

“New Realities”:

## Banking & The Diamond Industry in Roaring Times

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**RAPAPORT.**

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# Setting the scene....



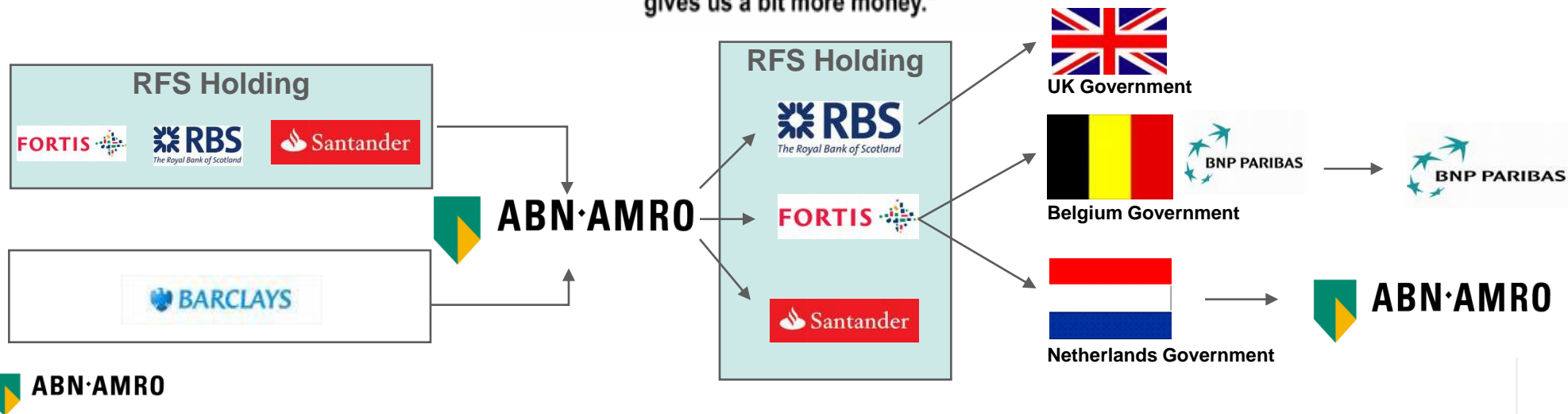
"That's right, dear - take our money out and put it under the mattress."



"Sorry, I have to refuse your request - but why don't you come back again when the government gives us a bit more money."



"Nice to see you Mr. Smith. Now how much were you thinking of lending us?"



## Today's Agenda

*RAPAPORT.*



INTERNATIONAL  
DIAMOND CONFERENCE 2009

- **Developments in the global markets and diamond industry**
- **Dynamics influencing the global diamond industry**
- **Continued commitment**

# The world today is a balancing act...

Retail Executives  
Optimistic about 2010

Japan's Polished Imports Decline 36 Percent in July

Bernanke: Unemployment could  
undercut US recovery

World battles swine flu as  
death toll rises

De Beers raises rough prices

Tiffany's Q2 Sales Decline by 16 Percent

Belgium Rough Diamond Prices  
Decline 25% YoY (July)

Putin Doubles Gokhran's Diamond Purchasing Budget ( $\pm$  \$1 bln)

US auto sales boom

- Availability of credit: banks leaving the business, new players entering?
- Rough prices increasing (30-40% up)
  - Are rough and retail out of sync?
  - Will oversupply of rough damage the market?
- Some signs of pick up, positive sentiment
  - Why are stock markets up?
  - Government subsidies stimulating the market
  - Is current growth sustainable?
- Will consumer demand go up?
  - Diwali and Christmas sales
  - Unemployment still rising
  - Will Asia continue to assist in the global recovery at end of 2009?

Gucci Opens in Russia, Azerbaijan

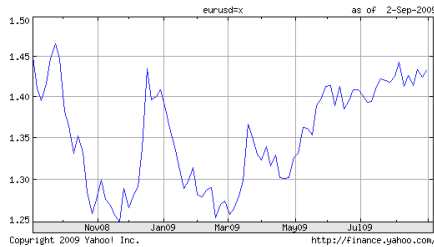
Gold prices at 7-month high on  
rising demand

Bain expects luxury-goods sales will  
drop as much as 20% in the first two  
quarters of 2009 before stabilizing in  
the second half.

# Our industry is very much impacted by and sensitive to its environment...

## Developments:

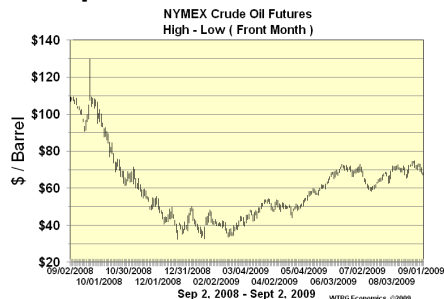
### EUR / USD rate (1.43: 09/02/09\*)



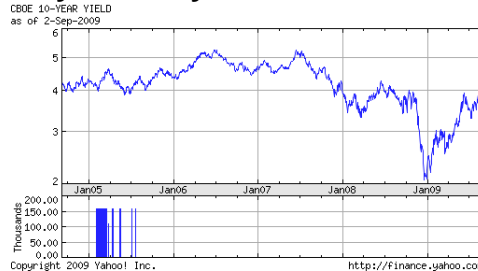
### INR / USD rate (0.02047: 09/02/09\*)



### Oil price (\$67.66: 09/02/09\*)



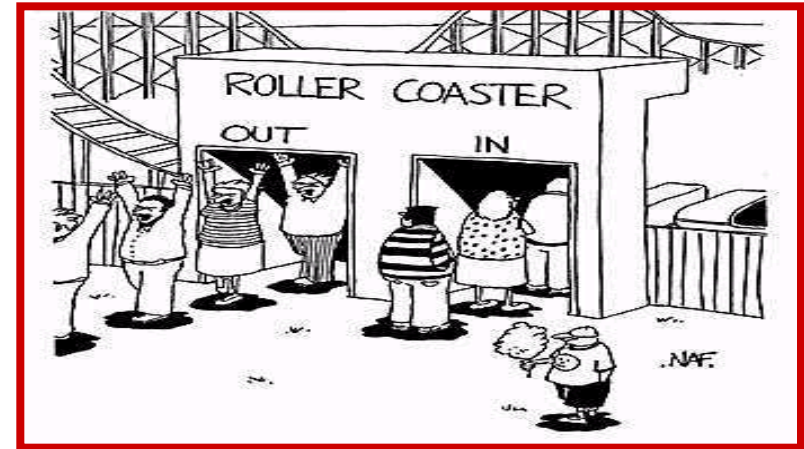
### 10y treasury note (3.30: 09/02/09\*)



### Gold price (2009) (\$957.20: 09/02/09\*)



### S&P 500 (994.75: 09/02/09\*)



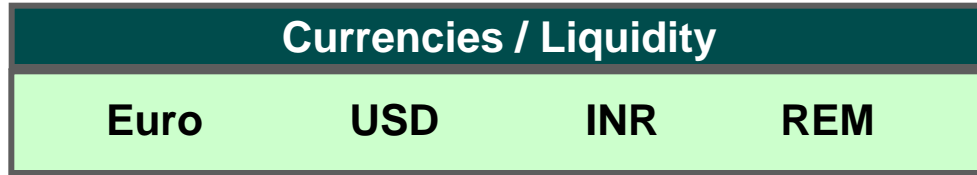
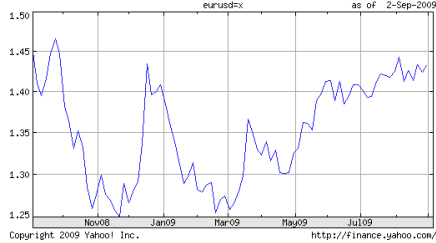
## Observations:

- Quite volatile markets
- Still uncertainty wrt Financial Institutions
- Positive sentiment is emerging (company earnings less negative than anticipated)
- Oil prices up again
- Gold price moving to \$1000
- Mining activity picking up after significant drop
- Interest rates ST low, though corporate lending starts to be expensive!

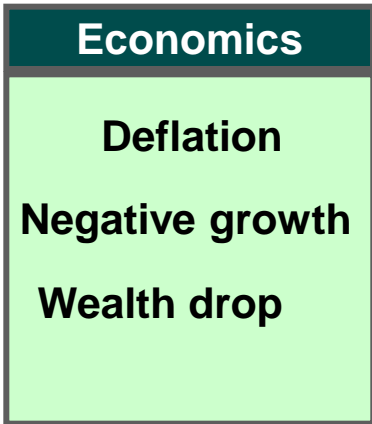
***There is a clear correlation between currencies, interest rates and commodities***

# Recent developments strong impact on any industry, incl. Diamonds...

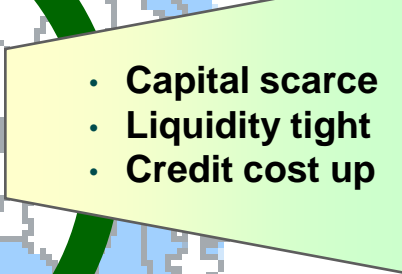
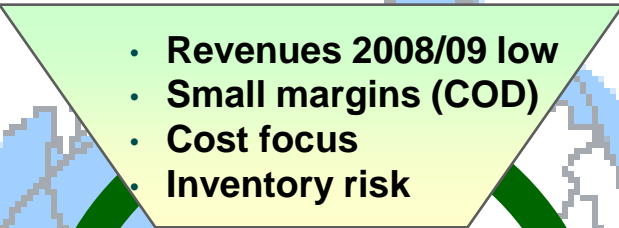
EUR / USD rate (1.43: 09/02/09\*)



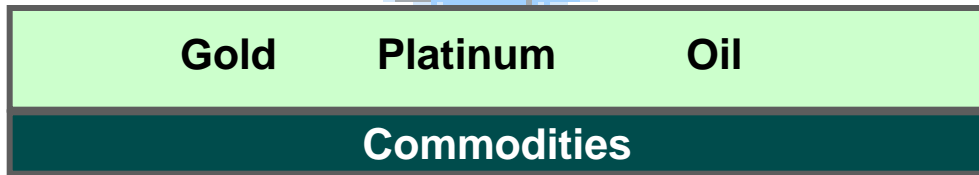
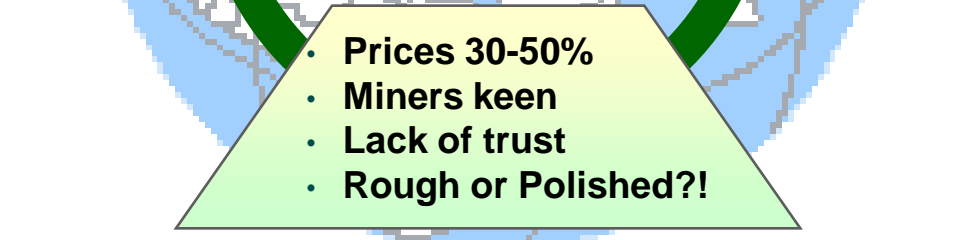
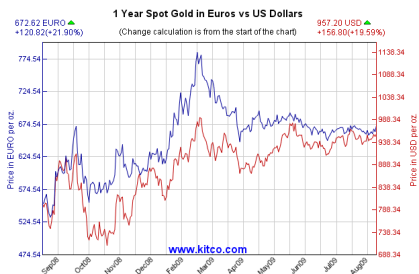
S&P 500 (994.75: 09/02/09\*)



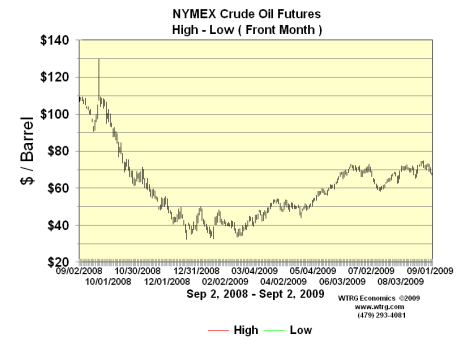
**Diamonds**



Gold price (2009) (\$957.20: 09/02/09\*)

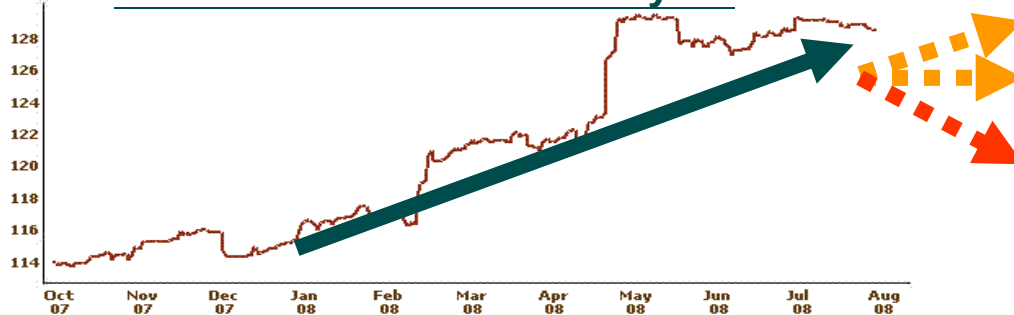


Oil price (\$67.66: 09/02/09\*)

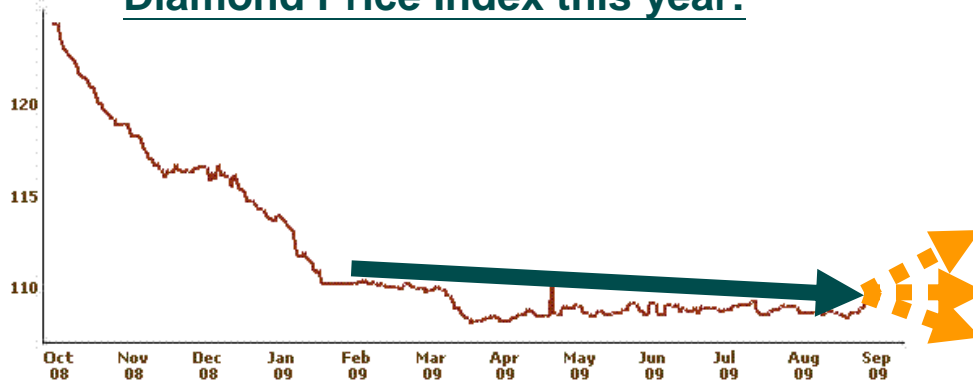


# 2007 - 2009: The bubble has burst, but what's next?

## Diamond Price Index Last year



## Diamond Price Index this year:



"I'm taking you off looking at the Dow Jones for the next few weeks."

Currently sudden surge in the markets. Sustainable?

## Recent Observations:

- Some banks withdrawing from market
- Putin Doubles Gokhran's Diamond Purchasing Budget
- Rough prices increased (based on speculation?, not aligned with polished prices)
- Retail market not yet recovered, some segments are doing ok (bridal)

# Global Market Analysis (ABN AMRO's Summary view 09/02/09)

**Caution:**  
Our views are best effort and can be used as reference, but cannot be used for financial decisions in special situations/markets/deals.



GLOBAL	Mining	Rough	Polished			Retail			
	Fine Large Fine Small	Commercial Large	Commercial Small	Mixed	Low	Middle	High	Brand	

Mining	Rough	Polished	Retail
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**EMEA**

**Mining sales are drastically up** with price increases of around 30%. Question is whether this will be the new balance taking into account Alrosa, who is closing future deals at prices above the current market prices. **Increased activity in Rough dealing.** Larger parties are squeezing out the smaller parties, which could lead to the fall of some smaller parties. This is a threat to the market.

**Polished still weak.** Consumers are still not active. **Manufacturing is drastically down**, but we see some **slight improvement** and light in the tunnel. Polished Wholesale still difficult, some sales to retail, but slow A/R's. The larger companies are moving to "just in time production" and are less impacted by the current crisis. African manufacturing is weak, Dubai market is weak (slight improvement after 50% slowdown in early 2009), due to less spending by tourists and locals in wealth. **Europe (luxury) retail down 20%.**

Mining	Rough	Polished	Retail
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**ASIA**

**Retail in India, Hong-Kong and China is doing relatively well**, mostly because of **local** people buying more in view of the **weak USD**. But since retail in the US and EMEA is weak, manufacturing and polished are still going through a difficult time. We see a number of diamantairs in the market having difficulties, while we also see some companies recovering slowly. India is benefiting from the recent depreciation of the US dollar. Overall we remain cautious.

n.a.	Rough	Polished	Retail
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**AMERICA'S**

**Overall economy in the USA is still a concern.** We see some **increase in rough trading**, but consumers are still not actively buying diamonds and luxury. **Retail is still very weak.** In jewelry, we see more mixtures of gold with cheaper precious metals to reduce costs. JCK Las Vegas was better than expected, but did not result in many orders. Overall we remain cautious, and believe that the recent increased activity in the industry is driven by speculation.

**Signs of Recovery?**

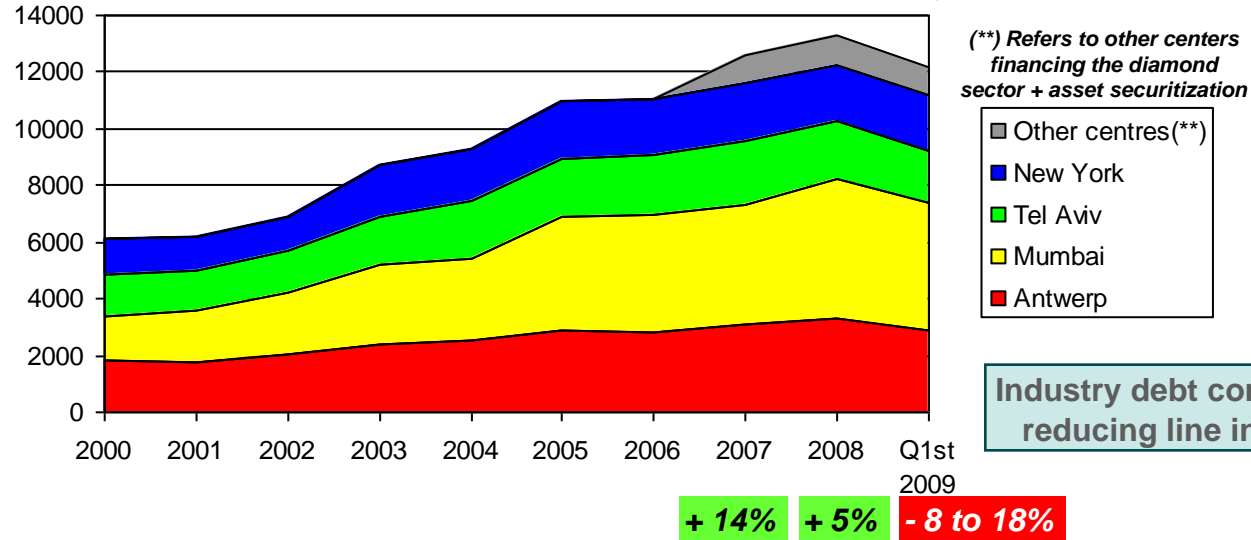
- Retail segment still not recovered, especially in the USA, but it seems that the bottom is in sight.
- Polished still very weak.
- Rough demand and pricing increased. Miners increased production.
- Rough recovery seems to be based on speculation and not on market demand from the retail segment.
- We remain very cautious.





# Industry lending is dropping quickly

\$ mln Development of bank credit to the industry\*



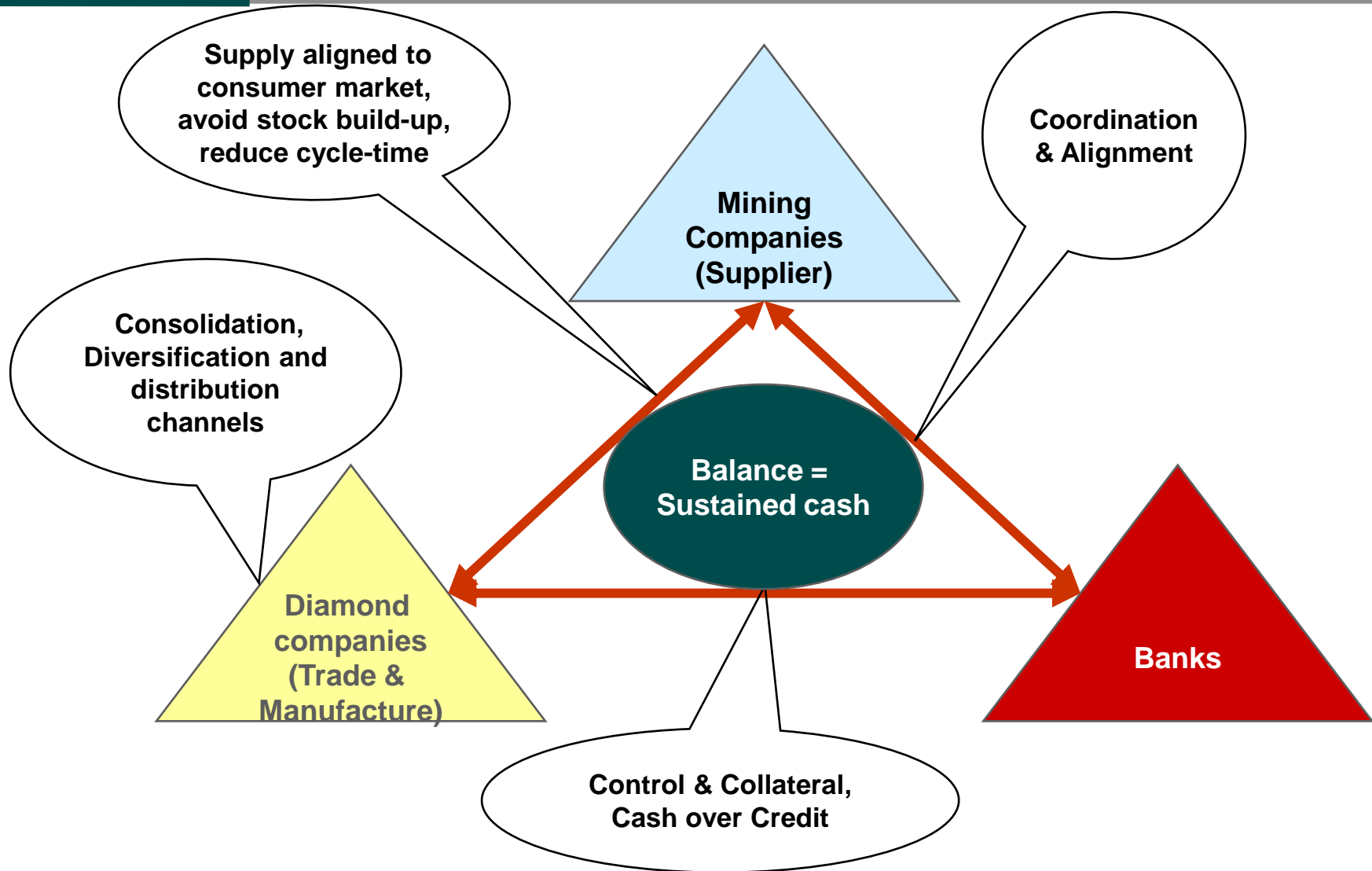
Industry debt continued reducing line in Q2

## Key elements in the markets:

1. **Increased costs of capital, and limited availability**
2. **Low interest (ST)**
3. **Lack of liquidity in the market**
4. **Reduction of overall costs incl. debt**
5. **Delays in receivables payments (more trading COD)**
6. **Scarcity of credit insurance**
7. **Lack of trust amongst players**
8. **Loyalty is good, but should not be a financial burden!**
9. **(Low) Inventory management is key**
10. **Debt levels in pipeline down by 20/30%**

# Key consideration...

## Cash remains King: Opportunities are Present When One has Cash



# We remain committed to the industry and ambitious for growth



*Your trusted partner for growth*

- The global Bank dedicated and committed to the industries for diamonds, jewelry and precious metals
- Experienced staff in 10 key industry locations can develop tailored solutions to suit your global needs
- Opening new branch in **Botswana** end of September 2009

**Bridging Value Chains –  
Financial Integrator**



# Any Questions?



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