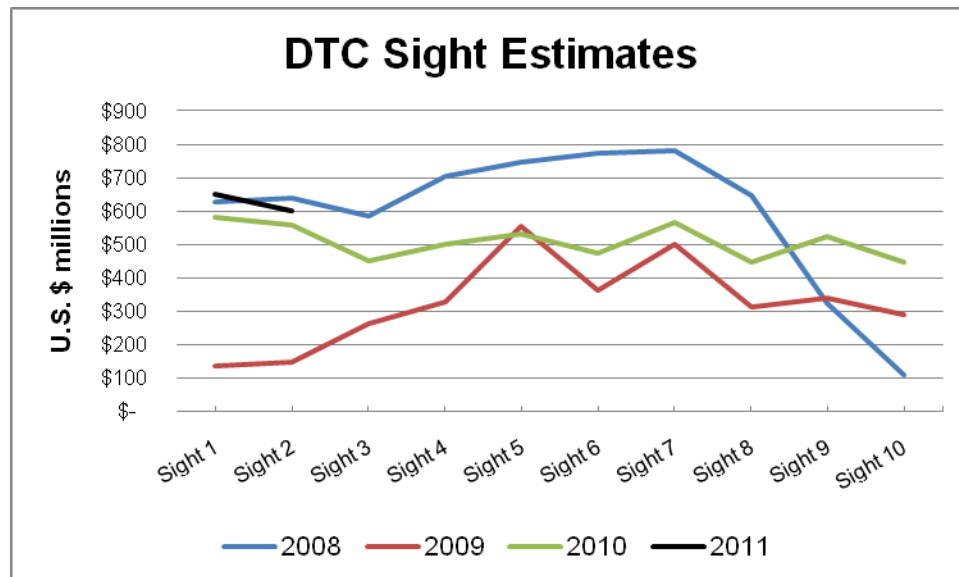


Figure 4

*Data is based on Rapaport estimates with those for 2008 – 2010 adjusted to reflected De Beers sales as reported in its financial statements.

Manufacturers and dealers continue to aggressively seek out rough. Demand is being spurred by improving demand for polished diamonds, and to an extent by the supply management policies of the larger mining companies.

Given the high premiums seen in the secondary market, asking prices from the mining companies are expected to continue to rise and another hike in DTC prices might come sooner than previously anticipated.

Negotiations to break the embargo on Zimbabwe's exports of diamonds from the Marange fields remain in limbo. There have been reports that sales have taken place and that money has been received — although it remains uncertain by whom. However, it is not clear how many of the sold diamonds have been exported or smuggled out of the country, nor are the production levels at the various mines there clear. It appears that monitoring the production and sales data from Marange has become extremely difficult since the Kimberley Process' (KP) monitor position, previously held by Abbey Chikane, was discontinued at the end of 2010.

Retail Market

Retail sales in the U.S. continue to improve compared with 2010. There were positive reports regarding jewelry sales for Valentine's Day, but the beginning of the year remains a relatively quiet consumer period for the industry. While U.S. polished buying from the manufacturing centers continues to improve, there is no real indication that large inventory purchases by U.S. wholesalers are taking place at the moment.

The International Council of Shopping Centers (ICSC) forecasted that retail sales in February increased by between 2.5 percent and 3 percent year on year, following an increase of 4.7 percent in January.

MasterCard Advisors SpendingPulse reported that the pace of year-over-year retail sales growth slowed in February, compared with November through January. Valentine's Day helped boost online jewelry sales 7.2 percent during February, while the SpendingPulse Luxury Index, which measures sales at high-end restaurants, food stores, department stores and general apparel categories, increased 1.7 percent.

Jewelry prices continue to rise, with the U.S. consumer price index (CPI) for jewelry increasing 8.7 percent year on year to a new high in January of 170.9 points (see Figure 5).

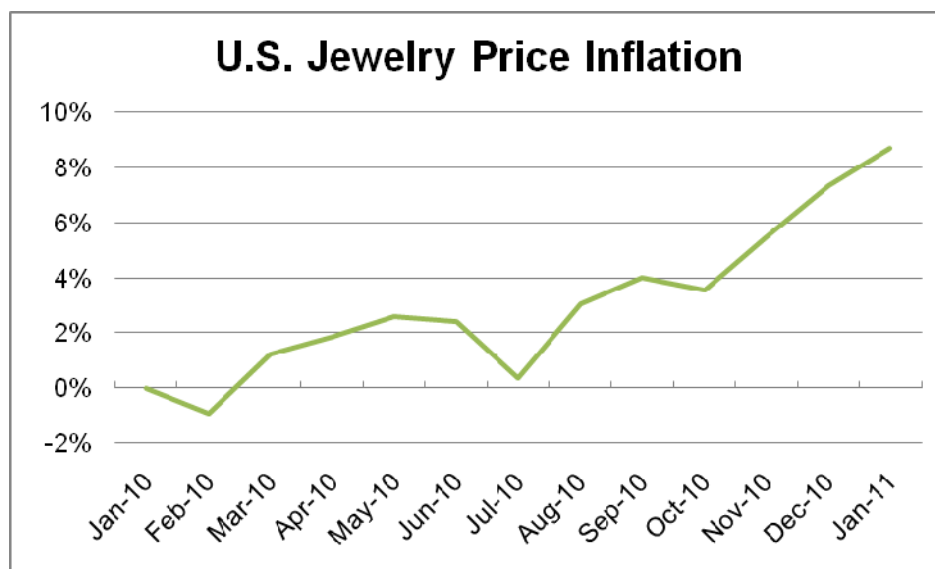


Figure 5

*U.S. Labor Department.

More importantly for this time of year, reports that diamonds were a strong seller during the Chinese New Year period (February 3 – 14) fueled confidence that the Far East market continues to grow at an opportunistic pace. The World Gold Council (WGC) reported that purchases of gold jewelry accelerated 25 percent during the fourth quarter leading into the Chinese New Year. No data related to diamond jewelry sales for the season have been published.

Economic Factors

- Political unrest in Libya drove oil prices above \$100 per barrel. Federal Reserve chairman Ben Bernanke warned that a prolonged rise in oil prices could pose a risk to the recovery.
- Spot gold prices hit record high of \$1,440.10 per ounce (March 2).
- U.S. revised its fourth quarter gross domestic product (GDP) growth figure to 2.8 percent from its previous 3.2 percent estimate.
- China's Premier Wen Jiabao pledged to contain inflation as the country seeks to cool economic growth to 7 percent per year between 2011 and 2015.

For additional information or if you have any comments or questions, contact:

Avi Krawitz
M. + 972-54-345-0084
Email: avi.krawitz@diamonds.net

Press queries - please contact:
Alissa Goren
M. +972-54-345-1317
Email: alissa.goren@diamonds.net

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