

Executive Summary**Polished Seller's Market**

- Average prices for certified polished diamonds rose 6.6 percent in March 2011.
- Prices increased by 11.5 percent during the first quarter of 2011.
- The Hong Kong International Jewellery Show indicated a shift to a seller's market as shortages and increasing Indian and Far East demand enabled higher prices.
- Trade was also driven by dealer demand in the manufacturing centers.

Rough Riding Higher

- De Beers raised prices by an estimated average 10 percent at the Diamond Trading Company's (DTC) March sight.
- DTC first quarter sales rose 10 percent year on year to an estimated \$1.75 billion, while ALROSA sales fell 2 percent to \$953 million.
- De Beers noted unprecedented demand at Diamdel's March online auctions, while smaller mining companies achieved record prices at their tenders.
- There is rising concern about speculation as rough inventories are growing while manufacturing lags, resulting in polished shortages.

Mixed Retail Signals

- Outlook for Japanese retail sales fell following the earthquake and tsunami.
- Signet Jewelers and Tiffany & Co. reported strong fourth quarter sales. Tiffany forecasted an 11 percent increase in first quarter.

Conclusion

March saw buoyant polished demand and significant price increases driven by consumer demand in the Far East and India, coupled with strong dealer activity at the trading centers.

This was reflected at the Hong Kong International Jewellery Show, from which dealers left feeling extremely optimistic. Buyers could offer only limited resistance to the high prices since shortages prevailed and high price levels were consistent. As a result, Hong Kong signaled a switch to a seller's polished market.

Some felt that the market rose too quickly and was being driven by speculation while others expressed the belief that polished had finally made a correction to high rough markets. Rough demand remained strong and prices rose further in March.

However, global economic and geopolitical uncertainties linger. The devastation witnessed in Japan bears implications for the global luxury sector, and the industry should view the continuing unrest in Libya, as well as European financial instability, with caution. Governments are expected to raise interest rates to curb rising inflation and a weakening U.S. dollar, which could have a negative impact on diamond demand and prices.

Polished Market

Average prices of certified polished diamonds rose 6.6 percent in March 2011. Strong trading at the Hong Kong International Jewellery show at the beginning of the month set the tone with solid demand from Chinese and Indian buyers at the show.

Polished dealers returned from Hong Kong extremely confident and noted that the show was the best in years. The uptick in demand continued in the weeks that followed filtering to other trading centers in Mumbai, Antwerp and Ramat Gan. Trading at the Basel show in the final week of March was positive with significant trading of large expensive diamonds, gems and jewelry. However, Basel lacked the buzz that was apparent in Hong Kong.

Overall, demand was spurred by positive consumer demand in emerging Asian markets, strong dealer activity, and shortages that have emerged due to a lag in manufacturing. Some cautioned that the market may have been over-buoyant for a period immediately after the Hong Kong show and that dealer speculation was driving trading.

There was particularly strong demand for top quality star and melee goods with significant price increases affected. The average price of 0.5-carat stones rose 7.3 percent during the month, while average 1-carat diamonds increased 7.7 percent and average prices of 3-carat stones grew 6.9 percent (see Figure 1 and column titled 'March' in Figure 2).

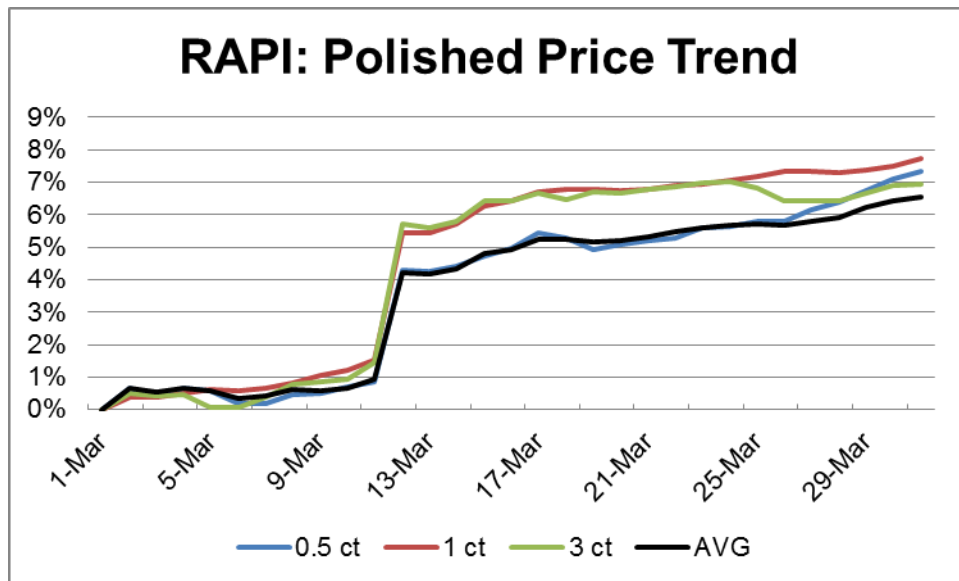


Figure 1

*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.

First Quarter

The quarter ended on a positive note with manufacturers satisfied that the increases in polished prices helped ease the pressure on their cutting margins.

During the quarter, average prices of certified polished diamonds rose 11.5 percent (see Figure 2 and column titled 'First Quarter'). At March 31, 2011, average prices were 17 percent higher than the levels seen a year earlier (see Figure 2 and column titled 'Y2Y changes at March 31').

RAPI: Certified Polished Diamond Prices			
	March	First Quarter	Y2Y Changes at March 31
Average	6.6%	11.5%	17.2%
0.5 ct	7.3%	11.8%	13.6%
1 ct	7.7%	15.1%	21.3%
3 ct	6.9%	11.8%	26.2%

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.

Rough Market

Rough prices continued to increase in March. DTC raised prices by an estimated average 10 percent. The price hike was implemented across all categories with smaller Indian goods increasing by up to 30 percent, while prices of 1-carat and larger stones were up by high single-digit percentages. This follows an average increase of about 7 percent on DTC boxes implemented at the February sight. The DTC March sight had an estimated value of \$500 million (see Figure 3).

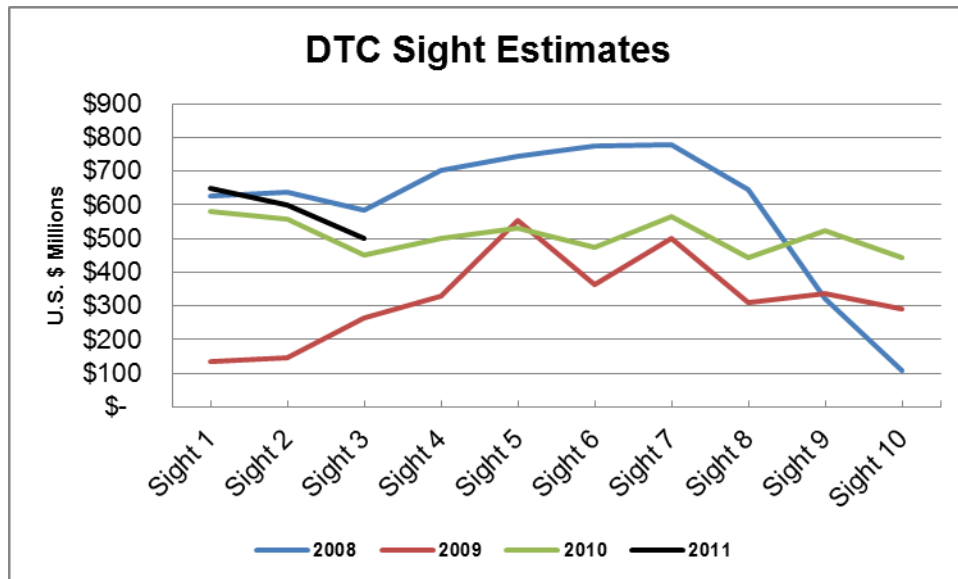


Figure 3

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

Diamdel, the De Beers unit which sells to non-sightholders, reported that “demand from buyers surged to new highs during March” at its online auctions. Prices at tenders held by other mining companies also continued to strengthen during the month, with some reaching record highs.

First Quarter

DTC sales increased by 10 percent year on year to \$1.75 billion during the first quarter, according to Rapaport estimates. ALROSA sales fell 2 percent to \$953 million (see Figure 4)

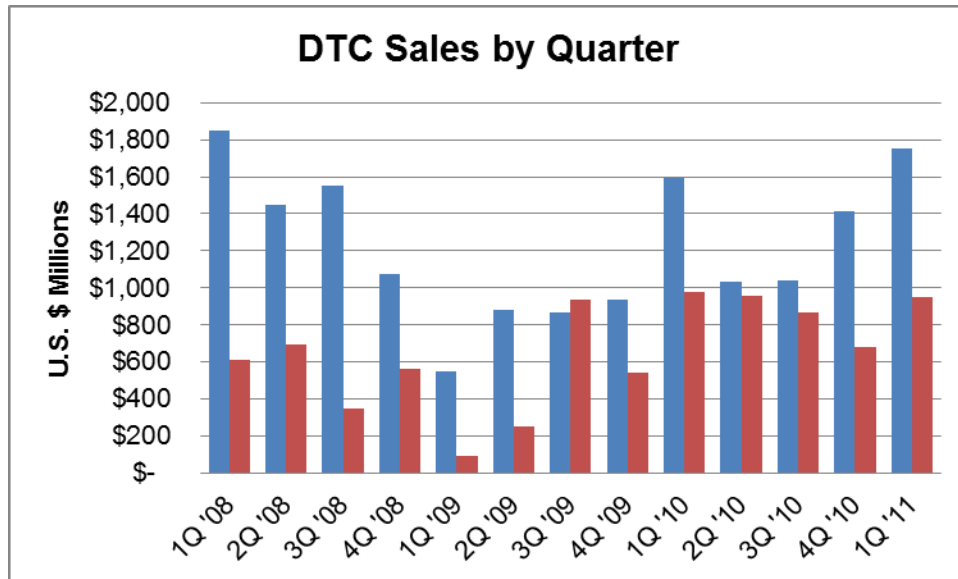


Figure 4

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

Concerns

The increase in sales by value reflects the rise in rough prices while volumes supplied are estimated to be in line with 2010 levels. Still, there does not appear to be a shortage of rough in the market. Rather, there are reports that manufacturers’ rough inventory levels are higher than they should be, indicating that they may be hoarding rough to capitalize on the upward price trend, rather than polishing the goods.

The potential impact of an influx of goods from the Marange fields in Zimbabwe continues to weigh on the industry, particularly after the Kimberley Process (KP) chairman Mathieu Yamba, of the Democratic Republic of the Congo (DRC), unanimously granted Zimbabwe the right to export its stockpile and ongoing production with KP certification. Trading in these goods would violate U.S. sanctions laws administered by the Office of Foreign Assets Control (OFAC).

Retail

The devastation left by the earthquake and tsunami in Japan had an immediate impact on luxury retail sales in the country, which is the third or fourth largest consumer market for diamond jewelry.

While the short-term implications of the tragedy meant periodic store closings and limited store hours, sales are expected to be impacted in the longer term by the psychological shift in the consumer mindset. Sales of luxury products, including diamonds and diamond jewelry, are expected to take a backseat as Japan rebuilds.

Analysts expect the decline in Japan's sales to be compensated by the rise of emerging markets in China and India. In addition, reports of an improving retail market in the U.S. continued to filter through, particularly from larger jewelry stores. The smaller mom and pop stores may be finding conditions tougher.

Confidence in the global retail recovery was boosted by fourth quarter results published by the two largest jewelry companies – Signet Jewelers and Tiffany & Co. – during the month.

Signet's total sales for the three months that ended January 31, 2011 rose 6 percent to \$1.27 billion boosted by a 10 percent increase in U.S. sales (see Figure 5).

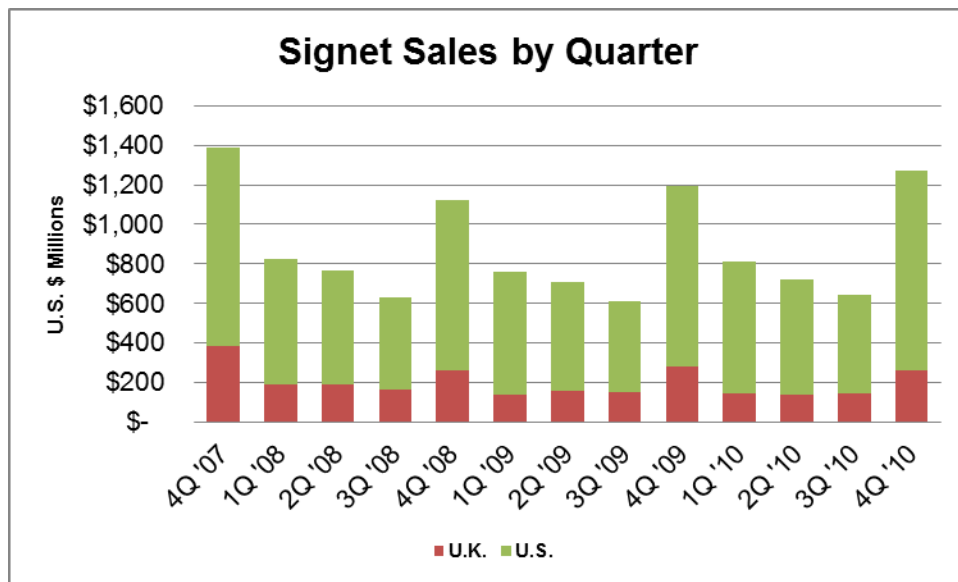


Figure 5

Tiffany reported that total sales increased by 12 percent to a record \$1.1 billion with sales in the Americas up 10 percent, in Europe up 14 percent, in Asia-Pacific by 25 percent, and in Japan by 11 percent (see Figure 6). Tiffany said it expects total sales to rise 11 percent in the first quarter.

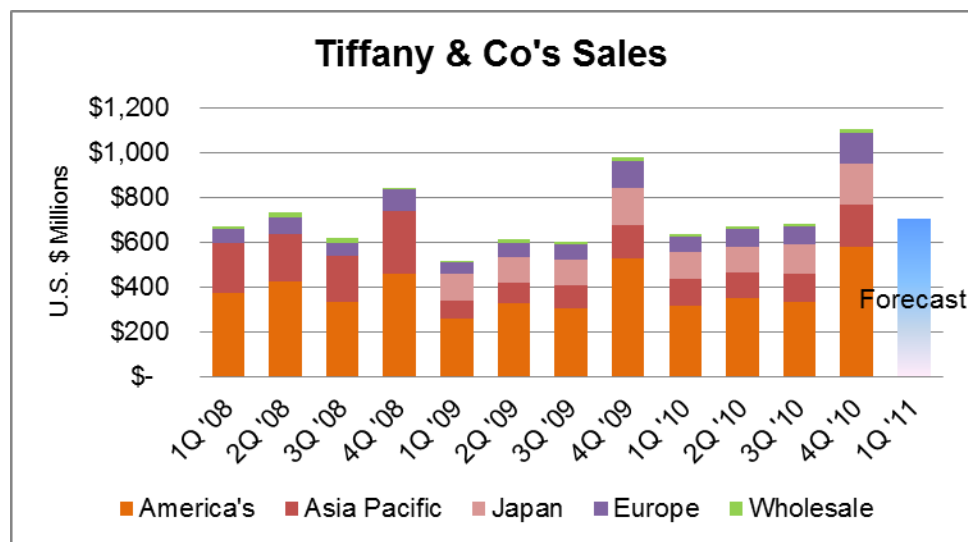


Figure 6

* Sales in Asia-Pacific for 2008 reflected in the graph include Japan.

Economic Factors

- Earthquake and tsunami in Japan shook financial and commodities markets.
- Political unrest in Libya continues and European financial uncertainties linger.
- Oil prices rose 19 percent in the first quarter to \$108.47 per barrel (April 4).
- Japan's Nikkei 225 index fell 9 percent in March. Dow Jones Industrial Average dipped in the aftermath of the Japan crisis but ended the month down just 1 percent.
- U.S. fourth quarter real gross domestic product (GDP) was revised to an annualized 3.1 percent growth rate, up from the 2.8 percent stated in the preliminary report. Third quarter growth was 2.6 percent.

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