

RAPAPORT WEEKLY REPORT

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30 May 2014

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Weekly Highlights

JCK Las Vegas show opens amid rising U.S. consumer confidence. Dealers hoping the show will set the stage for strong U.S. holiday demand. Diamond markets stable but buyers are very price sensitive. Indian manufacturers slowly returning from vacation while liquidity concerns persist. Indian jewelers hoping new government will ease gold import rules to help stimulate demand. Shrenuj & Co. FY revenue +20% to \$775M, profit +22% to \$15M. Christie's HK sells \$92M (81% by lot) with pair of 25.49ct. and 25.31ct., D, IF, type IIa diamonds for \$9.7M (\$191,746/ct.). WDC agrees to finance and operate KP administrative support. **R**



An emerald cut, 13-carat, D, VVS2 HPHT-processed natural diamond.

(Courtesy of Bellataire Diamonds)

The HPHT Natural Diamond Opportunity

AVI KRAWITZ

Manufacturers and distributors of **High Pressure High Temperature (HPHT)** processed natural diamonds are claiming an opportunity for their small, specialized niche. Not to be confused with HPHT treatments or synthetics, advocates of HPHT-processed natural diamonds are working to change the perception of their product.

There are two types of HPHT diamonds, explained **Gerry Hauser**, CEO of **Hadar Diamonds**, a distributor of HPHT natural diamonds. The first is a lab-grown, or synthetic, diamond that is created using HPHT by simulating the conditions by which a natural diamond is produced. The second is a natural diamond that uses HPHT to change the brownish color of the stone to achieve its full potential.

Paul Kaplan, director of **Antwerp** operations at **Bellataire Diamonds**, a subsidiary of **Lazare Kaplan** that sells branded HPHT natural mined diamonds, stressed that processing natural type IIa diamonds has nothing to do with growing synthetic diamond crystals. He added that these processed natural diamonds should be differentiated from treated stones that have been irradiated or fracture filled, since there is nothing added to, or taken away from their all natural content.

Rather, HPHT processing of type IIa diamonds simply "de-stresses" the diamond, Kaplan noted. While a diamond starts out at the earth's core

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as colorless, it passes through substantial heat and pressure as it makes its way up to the earth's surface. That passage places stress on the stone which causes it to appear brownish.

"We recognized that if we could put the diamond back into that heat and pressure scenario, the diamond could be de-stressed," he explained. "In a controlled environment it can relax and go back to its original color."

Lack of Awareness

Both Hauser and Kaplan urge retailers to embrace these goods as an opportunity to sell a high-quality diamond for a significantly lower price than the unprocessed natural equivalent. They estimate that a consumer can save 20 percent to 30 percent by buying an HPHT-processed natural diamond compared to the equivalent unprocessed natural stone.

However, Kaplan admitted that very few consumers are aware of the option to purchase these goods and most retailers do not know much about them. Part of the reason has been the industry's reluctance to market HPHT natural diamonds. First introduced to the market by **General Electric** and Lazare Kaplan in early 1999, HPHT-processed diamonds have largely been met with resistance by the diamond trade. Given the trade's conservative nature, Kaplan explains that there was resistance toward HPHT because the process was new and little was understood about these diamonds at the time.



A pear shape HPHT-processed natural diamond from Bellataire Diamonds

(Courtesy of Bellataire Diamonds)

are of the highest quality that are chosen to go through the process. As a result, Kaplan estimates that the amount of type IIa diamonds that can be processed account for less than 1 percent of all natural diamonds.

David Fisher, principal scientist at **De Beers Technologies UK**, noted that HPHT processing requires significant investment in costly pressure equipment as well as the know-how to operate it. As a result, the technology has traditionally been confined to locations with a history of research and commercial activity in related areas, notably the **U.S.**, **Russia** and **Japan**. However, Fisher added that high pressure technology is becoming more widespread with significant activity in **China**, **Korea** and **India**, where De Beers is aware of a number of groups actively offering HPHT treatments and HPHT treatment services. Still, he estimates that only a few thousand HPHT-processed natural diamonds are being produced each year.

limit supply and subsequently keep demand for HPHT natural diamonds low. At the same time, Hauser noted that savvy investors, especially in the **Far East**, have recognized the value potential, stimulating rising interest for these goods.

While no one expects that HPHT-processed natural diamonds will replace demand for unprocessed diamonds, Kaplan maintains that they give retailers the opportunity to offer their customers an important choice to buy the highest-quality natural diamonds at the best value.

Hauser believes there is an aberration in the market that may be short lived. Both he and Kaplan project that prices for HPHT-processed natural diamonds will rise and that the gap between them and the equivalent unprocessed natural diamond will slowly diminish. "The differential is not normal given that the material is the same," Kaplan explained. "They're essentially the same diamond."

"HPHT-processed natural diamonds need to be differentiated from unprocessed natural diamonds as well as from HPHT synthetics, CVD synthetics and treated diamonds."

Another reason for their slow market penetration is that there's a limited supply. These diamonds come from type IIa rough, which are very rare in nature. Although the great majority of type IIa's are typically pure internally, it is only those that

Given the limited supply, Kaplan believes that HPHT natural diamonds don't have the critical mass to stimulate widespread demand. Some suspect that the larger mining companies have held back supply of type IIa diamonds in order to

Disclosure & Detection

While HPHT-processed natural diamonds contain the same materials and characteristics as unprocessed diamonds, there remain strict guidelines to disclose these goods as HPHT stones and for the laboratories to clearly label them as such on their certificates.

Furthermore, there are concerns about non-disclosed HPHT-processed diamonds being

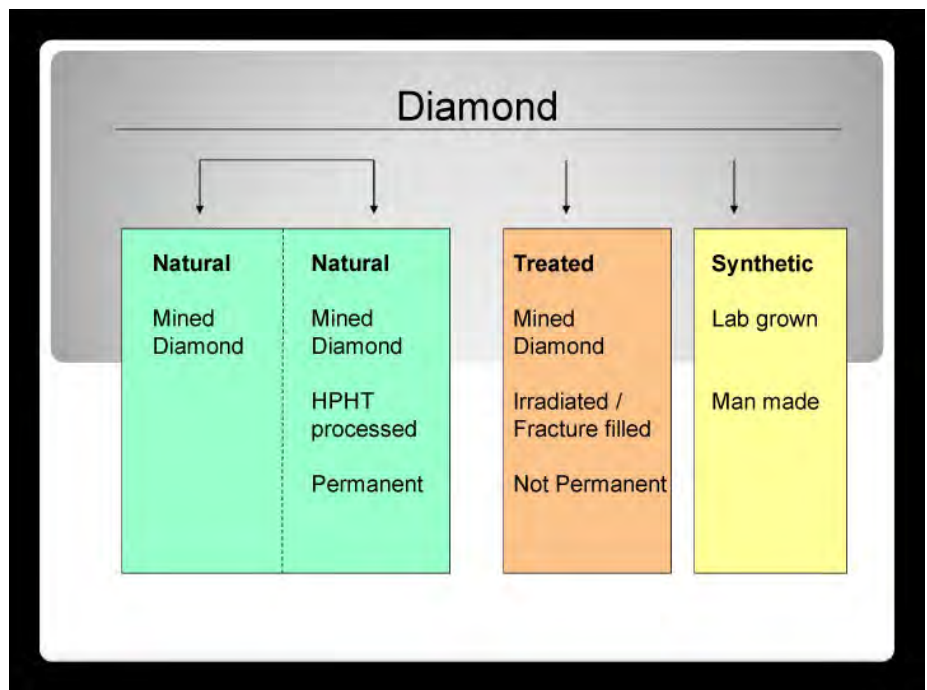
submitted for grading as natural diamonds, particularly since these challenges have become prevalent with regards to **Chemical Vapor Deposition (CVD)** synthetic diamonds in the past two years.

“The primary concern with HPHT-treated diamonds is that they will be sold undisclosed at any point in the diamond pipeline, but especially to the consumer,” Fisher said. “As with any challenge that has the potential to undermine consumer confidence in natural untreated diamonds, the issue must be taken seriously by all in the trade with proper disclosure and detection measures in place, and sanctions for those who persistently seek to undermine this confidence.”

A spokesperson for the **Gemological Institute of America (GIA)** stated that all diamonds submitted to GIA for grading are screened for treatments and synthetics, adding that the GIA can confidently detect treatments, including HPHT. Similarly, **Ans Anthonis**, chief diamond lab and research officer at **HRD Antwerp**, said that every diamond is screened at HRD, and depending on the diamond type and color, the stones are subjected to further investigation in a sophisticated lab in order to obtain a full identification.

De Beers is also confident it has the capabilities to detect all synthetics and treatments using its **DiamondSure** and **DiamondView** machines. Fischer explained that the DiamondSure can also be used to screen type IIa diamonds that are particularly susceptible to HPHT processes or treatments. In addition, **DiamondPlus** is a miniature version of the machine that refers all HPHT-treated type IIa diamonds for further testing.

Kaplan maintains that the major laboratories can and do differentiate these diamonds and that mandatory inscriptions for HPHT-processed diamonds will help protect dealers and consumers from attempted fraud. He added that the more people are aware of HPHT-processed diamonds, the harder it will become to abuse them.



The chart above illustrates the various types of natural, treated and synthetic diamond classifications. (Courtesy of Bellataire Diamonds)

Part of the challenge is to further educate the diamond trade in order to differentiate HPHT-processed natural goods from lab-grown synthetics and treated diamonds. In Kaplan's view, HPHT processing is just one more step that natural diamonds go through to become natural gems.

Perhaps there's room to grow diamond trading activity in both cities. Doing so would require a collective effort with strong government support to enable a favorable environment for conducting business in India. The growth of competing hubs such as Dubai should make such collaboration an urgent priority.

As Mumbai and Surat seek to develop as diamond trading hubs, the industry will want Modi's continued support. At least the election fostered some optimism that he will put the country on the right track. Having endured a tough economic and political landscape in the past few years, the diamond industry has high expectations from India's new leadership.

Market Acceptance

In terms of classifications, mined diamonds are either processed or unprocessed naturals, while treated diamonds are not

considered natural, he explained. Furthermore, synthetic lab-grown diamonds are neither natural nor mined diamonds (see chart on page 3). Kaplan is confident that with the correct educational programs, HPHT natural diamonds will eventually become an accepted product like any other natural mined diamond.

Doing so would certainly provide an interesting option to consumers in their diamond purchase, even as HPHT-processed natural diamonds are likely to remain a small segment of the market with limitations. But there's no doubt they have earned their place.

Still, HPHT-processed natural diamonds need to be differentiated from unprocessed natural diamonds as well as from HPHT synthetics, CVD synthetics and treated diamonds. As with those processes, there needs to be effective detection, disclosure and documentation for these goods. But with the right structures in place, there's no reason that consumers shouldn't consider these diamonds as a valuable alternative to unprocessed natural diamonds. So too should jewelers embrace the opportunity that these stones present to the market, for now. **R**



EXPAND YOUR HORIZONS

RAPAPORT CONFERENCE

Sunday, June 1st, 2014
JCK Show - Las Vegas

8:00/10:00 am

Rapaport Breakfast
Martin Rapaport "State of the Diamond Industry"
South Seas Ballroom, Level 3

10:30/12:30 pm

Rapaport Certification Conference
Banyan B Meeting Room, Level 3

2:00/4:30 pm

Rapaport Fair Trade Conference
Banyan B Meeting Room, Level 3

THE CONFERENCE IS FREE AND OPEN TO ALL

Register: www.Diamonds.net/Conference

Email: conference@diamonds.net

Visit: JCK Booth B 4053

RAPAPORT.

Tiffany & Co: Strong Revenue, Profit Growth in 1Q

Tiffany & Co. reported that revenue grew 13 percent year on year to \$1.01 billion during the first quarter that ended April 30, 2014. Comparable-store sales rose 11 percent on a constant-exchange-rate basis due to strong sales growth in the **Americas, Asia-Pacific, Japan** and the **United Arab Emirates** (see Figure 1). Net income increased 50 percent to \$125.6 million as gross margins improved to 58.2 percent compared to 56.2 percent last year. Margins improved as Tiffany raised prices on all its retail products in all geographic regions.

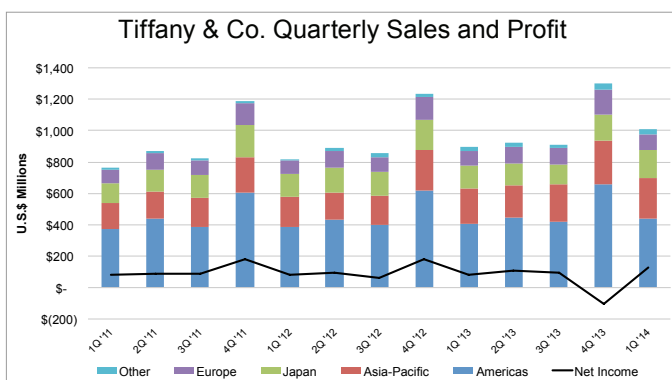


Figure 1

Based on data published by Tiffany & Co.

Product Mix

Management noted healthy overall sales growth for mid-to-higher price point items, specifically statement, fine and solitaire jewelry. The growing consumer attention to colored diamonds and other gemstones that was noted in 2013 continued through the first quarter this year with Tiffany reporting strong interest in its **Yellow Diamond, Enchant** and **Victoria** collections.

Tiffany's engagement jewelry segment performed strongly with substantial demand for diamond solitaire rings and wedding bands, according to the company. Tiffany also experienced improved sales of fashion jewelry, especially with its **Atlas** collection. Gold fashion jewelry sold particularly well but sales also picked up for silver items, which had a less than sterling performance in 2013.

Sales by Region

All geographic regions experienced sales growth both on a dollar and on a constant-exchange-rate basis. In the Americas, which comprised 43 percent of Tiffany's total revenue for the quarter (see Figure 2), sales rose 8 percent. Sales growth was driven by an increase in the average price per jewelry unit sold, although sales volume by unit was similar to the previous year's results.

Comparable-store sales in the Americas grew 8 percent on a constant-exchange-rate basis compared to 3 percent in the same quarter the previous year. Management reported that sales at the flagship

store in New York were strong while revenue growth in Canada was lacking. The Latin American market posted solid growth in constant-exchange-rate terms. Notably, Tiffany reported that Valentine's Day sales were good despite snowstorms in the northeastern U.S.

Sales in Asia-Pacific rose 17 percent, driven by strong growth in the volume of sales across all categories. The Asia-Pacific region, excluding Japan, accounted for 26 percent of Tiffany's sales during the quarter. Comparable-store sales grew 10 percent thanks to strong sales growth in Australia, China, Hong Kong, Macau and Taiwan. Tiffany attributed the growth in China to expanded brand awareness boosted by marketing activities there, with spillover effects toward purchases by Chinese tourists in other markets.

In Japan, sales rose 20 percent, boosted by strong economic growth and improved store traffic as consumers rushed to stores before a hike in the consumption tax from 5 percent to 8 percent took effect in April. The positive impact of economic growth and the tax hike offset a 9 percent plunge in the yen during the period, with comparable-store sales in Japan rising 30 percent on a constant-exchange-rate basis. Tiffany executives said that sales in Japan moderately declined in April but maintained their forecast for sales growth in Japan for the entire year.

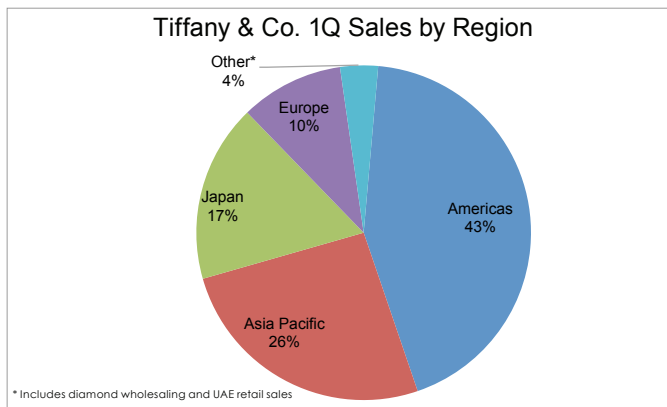


Figure 2

Based on data published by Tiffany & Co.

Outlook For 2014

Tiffany anticipates worldwide sales to increase by a high single-digit percentage this year, with all geographic regions forecasted to grow. The planned launch of a new jewelry collection in September is expected to help boost the company's sales. The jeweler also plans to expand its store network by a net nine stores by year end.

The company expects its gross margin to continue increasing this year, as sales are expected to grow at a faster pace than costs during the remaining three quarters – particularly as gold, diamond and silver prices are expected to remain stable or decline slightly for the rest of the year.

As a result, Tiffany raised its earnings guidance for the year by 10 cents to between \$4.15 and \$4.25 per share for fiscal 2014-15, which would represent a gain of between 11 percent and 14 percent from last year's earnings. **R**

Gold Jewelry: Demand by Value Down, Volume Up As Prices Fall

Global gold jewelry demand by value fell 18 percent year on year to \$23.73 billion in the first quarter that ended March 31, 2014, impacted by a 21 percent decline in the average quarterly gold price to \$1,293/oz. By volume, gold jewelry demand rose 3 percent to 571 tonnes, according to data provided by the **World Gold Council (WGC)** (see Figure 1).

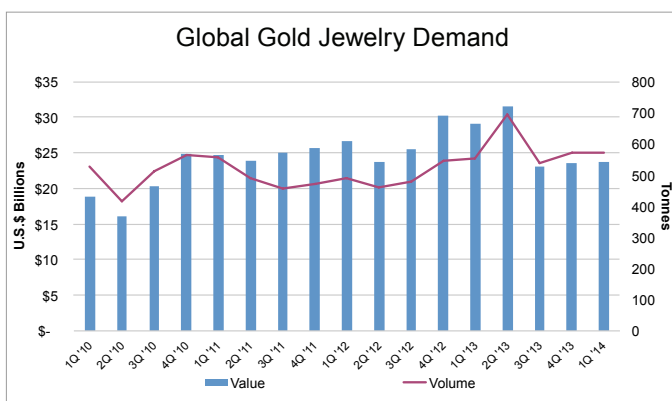


Figure 1

Based on World Gold Council (WGC) data

Key Country Demand

The WGC's quarterly **Gold Demand Trends** report showed that **China** decisively eclipsed India as the world's largest market for gold jewelry during the quarter (see Figure 2). China's gold market comprised 36 percent of the world gold jewelry market, as demand ballooned due to sales during the **Chinese New Year** and **Valentine's Day**. Lower gold prices encouraged Chinese demand for gold jewelry to grow 10 percent to 185.2 tonnes during the quarter, despite the purported dampening effect of the government's anti-corruption campaign on luxury gift-giving to officials.

Conversely, **India's** gold jewelry demand fell 9 percent to 146 tonnes as the country's share of the global gold jewelry market declined to 26 percent, as the gold import restrictions continued to take their toll on jewelers. Supply chain disruptions ahead of the national elections also affected purchases. Many in the Indian market are hopeful that the election of **Narendra Modi** to the premiership in May will lead to the relaxation of gold import restrictions.

In another notable development, the **United Arab Emirates (UAE)** for the first time exceeded the **U.S.** market as the third largest market for gold jewelry. According to the WGC, gold jewelry demand in the

Share of Gold Jewelry Demand by Demand by Country in 1Q

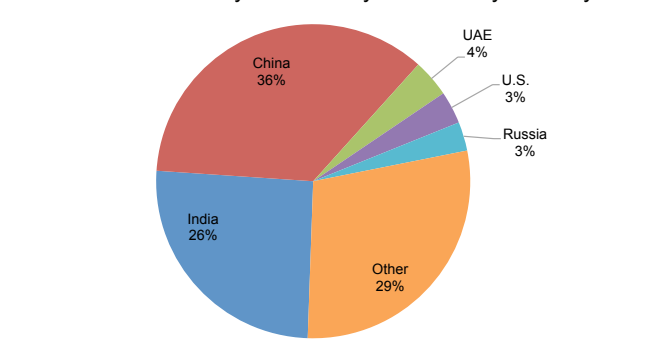


Figure 2

Based on WGC data

UAE rose 18 percent to 18.8 tonnes, which is the highest it has been since the third quarter of 2008. Demand in the UAE was boosted by visiting Indians who faced gold restrictions at home.

Consumers in the U.S. responded to lower gold prices and the gradual improvement in the labor market with a 5 percent increase in jewelry demand to 18.1 tonnes. January demand was adversely affected by harsh weather conditions, but February and March produced strong results. In the U.S., as well as the **U.K.**, the WGC reported a noticeable shift in consumer spending to higher karat items, helped along by retailers giving more shelf space to gold jewelry. Inventory replenishment also played a significant role in increased demand following a stronger than expected **Christmas** season in the preceding quarter.

General Gold Trends

Total gold demand by volume – including jewelry, investment, **exchange-traded funds (ETF)**, technology and central bank purchases – was flat in the first quarter. Most notably, the drop in demand for physical gold investments was counterbalanced by a drop-off in ETF outflows as the vast flow of gold from Western to Eastern markets slowed. By value, total gold demand declined 21 percent to \$44.67 billion during the quarter due to the 21 percent drop in the average gold price during the same period.

In Summary

Indian gold jewelry demand is anticipated to resume its growth trend again by the end of the year as a Modi government is expected to release pent-up demand by loosening government restrictions on gold imports. Such a move may trigger a recovery in Indian gold jewelry demand that might push the market in India closer to parity again with China. It would also be likely to somewhat reduce the level of demand in the UAE, as some Indian nationals would choose to make their purchases in their home country.

However, barring a major rise in the gold price, China will likely remain the world's largest gold jewelry market as price-conscious Chinese consumers have proven their continued interest in the yellow metal at favorable prices. Meanwhile, retail sales in Western markets are expected to continue to grow amid a gradually improving economic environment with consumers continuing to seek higher karat items. **R**

Rockwell Diamonds: Attaining Mid-Term Goals

Rockwell Diamonds stated that it is achieving its mid-term production targets as the company narrowed its losses for the fiscal year that ended February 28, 2014. The alluvial diamond mining company reported:

- A loss of \$9.6 million (CAD 10.4 million) versus a loss of \$12.7 million (CAD 13.8 million) from the previous year.
- Diamond sales rose 52 percent year on year to \$37.8 million (CAD 41.1 million).
- The average price of diamonds sold increased 13 percent to \$1,484 per carat.
- Beneficiation income fell 23 percent to \$3.7 million (CAD 4.1 million).
- Production cost grew 25 percent to \$36.1 million (CAD 39.2 million).
- Production increased 27 percent to 27,776 carats.

The company's loss resulted mainly from the \$6.1 million (CAD 6.6 million) realized foreign exchange charge associated with the sale of three subsidiaries – **Durnpike Investments, Klipdam Diamond Mining** and **Rockwell Diamonds Explorations**.

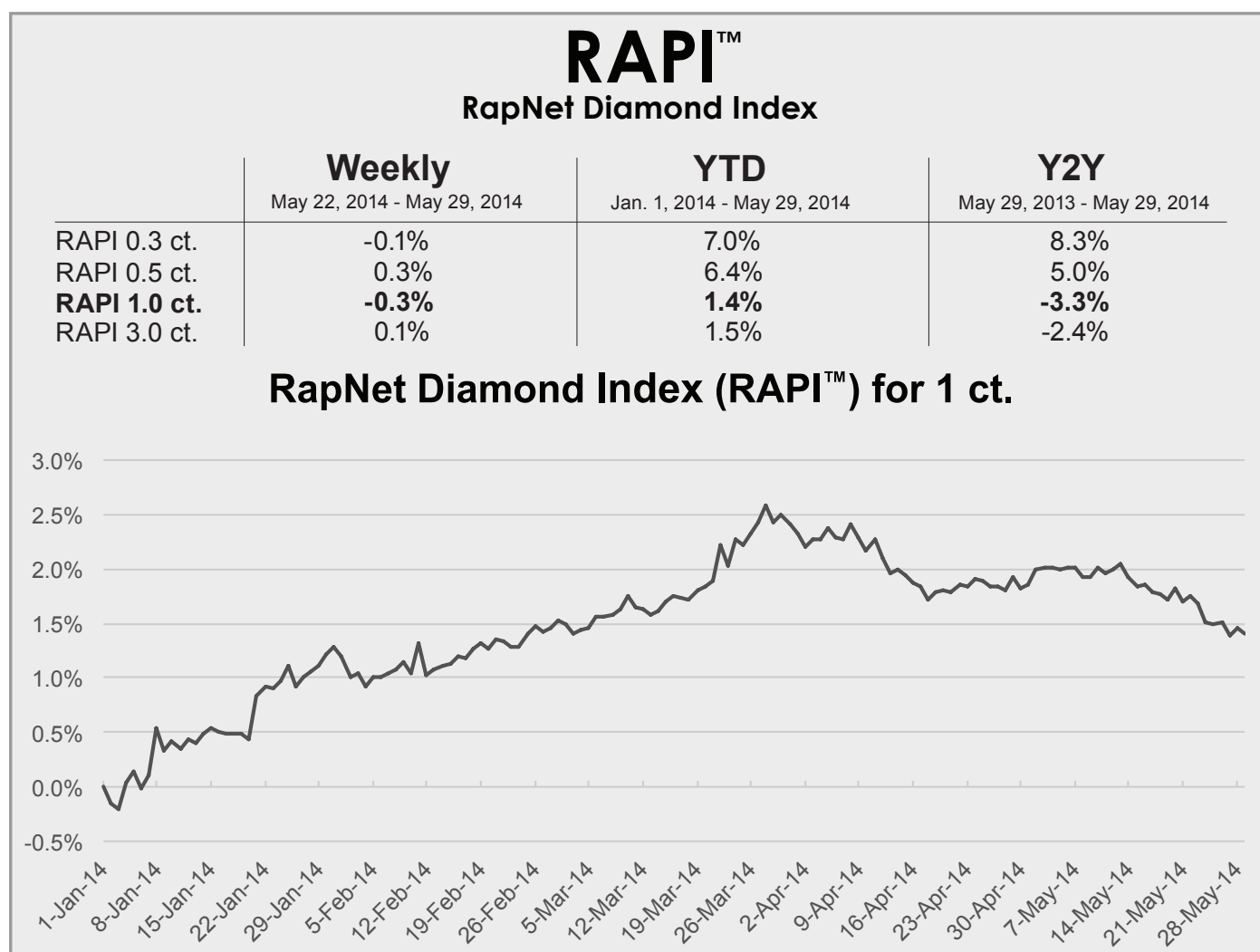
Those deals included the sale of the **Klipdam** mine for \$5.2 million (ZAR 48 million) as Rockwell advanced

its strategy to consolidate operations around the **Middle Orange River** region in **South Africa**. The company subsequently launched production at the **Niewejaarskraal** operation and trial mining at the **Saxendrift Hill Complex** to compliment production from its flagship **Saxendrift** mine and the royalty output it receives from contractors operating the **Tiriano** mine.

Rockwell is aiming to ramp up production volume to 500,000 cubic meters of gravel per month, having doubled capacity to 340,000 cubic meters a month during the reported fiscal year. Production at its flagship Saxendrift mine rose 12 percent to 9,338 carats, while revenue from the mine increased 32 percent to \$19.9 million. The average price achieved grew 14 percent to \$2,194 per carat. The average price achieved at Saxendrift Hill Complex and Niewejaarskraal was \$2,781 per carat and \$1,107 per carat respectively.

Management expects continued revenue growth in the new fiscal year as it ramps up production at Niewejaarskraal and upgrades equipment used at Saxendrift. The company carried over an inventory of 2,752 carats for rough sales into the new fiscal year and more than 6,000 carats for its beneficiation joint venture with **Diacore**. The recent sale of 109 vivid yellow polished diamonds will be reflected in the company's first quarter beneficiation income.

Having consolidated operations during fiscal 2013-14, Rockwell expects that the positive revenue trend will continue. Given its small production capabilities and relatively limited revenue potential, the challenge will be to improve efficiencies in order to turn a profit. **R**



The Las Vegas show season started this week with diamond dealers hoping the various events will signal steady U.S. demand. The JCK Las Vegas show takes place May 29 to June 2, the Las Vegas Antique Jewelry & Watch Show on May 29 to June 1, and The Couture Show occurs May 30 to June 2.

U.S. consumer confidence improved in May with the Conference Board Consumer Confidence Index®, up 6.8 points from a year ago to 83 points. Confidence rose as the short-term outlook for the economy, jobs and personal finances were more upbeat, the Conference Board said.

Christie's Hong Kong jewels sale garnered \$92M and was 81% sold by lot but fell short of a pre-sale estimate of \$100M. The top lot was a pair of 25.49ct. and 25.31ct., D, type Ila diamond ear pendants that sold for \$9.7M (\$191,746/ct.). A record for intense green diamonds was set when a cushion, 6.13ct., fancy intense green, VS2 diamond ring sold for \$3.6M (\$594,510/ct.).

Shrenuj & Company Ltd., an India-based diamond manufacturer, reported that revenue jumped 20% year on year to \$775M in the fiscal year that ended March 31. The company's profit increased 22% to \$15M. During the year, Shrenuj opened a new cutting and polishing unit in northern India, focused on manufacturing small diamonds.

Sarine Technologies Ltd. has partnered with Rapaport Group to have its Sarine Loupe™ imagery for polished diamonds offered on the RapNet website. The new Sarine Loupe imagery enables buyers to inspect diamonds on offer using a table view mode, an impression mode through video imagery and an inspection mode that manually rotates the diamond to view it from various angles and axis points.

The Gemological Institute of America (GIA) appointed Brad Brooks-Rubin to the new position of global director of development and beneficiation. Brooks-Rubin previously served as special adviser on conflict diamonds to the U.S. State Department.

The World Diamond Council (WDC) agreed to finance and operate the administrative support mechanism on behalf of the Kimberley Process Certification Scheme (KPCS). The support includes the maintenance of an online electronic archive, the provision of communication services and logistical support for the standing Kimberley Process chair.

Zimbabwe's cash-strapped government has ordered all diamond miners in the country to sell their gems through the Reserve Bank of Zimbabwe (RBZ). All Africa reported. The central bank will reportedly use the diamonds to secure a government loan.

Stornoway Diamond Corporation closed a \$132M public offering of 188.6M subscription receipts at a price of 70 cents each. The company also raised \$242M in a separate private placement. The funds will be used to advance development of the Renard diamond project in Quebec.

Firestone Diamonds will begin building the main treatment plant at its Lihobong diamond mine in Lesotho in the coming weeks. The project will be funded by the \$225M the company raised through an Absa bank debt facility, share subscriptions and a mezzanine facility agreement.

Lukoil plans to begin mining the Grib diamond pipe in June, Interfax reported following comments by the Russian oil company's president, Vagit Alekperov. The Grib deposit is thought to contain \$11B worth of recoverable diamonds with its first rough diamonds expected to reach the market in August or September.

Trans Hex anticipates that profit will drop 73% to \$2M for fiscal 2014, according to its updated guidance. The South Africa-based company's fiscal results for the year will be published June 2. Trans Hex reported that revenue declined 7% to \$67M as carats sold fell 16%, which was partly offset by a weakening rand.

Paragon Diamonds reported a loss of \$2M in fiscal 2013 compared to a loss of \$9M the previous year. The explorer recorded no revenue for 2013, but said it was close to securing funds to commence production at its Lemphane mine in Lesotho in late 2014.

Kimberley Diamonds Limited (KDL) announced that Noel Halgreen, a mining engineer, replaced Lee-Anne de Bruin as its managing director. De Bruin will remain as a board director. Following the announcement, Stephen Wetherall, the company's CFO, and Gideon Scheepers, KDL's production manager, resigned from their positions.

Global silver jewelry production rose 10% to 198.8 million ounces, a record high, according to the Silver Institute's 2014 World Silver Survey. The report attributed the increase to stronger economic conditions across the developed world in 2013, which boosted retail sales.

Members of the trade denounced the terrorist attack that took place at the Jewish Museum in Brussels, Belgium, which resulted in the murder of four people. The Antwerp World Diamond Centre, Israel Diamond Exchange and the World Federation of Diamond Bourses separately expressed their shock at the attack.

The Week Ahead...

❖ June 1	Rapaport Breakfast, Certification & Fair Trade Conferences	Las Vegas
❖ June 2 - 6	Rio Tinto Contract Sales	Antwerp
❖ June 2 - 11	Rapaport Single Stone Auction	New York & Israel
❖ June 4	Christie's Jewellery Auction	London

Daniel Benjano

From: Israel

Company: OGI Systems Group – Founder and CEO

Established in 1993, OGI Systems is a manufacturer of diamond technology tools used in the diamond industry providing solutions to analyze, plan, cut, measure and grade rough and polished diamonds.



How did you become an equipment manufacturer for the diamond industry?

I started in the industry in 1990 when someone asked me to make a device using video technology for the purpose of accurately centering diamonds in cutting machines. At the time, I was in the field of medical imaging and had graduated cum laude with a degree in Mathematics and Computer Sciences from Hebrew University in Jerusalem.

The diamond industry at the time had almost nothing from a technological perspective and after the success of my video device I saw there was an opportunity to bring and adapt new technology to this market. I would meet with a lot of people and ask them why they don't do this or that to make the manufacturing process more efficient and maximize their profits. Through this I learned the technological needs of people in the industry and in 1993, I established OGI Systems Ltd., which is the parent company to all of the other companies in the OGI group that are located around the globe.

At what point did new technology start to make inroads in the local diamond industry?

In the beginning it was hard to sell technology to people in the Israeli diamond industry because the industry operated using very traditional methods. They were hesitant to adopt technologies that could alter the industry and might hurt local diamond manufacturers.

It was very hard to get along with this attitude, but the newer technology began to spread when we sold it to people in the Indian industry. The Israelis then understood that it was impossible to stop technological progress and that they would need to adapt to new technology if they wanted to remain competitive in a global industry.

The Indians were, and still are, enthusiastic about all kinds of technology. They will embrace anything that gives them greater capabilities or a competitive advantage. In contrast, in the diamond industry in Israel the adoption of innovative technologies is still slower and more gradual.

The first Indians we worked with were willing to adopt any technology at any price. Companies such as Venus Jewel invested in technology and that helped them become one of the largest manufacturers in the world. The Indian diamantaires saw the bigger picture more clearly and earlier than people in other centers.

What part of the industry primarily uses your products?

Everyone buys our machines. Of course, we provide the equipment to manufacturers and dealers but we also sell to retailers and wholesalers, including some of the biggest names in those segments. Today, even the independent jewelers understand that at the end of the day these devices will help them make sales.

What advice would you give to someone looking to get into your side of the industry?

To be an engineer and say that you will enter the diamond trade is not enough. You need several different traits to succeed. You have to be an engineer and a mathematician, but you also must be a marketing person and someone who is able to recognize what has yet to be created.

It would be difficult to take any engineer off the street and have him work in the diamond industry. Maybe you could hire a group of engineers, but that would cost a lot of money and the market isn't large enough to support that. This isn't like hi-tech where you develop an application that millions of people use and has the potential to earn millions of dollars.

The diamond equipment industry is a small market that is very tough and the technical demands made of the equipment are only increasing, both from the labs and from clients who want equipment that will enable precise measurements. They will ask you why there is a mistake in the diameter of the stone by one hundredth of a millimeter, or why the angle of the crown is 34.47 degrees when it was supposed to be 34.46. It's very exact.

Meeting these constantly rising standards requires dedicating a lot of resources to research and development. Any company that cannot meet the

necessary level of precision will be pushed out of the market sooner or later.

I wouldn't recommend that someone enter this field unless he loves it. This is why there aren't many players in the market in terms of technological competitors. For me, the ability to continue developing top of the line systems for the diamond industry provides a tremendous sense of satisfaction.

How do you identify trends in the market to figure out what ideas you should take from the drawing board and develop into an actual machine?

When you are just starting out, you do it by listening to people in order to understand what they want. Once you've already been in the industry for a while, you are able to see where things are headed. It's like building Legos. You build one piece atop the other. Every time you develop a new product you discover what else is missing from the market. A good example would be our FireTrace Fancy system, which enables customers to manufacture diamonds in various fancy shapes while achieving the maximum brilliance possible. We developed this technology as a continuation of our work on the popular FireTrace system for round-shape diamonds.

Or, you could take our decision to manufacture systems for rough tenders. It was an obvious move that began about five years ago, maybe even a little bit before 2008. When I went to my first tender, I quickly saw that people would arrive at tenders to buy rough but they lacked the ability to measure the stones being offered.

Afterward, I built a machine to do just that – help buyers measure rough diamonds. At first the sales came in dribbles. What happened, though, was that the price of rough began to rise and manufacturers and rough dealers needed a technology to figure out how much they were required to get out of the rough to avoid losing money on the deal. Pretty quickly, they started setting target prices for the rough they needed for manufacturing and they realized how important and useful the technology was to them. Today, almost no one goes to a tender without a device.

I think the rough market will continue to gather steam and that is where we are putting our emphasis for the new model. We are now in the middle of developing a new technology for tenders that will be mobile. That is the next trend.

Another product we are developing is a machine that grades polished Hearts and Arrows diamonds for re-cutting. The device tells you if it is worthwhile to recut and how much of the stone you will lose in the process. This is a product that really doesn't exist in the market and that we will launch at the upcoming JCK Las Vegas trade show.

What distinguishes OGI from its main competitors?

Our machines outshine others in their user-friendliness. Even a person without much knowledge of the field or its technology can operate our machines. Of course, you need someone a bit more skilled to set up the apparatus, but at the end of the day the machines do the work.

Our aim is to make the most precise instruments in the market. Our company's vision is to lead the way by developing the next thing to come to market ahead of our competitors. That is what OGI has done until now and will continue to do for the next 10 years.

How did the 2008 crisis affect OGI in the way you operate, or in its business model?

The crisis didn't impact us too much because we are a privately-owned company that can rapidly adapt to changing market conditions. Once I understood where things were headed and that things would be a bit quieter from customers for a while, I decided to invest more in research and development to enable us to push forward when things picked up later.

The recession did hurt sales a bit at the beginning. There was a 3-month period where things were really quiet, not just in diamonds but in all sectors of the economy. But things stabilized very quickly and business returned to usual.

When it comes to our business model, we aren't interested in adopting a leasing or pay per click model. We want the client to be satisfied and return again to buy more machines, or refer his friends to us to buy some machines.

If I were a diamantaire, I would not want someone to have exact information on what I was producing, which is what the pay per click model allows. I view it as an invasion of privacy.

When you buy from me, you can use my machines to produce 100 or 1 million polished stones and I won't know. My hand isn't in your pocket. My motive is to make a product, sell it and let the client derive the maximum benefit they can out of it.

What do you expect for OGI in the next 10 years?

What is good about diamonds is that there will always be demand for diamonds; there is always potential to innovate and grow. That enables me to learn something new every day. I thought 10 years ago that we'd reached our limit, but it never ends. There is always some new technology to make or room to improve upon existing products.

Our goal will continue to be to make the most precise instruments in the market and to continue leading the market in developing innovative technologies.

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This Week in Stocks

USA	May 29th	May 22nd	Change	Mining	May 29th	May 22nd	Change
Birks Group	1.16	1.18	-1.69%	ALROSA	40.3	39.30	2.54%
Blue Nile	30.87	31.22	-1.12%	Dominon Diamond	13.95	14.00	-0.36%
Charles & Colvard	2.22	2.21	0.45%	Lucara Diamond	2.02	1.99	1.51%
Macy's	58.60	56.80	3.17%	Mountain Province	5.11	4.93	3.65%
Movado Group	38.30	38.02	0.74%	Peregrine Diamonds	0.45	0.41	9.76%
Scio Diamond Tech.	0.51	0.51	0.00%	Rockwell Diamonds	0.29	0.30	-1.69%
Signet	104.67	99.64	5.05%	Shore Gold	0.21	0.21	0.00%
Sotheby's	38.54	39.27	-1.86%	Stornoway Diamond	0.71	0.71	0.00%
Tiffany	97.78	96.30	1.54%	True North Gems	0.08	0.08	0.00%
Zale	21.16	22.69	-6.74%	Anglo American	1528.50	1549.00	-1.32%
India				Firestone Diamonds	3.90	3.75	4.00%
Asian Star	714.00	680.00	5.00%	Gem Diamonds	157.75	163.25	-3.37%
Classic Diamond	2.44	1.93	26.42%	Gemfields	41.85	40.49	3.36%
C. Mahendra	237.00	241.65	-1.92%	Petra Diamonds	156.30	157.77	-0.93%
Gitanjali Gems	85.05	101.40	-16.12%	Rio Tinto plc	3172.00	3222.00	-1.55%
Goenka Diamond	4.35	4.45	-2.25%	Stellar Diamonds	1.25	1.22	2.25%
Goldiam Intl.	33.50	29.05	15.32%	Other			
Lypsa Gems	170.50	168.00	1.49%	Chow Sang Sang	18.98	18.34	3.49%
Rajesh Exports	126.15	139.50	-9.57%	Chow Tai Fook	10.22	10.48	-2.48%
Ren. Jewellery	58.60	65.70	-10.81%	Damiani	1.46	1.45	0.34%
Suashish Diamonds	232.10	233.35	-0.54%	Richemont	94.20	93.30	0.96%
Titan	317.85	330.30	-3.77%	Swatch Group	527.00	537.00	-1.86%
Winsome Diamonds	5.81	6.55	-11.30%	Michael Hill	1.30	1.29	0.78%
Commodities				Sarine Technologies	2.67	2.53	5.53%
Gold	1258.60	1291.90	-2.58%	Currencies			
Silver	19.03	19.39	-1.86%	Euro	0.74	0.73	0.66%
Platinum	1449.00	1473.00	-1.63%	Pound	0.60	0.59	1.03%
Palladium	835.00	826.00	1.09%	Yuan	6.25	6.24	0.18%
				Rupee	58.87	58.48	0.67%

This Week on RapNet



PRICES FOR ROUNDS

0.30-0.39ct. – Slight Downtrend Best discounts: -25% / -35% Average discounts: -15% / -25%	1.50-1.99ct. – Stable Best discounts: -30% / -40% Average discounts: -15% / -25%
0.40-0.49ct. – Slight Downtrend Best discounts: -25% / -35% Average discounts: -15% / -25%	2.00-2.99ct. – Stable Best discounts: -30% / -35% Average discounts: -15% / -25%
0.50-0.69ct. – Stable Best discounts: -30% / -35% Average discounts: -15% / -25%	3.00-3.99ct. – Slight Downtrend Best discounts: -20% / -30% Average discounts: -10% / -20%
0.70-0.89ct. – Stable Best discounts: -35% / -40% Average discounts: -15% / -25%	4.00-4.99ct. – Mixed Trend Best discounts: -15% / -25% Average discounts: -10% / -20%
0.90-0.99ct. – Stable Best discounts: -30% / -35% Average discounts: -20% / -25%	5.00-5.99ct. – Mixed Trend Best discounts: -15% / -25% Average discounts: -10% / -20%
1.00-1.49ct. – Slight Downtrend Best discounts: -30% / -40% Average discounts: -15% / -25%	

PRICES FOR PEARS

0.50-0.69ct. – Mixed Trend Best discounts: -40% / -50% Average discounts: -30% / -35%	2.00-2.99ct. – Mixed Trend Best discounts: -25% / -35% Average discounts: -15% / -20%
0.70-0.89ct. – Mixed Trend Best discounts: -35% / -45% Average discounts: -25% / -30%	3.00-3.99ct. – Mixed Trend Best discounts: -10% / -20% Average discounts: -15% / -25%
0.90-0.99ct. – Mixed Trend Best discounts: -35% / -45% Average discounts: -25% / -35%	4.00-4.99ct. – Mixed Trend Best discounts: -10% / -20% Average discounts: -10% / -20%
1.00-1.49ct. – Mixed Trend Best discounts: -40% / -45% Average discount: -30% / -35%	5.00ct.+ – Mixed Trend Best discounts: -10% / -15% Average discounts: -10% / -15%
1.50-1.99ct. – Mixed Trend Best discount: -25% / -35% Average discounts: -20% / -25%	Note: There is limited availability on RapNet for rounds ranging from 3.00- to 5.00-ct. RapNet prices for these larger sizes frequently represent memo prices with significantly higher asking prices (30% or higher) than those given for cash purchases.

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Global Diamond Markets



United States: Polished diamond trading has slowed as dealers prepared for this week's JCK Las Vegas show. Most jewelers are waiting to see new varieties and trends at the shows before placing large orders. There is steady demand for diamonds up to 1.10 carat, H-I, SI1 and lower clarities. Wholesale jewelers are catering to specialty made-to-order items, especially for bridal purchases. Jewelers are optimistic that the second half of the year will prove stronger than the first half, with bridal continuing to drive the market.



Belgium: Sentiment is cautious as polished trading has been quiet in the past few weeks. Buyers in Antwerp are looking to fill existing orders with continued good demand for Gemological Institute of America (GIA) dossiers. In fancy shapes, there is good demand for pears and improving demand for princess cuts. Dealers are hoping this week's JCK Las Vegas show will help boost trading and lift the mood. Rough trading is stable with firm prices on the secondary market.



China: Retail jewelry sales are relatively slow, which is somewhat expected for this time of the year. As a result, wholesale diamond buyers are not urgently looking for goods and are willing to wait before making large-scale purchases to fill inventory. Diamond dealers are slightly more conservative in their buying than a few months ago, with steady demand for round, 0.30-carat to 1.00-carat, SI goods.



Hong Kong: Market sentiment has improved. There are rising expectations for the upcoming Hong Kong Jewellery and Gem Fair taking place on June 19 to 22, although the show is the smallest of the three annual shows in Hong Kong. There is strong demand for triple EX diamonds and for VS2 to SI1 clarity GIA-dossiers.



India: Polished trading remains relatively slow as local dealers and manufacturers remain on their summer vacation. However, sentiment has improved since the national election results saw the opposition party voted into government. Local stock markets continue to rise and the rupee has strengthened to below INR 59 = \$1. There are few foreign buyers in the market as the trade is focused on the Las Vegas shows. There has been improving demand for GIA dossier certificates while there remains a severe backlog of these goods at the GIA. Rough trading is steady as less rough is coming to market while manufacturing activity has increased.



Israel: Activity in the bourse is quiet as more than 100 Israeli polished suppliers are exhibiting at this week's JCK Las Vegas show. Dealers expect the show will signal steady U.S. demand for the second half of the year. From Las Vegas, many will be traveling to the June Hong Kong show. Demand remains good for GIA dossiers, particularly for 0.30-carat to 0.50-carat, G-J, VS-SI diamonds. Demand for fancy shapes is stable with reported shortages of cushions and ovals because manufacturers have focused on rounds in recent months.



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