Equity Communications

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ZIMBABWE DIAMOND PRODUCTION DECLINES 14% IN 2013

COUNTRY REQUIRES COMPREHENSIVE REFORMS TO REMAIN A MAJOR DIAMOND PRODUCER

Harare -- April 15, 2014 -- Zimbabwe produced 10.411 million carats of diamonds in 2013. 14 percent fewer diamonds than in 2012.

Diamond production was lower in 2013 for two reasons. First, Zimbabwe held watershed elections that introduced socio-economic policy uncertainty during the campaign period and this affected operations of mining companies. Second, the alluvial deposits in the Marange diamonds fields are now considerably depleted after five years of formal mining activities.

Diamond production is expected to remain in the 9 million carats range for 2014 or possibly lower, according to a new report by Equity Communications, Zimbabwe diamond industry analysts.

While previous projections had forecast gradually rising production in the coming years in the aftermath of electoral reforms and removal of economic sanctions; actual diamond production will now likely remain at current levels or perhaps move in the opposite direction unless Zimbabwe opens up new concession area. The government of Zimbabwe is currently reviewing mining licences in the Marange diamonds fields and intends to reduce the number of operators by as many as five. Without doubt, this does affect mining operations for the companies since security of tenure is no longer available. In the meantime, the relatively easy alluvial pickings continue to be depleted further.

The government of Zimbabwe will likely force through consolidation of the different operators to plug revenue gaps and leakages but consolidation is ultimately necessary for more sustainable mining operations, according to Tinashe Takafuma of Equity Communications.

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"As things stand, Zimbabwe is still investigating the best way to consolidate the various operators in Marange. That's the first step. If consolidation occurs, then the next step would be to stabilize and rationalize production in the concession areas. After that, the third step would be to optimize production and map out plans for underground mining. Finally, large capital investments would then be required to explore the underground operations. We are looking at 3 to 5 years of preparation"

"Mining is costly business that requires operational clarity and the ability to look deep into the future. Our view is that growth in diamond production will stall without a change in approach by the authorities in Zimbabwe who like to change things around whenever they feel like. The last 5 years in Zimbabwe diamond mining are a direct consequence of the lack of long-term clarity in mining which is actually damaging for the country. If the policy outlook picture is uncertain, people will come in, take what they can and not care about the future because that's what they have to work with - as has happened with the current operators."

If the next intention is to exploit the underground resource at Marange, then diamond mining activities are no longer economically viable in their current fragmented form. The current operators do not have the indispensable experience and deep cash resources required to pursue deep mining activities, especially at the individual company level.

Moreover, very little of the revenue accumulated over the years was ploughed back into the mining operations to secure their long-term sustainability. Therefore, going forward, fresh large capital investments are required to sustain operations over many years well into the future.

Essentially, the problem is that the larger part of the production footprint of Marange is made up of low quality diamonds. Thus, to proceed to underground operations, operators must first ensure that gem quality diamonds recoverable can more than adequately cover substantially increased mining costs. In effect, the time for regular diamond mining activities in Marange has arrived but the licensed operators have not made adequate preparations.

On the revenue side, Zimbabwe's rough diamond sales reached US$466.9 million in 2013. 38.4 percent below 2012 sales.

Diamond revenues were lower in 2013 because of three reasons. First, revenue leakages persisted in rough diamond sales and marketing. Second, Zimbabwe sold most of its accumulated stock of diamonds in 2012 after the Kimberley Process authorised unrestricted exports. Third, diamond producers recovered fewer diamonds in 2013.

The Zimbabwe government is currently in the process of breaking down the sales system built in the last five years, to replace it with something that generates maximum revenue for the fiscus.

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Recent trial diamond tenders in Dubai and Antwerp confirmed what many already knew in the global diamond market - that the people of Zimbabwe were being fleeced in all their previous diamond sales. Scrupulous dealers who bought diamonds at tenders in Harare, via the Dubai route, had maintained that Zimbabwe diamonds could only be bought at hefty discounts of as much as 25-40 percent arguing that diamonds from the country came with serious reputational risks for traders.

The stakes couldn't be higher for the government of Zimbabwe. Because of limited external financial support, Zimbabwe has to internally generate revenue required to keep the country functioning. Furthermore, the government can no longer print money to cover liquidity problems and it can no longer place the blame on governing partners when things go wrong.

For the above reasons, diamond revenues are expected to increase 47 percent in 2013 and reach US$686 million on the back of slightly increased production, vastly improved diamond sales and marketing methods plus continued plugging of revenue leaks. Furthermore, rough diamond prices are generally expected to increase by 11 percent in global markets because of long-term supply contract renewal cycles and improved consumer demand from China and India.

Recent changes in the sales and marketing of Marange diamonds will result in diamond revenues for Zimbabwe growing towards US$1 billion in the coming years, provided Zimbabwe continues to access actual market prices for its diamonds.

Ultimately, the production footprint of the Marange diamonds is not prolific by world standards therefore Zimbabwe will have to boost production to at least 14 million carats per year if it wants to receive diamond revenues similar to those achieved by its neighbours. Such ambitions are still about 3 to 5 years in the future, and also highly depended on the approach Zimbabwe takes to develop its diamond industry henceforth.

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About Diamond Shades

Diamond Shades is a diamond market research service owned and operated by Equity Communications. Diamond Shades provides breaking news alerts, analysis and commentary on the diamond industry value chain, precious jewellery markets and the general luxury economy.

About Equity Communications

Established in 2004, Equity Communications is an investor communications company and premium business information provider specializing on Zimbabwean mining industries that have considerable global significance such as platinum and diamonds. For more information visit: www.diamondshades.com/

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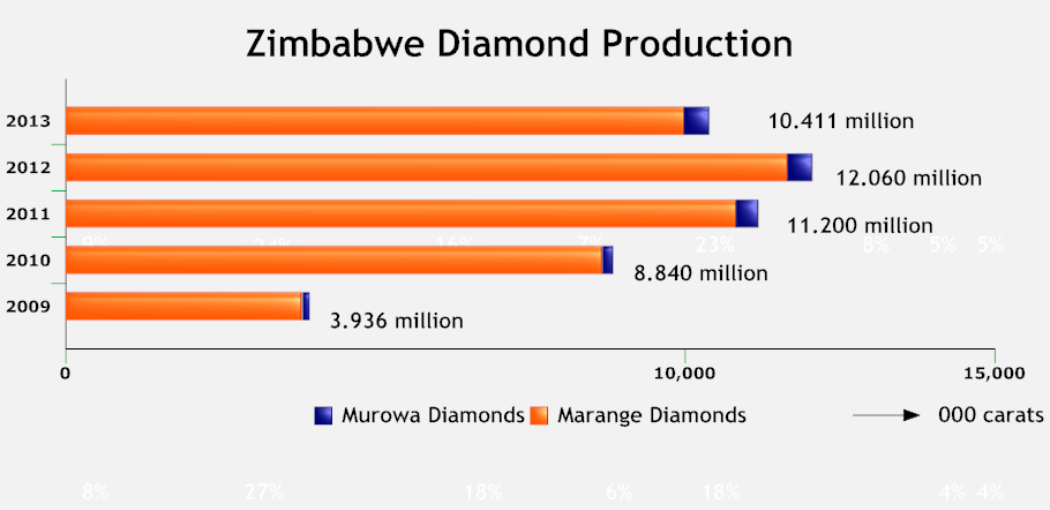
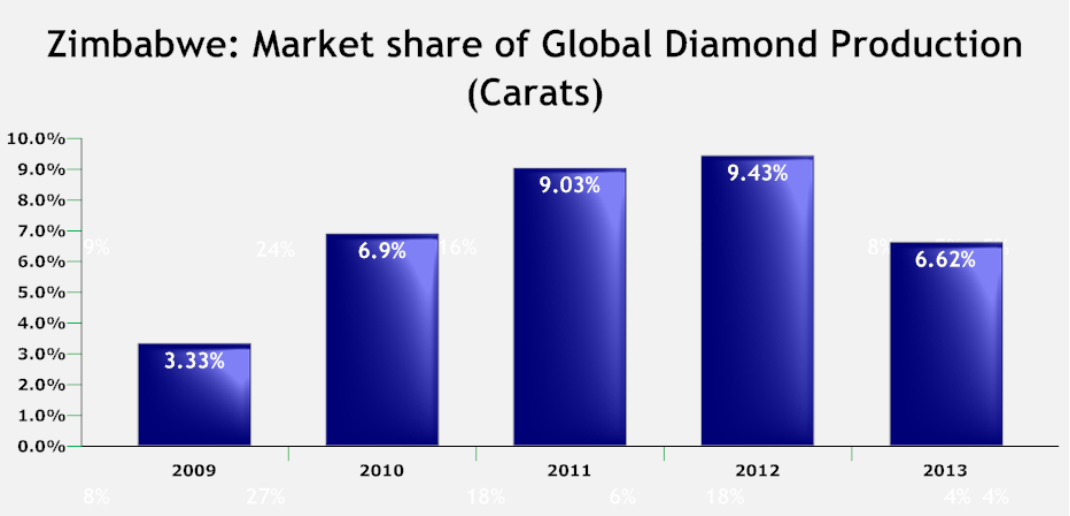
Supplementary Charts

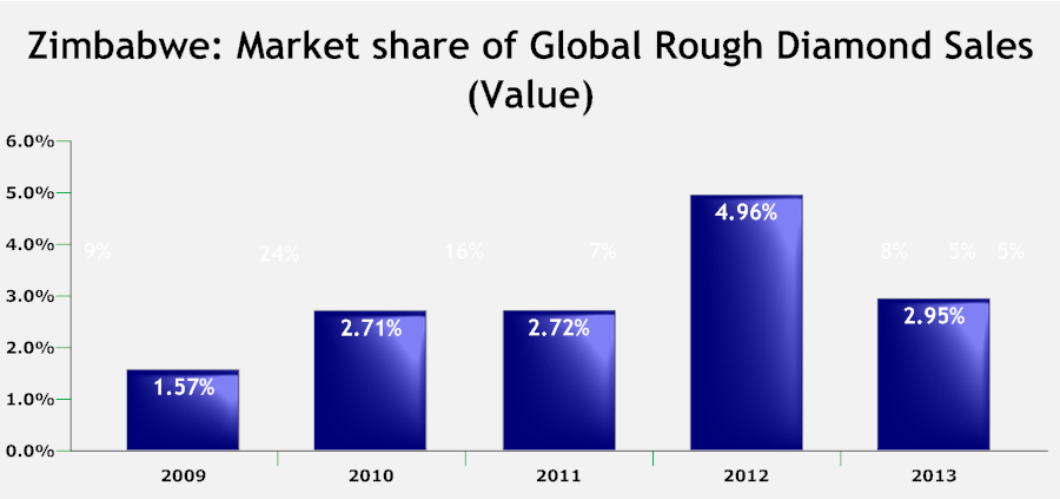


Zimbabwe Diamond Production					
	2009	2010	2011	2012	2013
Marange	3,812	8,662	10,833	11,657	9,997
Murowa	124	178	367	403	414
Total	**3,936**	**8,840**	**11,200**	**12,060**	**10,411**



Zimbabwe Rough Diamond Sales

(US$ millions)	2009	2010	2011	2012	2013	% change Year on Year
Marange	125	330	392	711	418	-41.21%
Murowa	16	22	43	47	49	4.26%
Total	**141**	**352**	**435**	**758**	**467**	-38.39%



All charts are from the Zimbabwe Diamond Industry 2014 report.