

Diamond (Q4, 2014 and Q1, 2015)

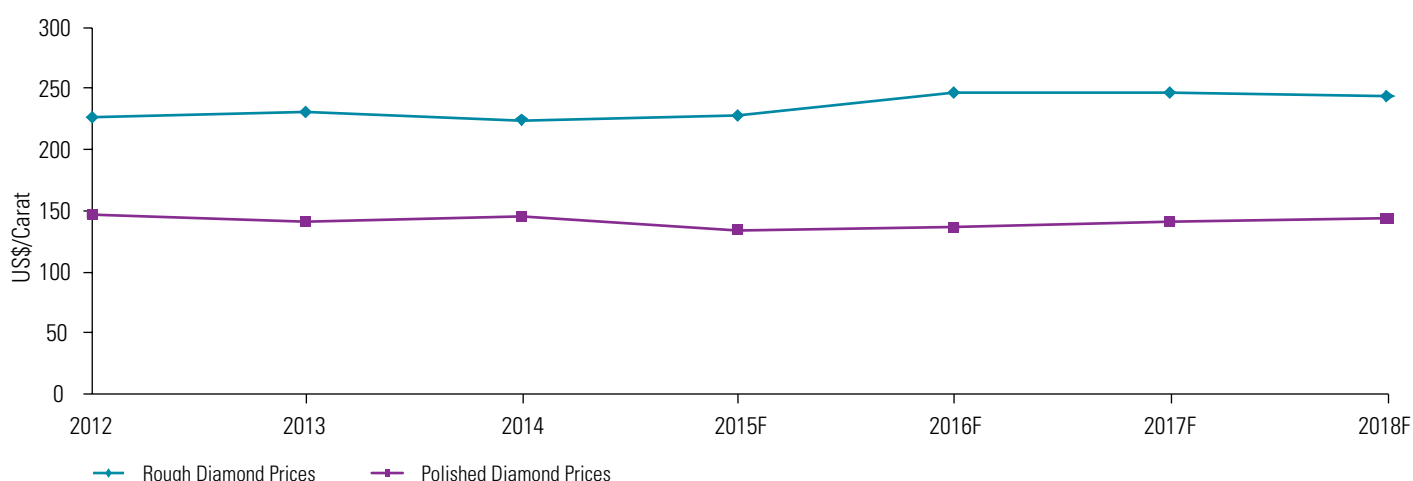
Price outlook¹

Rough diamond prices dropped about 3 percent in 2014, from US\$230/carat in 2013, to reach US\$224/carat in 2014, driven by the tightening of credit by banks to the diamond industry. This led to the release of inventories by traders, cutters and polishers, resulting in higher supply. According to the data from www International Diamond Consultants – a UK-based firm – rough diamond prices dropped by about 7 percent in Q4, 2014, which is considered to be the steepest drop since Q2, 2012. In addition to this, the closure of the Antwerp Diamond Bank in October 2014 – which financed trading companies in the Belgian port city for the past 80 years – resulted in liquidity concerns in the diamond industry. Other factors, such as sluggish Chinese economy, pressures from deflation in Japan and the EU, and several geopolitical conditions resulted in downward pressures on rough diamond prices. In 2015, rough diamond prices are likely to increase about 1 percent, to reach US\$227/carat, on account of stable supply in 2015. This is likely to improve gradually on account of increasing middle class demand from China and India. In Q1, 2015, prices remained unchanged due to the restricted credit

issues and the continued strengthening of the US dollar – which made diamonds costlier for buyers across Japan, the EU and Russia – resulting in lowering its demand, globally.²

Average price of polished diamonds increased 3.6 percent in 2014, from US\$140/carat in 2013 to reach US\$145/carat. However, according to the Rappaport report, diamond trading declined during October 2014, with the Jewish holidays and Diwali festival in India – which relates to the close of trading houses – backed by the weakening global demand for diamonds. In Q4, 2014, the release of 0.30-carat to 0.50-carat diamonds by the Gemological Institute of America (GIA) laboratories added to the supply glut. Further, demand from China declined due to the large inventories of 0.30 carat diamonds, which were aggressively bought in 2013. In 2015, average polished diamond prices are expected to decline by 8 percent as compared with 2014, to reach US\$134/carat in 2015. In Q1, 2015, oversupply due to high inventory levels across the distribution channel, accounted for the reduced prices by suppliers, to generate higher profits and cash.³

Figure 1: Diamond price trends (2012–18F)



Source: Numis – Metals and Mining – Treating water, 9 April 2015; Renaissance Capital, Metals and Mining – Commodity bear provides long term value, 23 March 2015; via Thomson research/Investext, accessed May 2015

¹ Renaissance Capital, Metals and Mining – Commodity bear provides long term value, 23 March 2015, Numis – Metals and Mining – Treating water, 9 April 2015, via Thomson research/Investext, accessed May 2015

² “Rough Diamond Prices Drop as Bank Withdrawal Produces Jewel Glut”, Bloomberg Business, 8 January 2015, accessed May 2015;

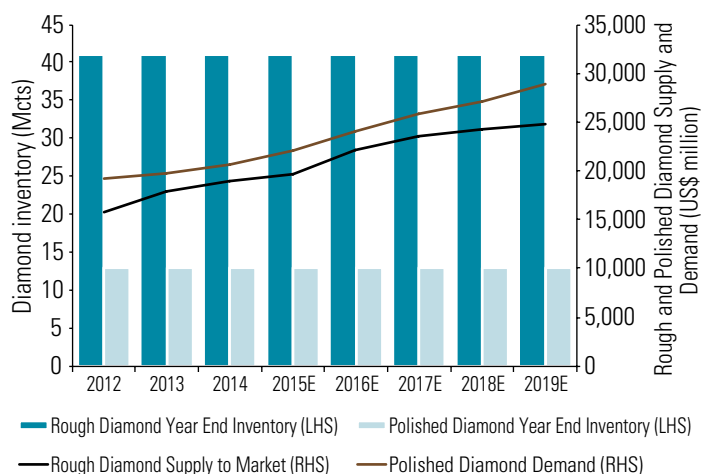
“Global Rough Diamond Production Estimated to Hit Over 135M Carats in 2015”, Paul Zimnisky, 6 February 2015, accessed May 2015

³ “Polished Diamond Prices Fall in March”, BusinessWire India, 2 April 2015, accessed May 2015; “Global Rough Diamond Production Estimated to Hit Over 135M Carats in 2015”, Paul Zimnisky, 6 February 2015, accessed May 2015

Supply and demand⁴

Supply⁵

Figure 2: Diamond year-end inventory and demand-supply scenario (2012–19E)



Source: BMO Capital Markets – Global Mining Research – Commodity Canvas – Q2/15: Seasonal Weakness but Dollar-Driven Rout Done, 8 April 2015, via Thomson research/Investext, accessed May 2015

- In 2014, rough diamond supply to the market increased about 6 percent, from about US\$18 billion in 2013, to reach US\$19 billion in 2014, primarily due to the release of inventories by traders, polishers and cutters, on account of reduced bank credits and slow trading, due to the closure of the Antwerp Diamond Bank in October 2014.⁶
- The diamond market is the most consolidated commodity market with two major producers, DeBeers and Alrosa, comprising about 52 percent of the total supply, globally. In 2014, DeBeers' global diamond production increased 5 percent y-o-y, to reach 32.6 million carats, driven by the robust performance by the Debswana mine, which was slightly offset by the lower productions at Snap Lake and Kimberly locations. DeBeers diamond production is expected to reach 32–34 million carats in 2015.⁷
- According to BMO research, rough diamond production is expected to grow 3 percent, to reach US\$19.5 billion in 2015. World's 10 largest diamond mines are estimated to account for 61 percent of the total global production, based on the research by Paul Zimnisky. In 2015, three new diamond mines are expected to start production, while one mine is likely to be shut down.⁸
 - Alrosa's mine – Botuobinskaya – is scheduled to start production in Q4, 2015, which will produce about 1.5 million carats per year, with 40 years of mine life.
 - DiamondCorp's Lace mine, located in South Africa, is expected to start production in H2 2015, with annual production of 500k carats per year.
 - Kimberly Diamonds Ellendale mine in Australia is likely to shut down production in 2015, since the company plans to focus solely on its Lerela mine in Botswana.
 - Further, 2015 is likely to witness the first full-year production for four mines – Grib, Karpinskogo-1, Ghaghoo and Lulo.
 - Some of the major diamond mine projects in pipeline are: Gahcho Kué and Renard, in Canada, Liqhobong in Lesotho, Bunder in India, and Verkhne-Munskoe in Russia.
 - Verkhne-Munskoe – which is considered to be the largest project of Alrosa – is expected to be operational by 2020, with an annual estimated production of 1 million carats.⁹
- During Q1, 2015, continued credit unavailability resulted in a stable rough diamond production over the period. Rio Tinto's diamond production increased about 14 percent, reaching 4.1 million carats in Q1, 2015 as compared with 3.6 million carats in Q1, 2014.¹⁰

⁴ BMO Capital Markets – Global Mining Research – Commodity Canvas – Q2/15: Seasonal Weakness but Dollar-Driven Rout Done, 8 April 2015, via Thomson research/Investext, accessed May 2015; Diamond Insight - 2014 Diamond Jewelry Demand And Outlook For 2015 – March 2015, accessed May 2015

⁵ "Rough Diamond Prices Drop as Bank Withdrawal Produces Jewel Glut", Bloomberg Business, 8 January 2015, accessed May 2015; BMO Capital Markets – Global Mining Research – Commodity Canvas – Q2/15: Seasonal Weakness but Dollar-Driven Rout Done, 8 April 2015; Liberum – Mining – Sector Dashboard, 9 March 2015; via Thomson research/Investext, accessed May 2015

⁶ "Rough Diamond Prices Drop as Bank Withdrawal Produces Jewel Glut", Bloomberg Business, 8 January 2015, accessed May 2015; BMO Capital Markets – Global Mining Research – Commodity Canvas – Q2/15: Seasonal Weakness but Dollar-Driven Rout Done, 8 April 2015, via Thomson research/Investext, accessed May 2015

⁷ Liberum – Mining – Sector Dashboard, 9 March 2015, via Thomson research/Investext, accessed May 2015; "De Beers Sales +11 percent in 2014", Edahn Golan, 13 February 2015, accessed May 2015

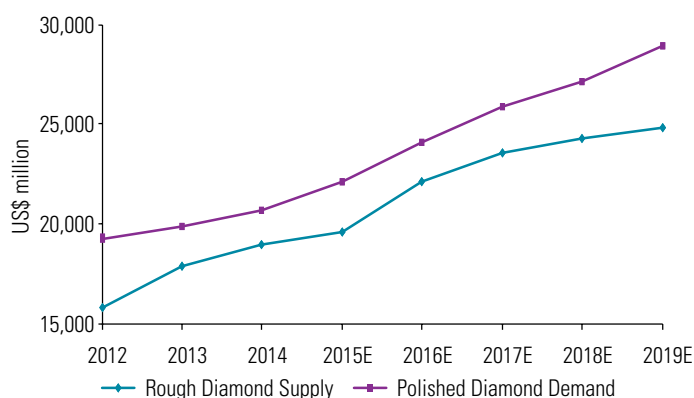
⁸ BMO Capital Markets – Global Mining Research – Commodity Canvas – Q2/15: Seasonal Weakness but Dollar-Driven Rout Done, 8 April 2015, via Thomson research/Investext, accessed May 2015; "Global Rough Diamond Production Estimated to Hit Over 135M Carats in 2015", Paul Zimnisky, 6 February 2015, accessed May 2015

⁹ BMO Capital Markets – Global Mining Research – Commodity Canvas – Q2/15: Seasonal Weakness but Dollar-Driven Rout Done, 8 April 2015, via Thomson research/Investext, accessed May 2015; "Global Rough Diamond Production Estimated to Hit Over 135M Carats in 2015", Paul Zimnisky, 6 February 2015, accessed May 2015

¹⁰ "Through Q1, 2015 Diamond Industry More Stable But Pressures Remain", KITCO, 17 April 2015, accessed May 2015; "Rio Tinto Diamonds Production up 14 percent in Q1, 2015", IDEX Online, 21 April 2015, accessed May 2015

Demand

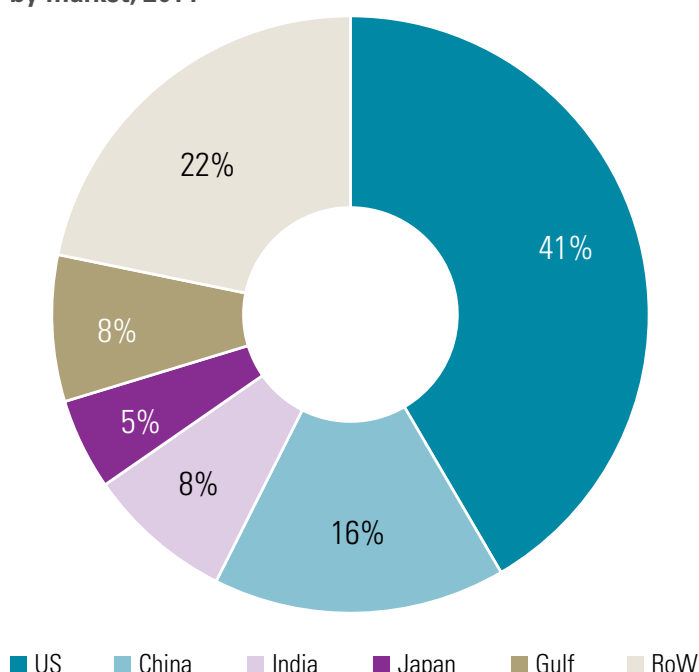
Figure 3: Supply and demand of diamond (2012–19E)



Source: BMO Capital Markets – Global Mining Research – Commodity Canvas – Q2/15: Seasonal Weakness but Dollar-Driven Rout Done, 8 April 2015, via Thomson research/Investext, accessed May 2015

In 2014, global demand for polished diamonds witnessed an increase of about 4 percent, from US\$19.7 billion in 2013 to reach US\$20.6 billion in 2014. The US – with a global share of 42 percent in 2014 – is considered to be the dominant diamond market. Emerging markets, such as China and India, are the major growth drivers, as a result of the rising demand from the middle class. Collectively, China and India accounted for about 24 percent of the total global demand. This was followed by the Gulf region and Japan, contributing about 8 percent and 5 percent, respectively. Together, these top-five markets covered a market share of about 79 percent of the global polished diamond demand in 2014.¹¹

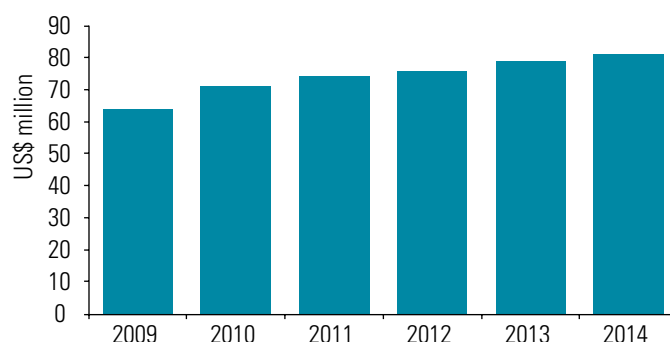
Figure 4: Global polished diamond demand share by market, 2014



Source: Diamond Insight – 2014 Diamond Jewelry Demand and Outlook for 2015 – March 2015, accessed May 2015

- According to De Beers Diamond Insight Flash Report 2015, global diamond jewelry sales witnessed an increase of 3 percent, which reached a record high of US\$81 billion in 2014. A positive growth was evident for demand of diamond jewelry in 2014, in local currency for the major five markets. Globally, average growth across the diamond jewelry segment was about 5 percent, excluding the current exchange rates. Considering the impact of the strong US dollar against other currencies of major consumer markets, growth witnessed was about 3 percent.¹²

Figure 5: Rough diamond demand projections (2009–2014)



Source: Diamond Insight – 2014 Diamond Jewelry Demand and Outlook for 2015 – March 2015, accessed May 2015

- In 2014, the US continued to perform as the fastest-growing market for diamond jewelry, which grew about 7 percent. This can primarily be attributed to the improved US economy, rising employment and decreasing oil prices that resulted in higher consumer confidence as well as increased spending power. China was the second-largest growing market in 2014 – witnessing a growth of 6 percent – driven by the increased consumption base over the last few years. The Indian diamond jewelry market witnessed growth of 3 percent in local currency terms, attributed to the country's policy reforms that encouraged consumer spending power. However, the strengthening of the US dollar as compared with the rupee, declined the growth marginally about 1 percent. Although, in 2014, the Japanese diamond jewelry market gained local currency growth of about 2 percent, the yen depreciating against the US dollar resulted in a significant drop of 11 percent in US dollars. The drop in tourist numbers and lower spending by foreign nationalities, such as Russians and Chinese, resulted in flat growth of diamond jewelry.¹³
- In Q1, 2015, demand growth saw poor market sentiment, attributed to several geopolitical issues across major markets such as Russia and the Middle East, backed by the appreciating US dollar. Depreciating currencies of major consumer markets, including India, Japan and Russia, made diamond more expensive for buyers in these regions, resulting in decline in demand, eventually. In China, launch of a recent campaign against corruption and intake of conspicuous commodities, declined

¹¹ Diamond Insight – 2014 Diamond Jewelry Demand And Outlook For 2015 – March 2015, accessed May 2015; "Rough Diamond Prices Drop as Bank Withdrawal Produces Jewel Glut", Bloomberg Business, 8 January 2015, accessed May 2015

¹² Diamond Insight – 2014 Diamond Jewelry Demand And Outlook For 2015 – March 2015, accessed May 2015

¹³ Diamond Insight – 2014 Diamond Jewelry Demand And Outlook For 2015 – March 2015, accessed May 2015; "Polished diamond prices expected to keep dropping", National Jeweler, 5 November 2015, accessed May 2015

the consumption of large diamonds in the country. In the near term, these factors are expected to retain the weak demand growth over 2015. In India, poor demand has forced manufacturers to reduce their production 30 percent in Q1, 2015, to avoid drop in profit margins.¹⁴

- Over 2015–2019, demand for polished diamonds is expected to increase about 7 percent, from US\$22 billion

in 2015 to reach about US\$29 billion in 2019. This will be driven primarily by the growing middle class in emerging nations, such as China and India. Reduced supply from increased production cuts and absence of inventories is likely to balance the market, creating shortages that will drive demand growth.¹⁵

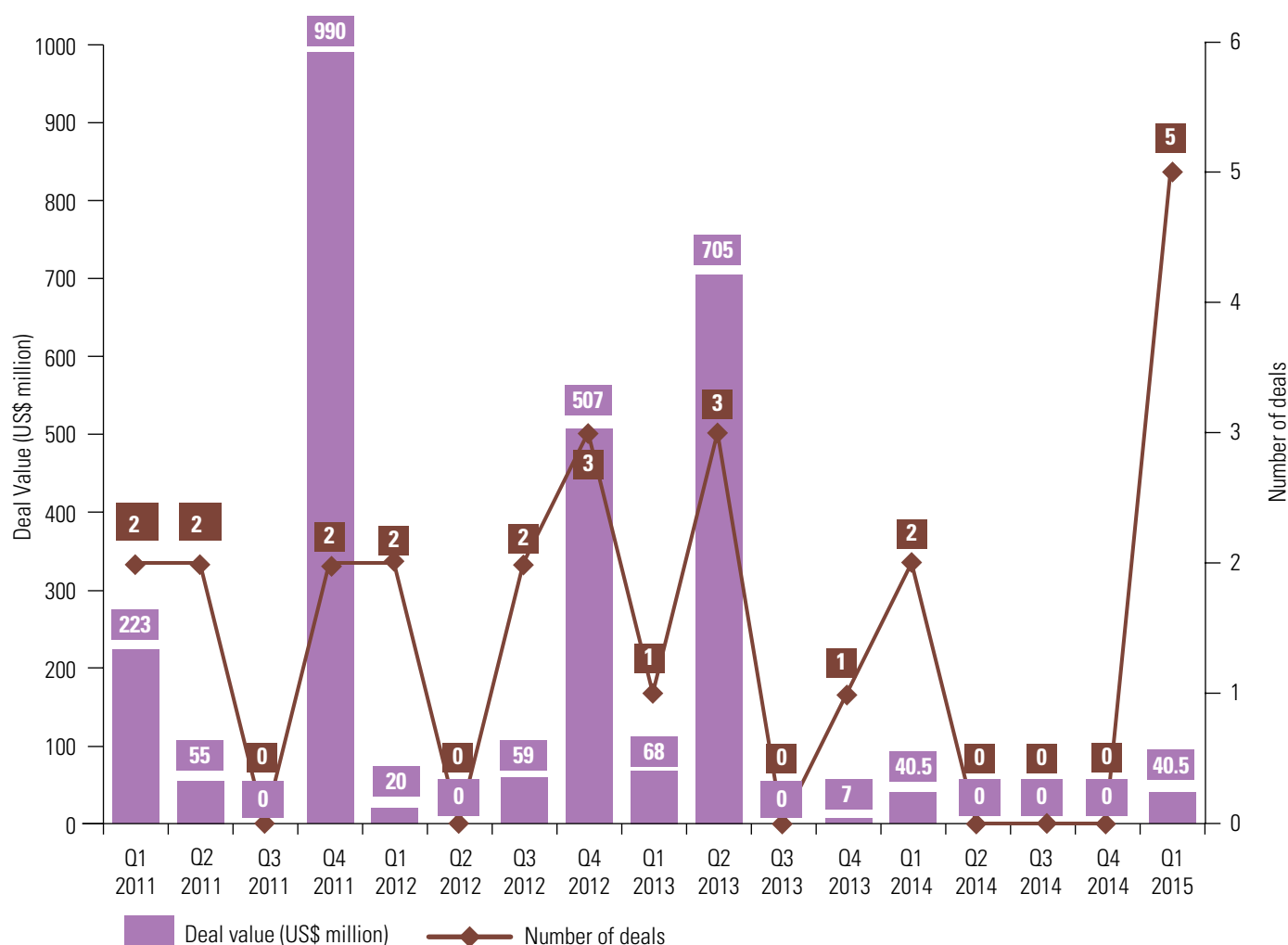
Key developments

Ownership changes¹⁶

In Q1, 2015, the total value of major deals announced in the diamond industry was US\$40.46 million, compared to

US\$64 million in Q1, 2014. The number of deals announced during Q2, Q3 and Q4, 2014 remained zero – it reached five deals in Q1, 2015.

Figure 6: Value of major deals announced in Q4, 2014 and Q1, 2015



Source: Deals: Search, Mergermarket, accessed May 2015; KPMG analysis

¹⁴ "Polished diamond prices continue fall," Times of India, 9 March 2015, accessed May 2015; "Poor demand forces diamond makers to cut production by 30 percent," Economic Times, 8 April 2015, accessed May 2015

¹⁵ BMO Capital Markets – Global Mining Research – Commodity Canvas – Q2/15: Seasonal Weakness but Dollar-Driven Rout Done, 8 April 2015, via Thomson research/ Investext, accessed May 2015

¹⁶ Deals: Search, Mergermarket, accessed May 2015

Table 1: Diamond deals announced in Q4, 2014 and Q1, 2015

Date announced	Target	Acquirer	Status	Value of transaction (US\$ million)	Stake (%)
13-May-15 ¹⁷	Synova (Switzerland)	De Beers (UK)	Completed	NA	33.4
6-May-15 ¹⁸	Lucara Diamond Corporation (Mothae diamond project) (Canada)	Paragon Diamonds Limited (UK)	Announced	8.5	75
30-Mar-15 ¹⁹	Diamexstrat Botswana (Proprietary) Ltd.	Peregrine Diamonds Ltd.	Announced	NA	100
30-Mar-15 ²⁰	Etruscan Diamonds (Pty) Ltd. (South Africa)	Undisclosed	Announced	7.77	NA
6-Jan-15 ²¹	Bondeo 140 CC (Alluvial Diamond Properties) (South Africa)	Rockwell Diamonds Inc. (Canada)	Announced	24.19	NA

Source: Deals: Search, Mergermarket, accessed 24 June 2014; KPMG analysis

Regulatory updates

Table 2: List of recent regulations in the diamond industry

Country/Region	Regulation/topic	Description
Zimbabwe	Consolidation of all diamond mining companies ²²	Zimbabwe government plans to merge all diamond mining companies into one big firm, which would also include Rio Tinto's Murowa diamond mine. This one consolidated firm would be 50 percent state owned.

Projects

Table 3: Cross section of global project in diamond mining industry*

Project	Company	Location	Potential start up	Potential output (million carat tons per annum – mctpa)	Potential life of mine (in years)
A21 Diavik Diamond Mine	Rio Tinto	Canada	2018	NA	NA
Argyle underground development	Rio Tinto	Australia	2013	20	7 (Until 2020)
BK11	Firestone Diamonds (90%); Botswana Nationals (10%)	Botswana	2011	Mine under temporary care and maintenance in February 2012 and operations yet to restart; Board considering various strategic alternatives, including disposal or joint venture	
Bunder	Rio Tinto	India	2019	3.0	NA
Brauna Diamond Project	Lipari Mineracao Ltda (100%)	Brazil	Q1, 2016	0.2	7
Diavik Diamond Mine	Diavik Diamond Mines Inc.	Canada	2003	100 million carats of diamond over its mine life of 16 to 22 years	16 to 22 years

¹⁷ De Beers acquires 33.4 percent equity stake in Synova, MarketLine website, 13 May 2015, via Factiva, accessed May 2015

¹⁸ Paragon Diamonds to Buy Majority Stake in Lesotho Project, via Factiva, accessed May 2015

¹⁹ Peregrine Diamonds Announces Acquisition of Botswana Diamond Exploration Company, India Investment News, via Factiva 30 March 2015, accessed May 2015

²⁰ Merger Market database, accessed May 2015

²¹ Merger Market database, accessed May 2015

²² "Zimbabwe to consolidate all diamond mining companies in the country," Emerging Markets Business Information News, 17 March 2015, accessed May 2015

Project	Company	Location	Potential start up	Potential output (million carat tons per annum – mctpa)	Potential life of mine (in years)
Finsch mine	Petra Diamonds	South Africa	2018	Current expansion plan is expected to lift production from 1.1 million ROM ctpa in 2014 to 2 million ROM ctpa 2018	25
Grib	LUKoil	Russia, Arkhangelsk	2014	4.5 (from 2016)	NA
Kao	Namakwa (62.5%); Kimberlite Investments (12.5%); Government of Lesotho (25%)	Lesotho	H1 2012	0.15	21
Karowe Diamond Mine	Boteti Mining (Pty) Ltd. (100%)	Botswana	2012	400,000 to 420,000 carats in 2015	13
Kimberley underground	Petra Diamonds	South Africa	2016	Production expected to reach 170,000 ctpa by FY 2016	12
Koffiefontein	Petra Diamonds	South Africa	2017	Production to increase from 50,375 ctpa in 2014 to circa 100,000 ctpa by 2017	20
Lace mine	Diamond corp. (74%); Sphere Holdings (Proprietary) Limited (13%); Shanduka Group (Proprietary) Limited (13%)	South Africa	2015	0.5	25
Lemphane Diamond Project	Paragon Diamonds Limited	Lesotho	Q2 2015	Extraction of approximately 1 million tons of kimberlite, over an 18 month to two year period	10
Liqhobong mine	Firestone Diamonds (75%); Government of Lesotho (25%)	Lesotho	2016	Target production of 1.1 million carats per annum by mid-2016	15
Mothae	Lucara Diamond (75%); Government of Lesotho (25%)	Lesotho	NA	NA	NA
Renard	Stornoway (100%)	Canada	December 2015	1.6	11
Star Diamond Project	Shore Gold Inc.	Canada	NA	1.67	12
Tirisano Diamond Mine	Rockwell Diamonds Inc. (74%), Mogopa Minerals (26%)	South Africa	NA	NA	18
Williamson	Petra Diamonds	Tanzania	2017	Production expected to increase from 188,465 ctpa in 2014 to circa 300,000 ctpa by 2017	50
Wouterspan Diamond Mine	Rockwell Diamonds Inc. (74%)	South Africa	NA	NA	More than 10 years

Note: *The list is not exhaustive and contains a limited number of projects

Source: Company Reports, accessed May 2015





Nigel Dixon-Warren

KPMG in Botswana

T: +26 739 12400

E: nigel.dixon-warren@kpmg.bw

Nigel is a Partner with KPMG in Botswana and is responsible for Tax and Advisory services for clients in the region. He is KPMG in Botswana's primary point of contact for mining and other inward investment related advice covering market entry, corporate structures, tax advisory and compliance as well as general business insights.



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