

FINAL TRANSCRIPT

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HW.TO - Q2 2011 Harry Winston Diamond Corporation Earnings Conference Call

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CORPORATE PARTICIPANTS

Robert Gannicott

Harry Winston Diamond Corporation - Chairman, CEO

Alan Mayne

Harry Winston Diamond Corporation - CFO

Frederic de Narp

Harry Winston Diamond Corporation - CEO & President of Harry Winston Inc.

CONFERENCE CALL PARTICIPANTS

Irene Nattel

RBC Capital Markets - Analyst

Des Kilalea

Royal Bank of Canada - Analyst

John Hughes

Desjardins Securities - Analyst

David Christie

Scotia Capital - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Harry Winston Diamond Corporation fiscal year 2011 second-quarter conference call. My name is Steve and I will be your conference coordinator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of today's conference. As a reminder, this conference is being recorded for replay purposes.

Please note that we will be making some forward-looking comments today. Various factors and assumptions were applied in deriving these comments and actual results could differ materially. The principal factors and assumptions that were applied and risks that could cause our results to differ materially from our current expectations are detailed in our OSC and SEC filings.

I would now like to turn the presentation over to your host for today's call, your Chairman and CEO, Mr. Robert Gannicott. Please proceed, sir.

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

Thank you. Good morning, ladies and gentlemen, and welcome to the Harry Winston earnings call for the second quarter of our 2011 financial year. Following my brief introduction, I'm going to ask Alan Mayne, our CFO, to present the headline numbers. Alan will then be followed by Frederic de Narp, the CEO of the Luxury Brand segment of our business. I am then going to return to discuss the Rough Diamond business segment.

This quarter reflects the progression of recovery in the international diamond business generally, as well as improvements specific to both of our business segments. We produced and sold more rough diamonds into a market that has paid higher prices for them. This is driven by demand for more diamond jewelry, which is in turn reflected in our international jewelry and watch sales.



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It is not simply a recovery of the diamond world as it used to be, though, but rather a broadened demand, especially from expanding economies in Asia at the expense of still muted recovery in the US, and in the general diamond business, although not our own, in Europe as well.

As a subsequent event to the quarter, we effectively brought back the interest in the Diavik joint venture that we sold to Kinross Gold Corporation during the depths of the economic collapse. This gives us full control again over our 40% interest in the Diavik joint venture and the revenue that flows from it.

We continue to seek acquisition opportunities in the diamond mining sector of our business and see no better opportunity than owning more of Diavik itself. So I'm going to turn the call over to Alan and see you later.

Alan Mayne - Harry Winston Diamond Corporation - CFO

Thank you, Bob, and good morning. As Bob mentioned in his opening remarks, the Company's consolidated results for the second quarter reflected the continuing impact of the recovery in the global economy. Consolidated sales increased over 60% from the comparable quarter last year, and the Company recorded earnings from operations of \$28.9 million compared to a loss from operations of \$3.9 million.

Our foreign currency exposure has a material influence on our reported earnings. During the second quarter ended July 31, 2010, the Canadian dollar weakened against the US dollar. This resulted in a net \$3.3 million foreign exchange gain in the quarter compared to a net \$25.3 million foreign exchange loss in the same period last year. Taking into account this foreign exchange gain, our interest expenses, other income and tax expense, we recorded net earnings of \$16.5 million, or \$0.22 per share, compared to a net loss of \$24.5 million, or \$0.32 per share, in the second quarter last year.

Now let me spend a few minutes on the financial review of our business segments. As highlighted in our results released yesterday, rough diamond sales for the quarter increased considerably from the same period last year, resulting from a combination of the 62% increase in rough diamond prices and a 17% increase in volume of carats sold. This increase in sales resulted in a significant improvement in gross margin and earnings from operations.

Revenue at Harry Winston Inc. increased to \$66.9 million from \$48.8 million in the comparable quarter of the prior year. This 37% increase in revenue drove an improvement in gross margin and resulted in earnings from operations of \$2.3 million compared with a loss from operations of \$5.6 million in the second quarter last year.

During the financial crisis, management significantly reduced discretionary SG&A expenses at Harry Winston Inc. In line with the improvement in the global economy and the financial results of the business, management will be increasing the amount of advertising, marketing and promotional investment in the Harry Winston brand. This reinvestment in the brand was a significant component of the increase in SG&A expenses in the quarter.

Before turning the presentation over to Frederic, I just want to make a comment about our cash and long-term debt balances as at July 31, 2010. Included in cash and debt is \$50 million from a drawdown on the new mining credit facility that was made in connection with the purchase of Kinross's indirect interest in Diavik. Frederic?

Frederic de Narp - Harry Winston Diamond Corporation - CEO & President of Harry Winston Inc.

Yes, thank you, Alan. The Harry Winston brand generated sales of \$67 million during the quarter, representing an increase of 37% over the prior year comparable quarter. The results achieved by the Company during the second quarter confirm the positive trend that started in the fourth quarter of fiscal 2010.



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The increase in sales was broad-based across all geographic regions. Demand for luxury brand continues to strengthen globally, especially by consumers in China, supported by the rapidly expanding wealth of its consumers, and in the Middle East as a result of high energy prices.

The strong results achieved during the first half of the year validate the strength of our brand and the quality of our products.

The US market recorded sales of \$20 million during the quarter, which was 31% above the comparable quarter of the prior year. The US market has improved, although the economic environment remains challenging.

Sales in Asia were \$22.5 million, which was 40% above the prior-year period. The Japan market continues to be a strong performer for the Company, and our Asian business is increasingly becoming more important to the Company and is a major focus of our future growth plans.

The business in Europe generated sales of \$25 million, which was 40% above the prior year. Although business conditions in Europe remain difficult, sales have been strong to Asian, Middle Eastern and Russian clients.

The strength of the Harry Winston brand, combined with our global distribution network and high-quality products, provide the Company with a solid platform to benefit from the continuing global economic recovery. We are confident that there are enormous opportunities to expand our brand in developing countries, while we continue to expand in our core markets in the United States, Europe and Japan.

We have many exciting sales events and a new advertising campaign planned for the holiday season. We believe that the retail segment will continue to generate positive sales growth through the remainder of the fiscal year.

So now let me turn it back over to Bob.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Thanks, Fredric. The Diavik Mine is now successfully beginning its transition to underground mining. Pit production will continue from the A418 pipe for the next two years or so, but in declining amounts as underground tonnage increasingly replaces it. As the underground mining areas are de-watered, it provides the opportunity to better understand the rock stability conditions to be encountered in production mining. This has led to the consideration of alternative lower-cost and higher-velocity mining methods that might be employed to, in part, replace the comparatively slow and expensive cut and fill techniques that are currently in the mine plan.

Following sharp recovery in rough diamond demand and pricing in the first quarter of this year, the second quarter has been characterized by more stable conditions, as renewed stocks of polished diamonds work their way through the retail businesses of a diamond world changed by aggressive demand from the Far East and, to a lesser extent, India.

The United States, which consumed half of the world's diamonds before the recession, is still struggling to regain its retail confidence. Almost half of Harry Winston sales through our salons are now in the Far East, [which we] include Japan.

Looking forward then, we expect our third quarter to continue the path of recovery in our branded luxury business, while the Diavik Mine continues to deliver against its mine plan for the calendar year, as global demand for our diamond products in jewelry, watches and rough diamond raw material increases.

Thanks for listening to us and we are now ready to respond to your questions. Thanks.



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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Irene Nattel, RBC Capital Markets.

Irene Nattel - RBC Capital Markets - Analyst

Thanks and good morning, gentlemen. Clearly, retail is recovering nicely, and we are continuing to see, as you noted, the buildup in expenses at the SG&A line. As we are thinking about this on a go-forward basis, if in fact close to 90% of SG&A is still fixed, should we be looking at the Q2 level as sort of the base run rates or something in the low 30s for SG&A in retail?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Irene, I think I would say that that is probably on the light side. It depends on how the business continues to evolve.

But to give you some context, we took over \$12 million out of discretionary SG&A between 2009 and 2010. And, as you well know, we were never big spenders in advertising, marketing and promotion before that.

So I would caution against using \$33 million as a run rate. We will gauge how much we are going to invest in line with how the business continues to evolve. So if we continue to perform better than we expect, then I think we will continue to put our money behind the brand and continue to develop it. So I think that is probably on the low side, given our outlook, certainly for the balance of this year.

Alan Mayne - Harry Winston Diamond Corporation - CFO

There is also a seasonality to this, of course. There is a significant additional expenditure in the latter part of the year as we get into the holiday season in the traditional US and European markets.

Irene Nattel - RBC Capital Markets - Analyst

Understood. Which I guess brings me to my next question. As you increase your SG&A investment, how are you monitoring the impact that it is having on both the spending of existing customers, tracking new customers, how are you thinking about that?

Frederic de Narp - Harry Winston Diamond Corporation - CEO & President of Harry Winston Inc.

Well, to add to the point before, we will spend on marketing the third quarter also related to the fact that we are celebrating -- it is a moment of celebration -- we are tonight celebrating the 10th anniversary of this event with a worldwide press conference and meeting tonight in Geneva. And mid-November, we celebrate the 50th anniversary of the Hope diamond donation to the Smithsonian Museum, with a press conference and many events in New York. So that is also justifying and explaining why we expect ourselves to spend in that.

Today, it is pretty difficult to track the return on investment on the marketing dollar. We have to do what we have to do in launching an ad campaign that is already prepared and exciting. And also, we are surprised every day with special orders and demand from Middle East and China of very, very specific high-end, unique pieces that surprise us every day, that is difficult to track and anticipate. But we are happily fulfilling that happening, and many more to happen in the third and fourth quarter.

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Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Irene, if I could just add -- not putting words in Frederic's mouth -- but in his experience in doing these events before, that we can track. So when we have 50 of our largest clients from around the world in the room at an event, then we certainly expect to have sales come from those events. Obviously, advertising, general advertising, is a little tougher. But when we have events where clients are in the room celebrating something specific, then, yes, we do have expectations for sales and that is easy to track through our salon management system.

So, as you know, return on general advertising is difficult to monitor, but when we do events, we do have expectations and we will monitor and follow up.

Irene Nattel - RBC Capital Markets - Analyst

That is great. Finally, one last question, if I might. The merchandise inventory levels really were up sharply from prior quarter. And I was wondering if you could just talk a little bit about what is happening there.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Yes, it is up for very good reasons. I mean, we have a very significant pipeline of high jewelry sales at the moment. It is very significant. It is probably more significant than we have had since I have been with the Company. And that inventory has been purchased to support largely this pipeline.

Irene Nattel - RBC Capital Markets - Analyst

How very interesting. Thank you.

Operator

(Operator Instructions) Des Kilalea, Royal Bank of Canada.

Des Kilalea - Royal Bank of Canada - Analyst

Good afternoon or good morning, gents, and nice figures. (Inaudible) pleasant mining figures, thank you.

The price increase that you got, I mean, the 81%, at six months and six months, if you exclude the 400,000 carats carried over from inventory in the previous period, which would appear to be cheap goods. That -- I think, Bob, you said last time that you thought prices were about 5% or 10% below peak when we spoke three months ago. I think I am right in saying that. Where would you put prices now versus the end of the third quarter 2008?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

We have gone past the peak by a measurable margin. The only thing is, Des, as I am sure you are aware, it has sort of become somewhat uneven. Thankfully, our production is very focused in value from white goods, as you know, the typical Canadian production. Obviously, the appearance of large volumes of production from Zimbabwe has held back the price increases and, in fact, probably depressed prices somewhat in smaller, cheaper, off-color goods. So, yes, for our average production, we have gone past the peak that was achieved before the recession.

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Des Kilalea - *Royal Bank of Canada - Analyst*

And I guess leading on from that, did you close the period with any material inventory that is likely to kind of -- I guess I'm trying to get a feel on price levels now and over the next, say, six months. And no amount of simultaneous equations really help on that. But can you give an idea whether you carried over any and what sort you carried over and what you might expect prices to look like in the next (multiple speakers)?

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

We have always got inventory going over the end of the quarter. I mean, some of it we are still sorting. So we don't even know, if you like, what -- at this stage, we don't really have any definition of what it is, but we have always got some going over.

If anything, I guess, off the top of my head, I would say it is -- the stuff we are carrying over is better than average rather than lower-priced than average. I think that is about as close as we can get.

Des Kilalea - *Royal Bank of Canada - Analyst*

Okay. Then just one last thing before I stop stealing all the time. The investigation into other mining methods, i.e. block caving in the main, can you give us any idea on timing?

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

Yes, I think by the end of the year, this will have some definition to it. And my expectation would be that two of the three pipes, we're going to be able to use significantly cheaper mining methods on. And the third pipe, which is closer to the dike, A514 North, I think just conservatism in mining practice with respect to the dike will probably mean that we are certainly not doing cut and fill, but there will be some form of fill used in the mining method employed on that one.

Of course, the other good news about it would be cheaper mining methods, higher velocity. Also, if we can mine at lower costs, then we can actually get deeper into those other identified areas of mineralized kimberlite that are not part of the resources or reserves at the moment.

Des Kilalea - *Royal Bank of Canada - Analyst*

So we might expect (multiple speakers).

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

That is the general sort of nonnumeric steer on this. And I am afraid the numeric part will have to wait until later.

Des Kilalea - *Royal Bank of Canada - Analyst*

So we may expect a resource extension -- a resource statement extension, depending on the result of these mining methods (multiple speakers).

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Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

I'm not sure the resource extension is going to occur this year. I think it will be the mining methods that get dealt with this year. But I'd just say it has that long-term implication.

Des Kilalea - Royal Bank of Canada - Analyst

Okay, thank you.

Operator

John Hughes, Desjardins Securities.

John Hughes - Desjardins Securities - Analyst

Great stuff on the mine side, I have to say. It surprised me, and I like to get surprised.

Just a quick one, again specific to the mine and some of the guidance you are providing on that change in the ore mix going forward. I will throw some numbers out for you for the second half of the year, and maybe you can tell me if I am right or wrong.

But I am looking, based on your guidance, at about 1.4 million tonnes of kimberlite ore to be released in the second half. And I have an average grade as back calculated of 3.3 carats a tonne for that same time frame, which brings me back to the A418 average reserve grade. And I am just wondering if those tonnages and grades are reasonable for the second half of the year?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

John, I think to be as specific as that, I think we are going to have to call you back. We don't keep -- you have obviously done a fair amount of math there that we would have to check, check on specific numbers. I don't think it is fair to be trying to do that in a public phone call.

John Hughes - Desjardins Securities - Analyst

Yes, sorry, I didn't want to --. What about on a carat level? Could we move to that for the next several quarters? Because I'm coming up with some pretty good increases in terms of carat releases relative to the first two quarters of the year.

Alan Mayne - Harry Winston Diamond Corporation - CFO

I think that that is probably accurate. That is where we are as well in terms of what we would be forecasting for carats sold. So we would see the back half, carats being up from the front half.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

But just I would like to add a bit of caution to that, though, John. The 418B is finer-grained and the diamond population within it is also finer-grained. In other words, the average size and therefore the average price of those diamonds is lower.



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So as well as the grade changes that we have always dealt with in reporting, for the next while -- in fact, I suppose for the next life of the mine in a way, we now have different types of ore with different price per carats of diamonds in them. So it is not going to be that easy to just extrapolate [its worth].

So you probably need to have a specific conversation -- come in and have a specific conversation with us at some time.

John Hughes - *Desjardins Securities - Analyst*

No, that would be good, because there is some significant upside here on the mine side going forward.

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

Absolutely, yes.

John Hughes - *Desjardins Securities - Analyst*

Right. Last point, exploration at Diavik, can you bring us up to date? Is there anything happening, whether it be from underground or anything new going on?

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

Yes, there is -- well, underground -- or at least relevant to underground is the further definition of these extensions of the kimberlite pipes that go down below the current reserve and resource base. So that work continues.

But on the surface, there are a couple of good targets that are being investigated. But they are targets, they're not -- nothing has potential mill feed by any means yet.

But yes, there is certainly an ongoing exploration program. It did get -- it got kind of stopped last year when virtually everything got stopped everywhere. But it is back and running again now, and going in a pretty full-blooded way here, actually, now.

John Hughes - *Desjardins Securities - Analyst*

Okay. And just one last one, Bob. Just on -- you noted the interest in ultimately at points in time perhaps owning more of Diavik. And I am just wondering is that your principal focus in terms of growth strategy, outside (multiple speakers)?

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

No -- well, it is a focus that we have always had. I was referring actually retrospectively, John. I should have made it clearer -- to the fact that we bought in the Kinross interest. There is not much point in going and looking at more marginal things if you're not even going to take the opportunity to buy back in interest in a mine that you already understand very well and delivers you good results.

But yes, we are continually evaluating other things. We are conscious of the potential damage to brand image that going into some of the more wild and woolly places of the world might suggest or imply. And we are certainly very focused on Canada, because, naturally enough, we think we understand it better. But yes, it is a continuing effort.



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And we do still -- we sort of have conversations, of course, all the time about whether or not there is something more that could be done with Diavik ownership.

John Hughes - *Desjardins Securities - Analyst*

Right. There's lots happening in Quebec, that is for sure, on that front.

Sorry -- last one and then I will get off the line. The budget for next year, in terms of Rio and when we are going to be able to forecast carat production with a reasonable degree of accuracy, depending on kimberlite release, et cetera, can you guide us for any type of carats that we should be using in terms of production -- we will adjust our sales -- but production for next year?

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

We would happily guide you if we were guided, but we are waiting on a new mine plan. I think -- I mean, you appreciate that the transition between open pit and underground does leave some uncertainties about it, because it allows the flexibility to go and take more muck from the open pit. For a couple of years here, if necessary, three different working phases underground, and none of this has been built into a new mine plan yet.

I mean, obviously, my expectation is that even though one can always say going underground is working out -- it is -- it is working out fine; it is going to be smooth. But I think probably the sensible view would be to say, well, there might be some strain on carat production for the first year of complete underground production, maybe next year. But after that, we will come up to the full capacity of the mill, so it will only then be dictated by what grade of muck is going into the mill and what kind of diamonds are in the muck.

John Hughes - *Desjardins Securities - Analyst*

Very good. Great. Thank you very much, gentlemen.

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

Thank you.

Operator

(Operator Instructions) David Christie, Scotia Capital.

David Christie - *Scotia Capital - Analyst*

Good morning, gentlemen. Just a couple of quick questions. On your balance sheet, you have some debt now, and the mine is running a lot better than it was and prices are better, so cash flow has improved.

Then on the retail side, you finally -- the retail side is actually making money here, the EBIT is actually sort of strong. So I'm just wondering what your priorities are as far as using your cash flow going forward. Are we going to work on the debt? Are we going to look at acquisitions, like John was talking about? Or where are we going to go with our cash flow?

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Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Well, Alan (inaudible). But, from my point of view, at least, obviously one thing we are looking at is the Kinross transaction requires us to repay a note next year, so we deal with that. We keep our debt levels at a reasonable level.

We are beginning to get the good, strong feeling that Frederic is really getting this retail business kicked into gear, and if there was a good opportunity to expand that, we are all conscious of the rapid changes that are occurring in the Far East, particularly mainland China. And it may be that it would be a sensible thing to make some investment on the retail side there, once we have got this -- now that we are developing this real confidence that we have a platform that really does work.

Alan, have you got anything to add to that?

Alan Mayne - Harry Winston Diamond Corporation - CFO

No, I think the only thing I would add is that clearly, we've got significant growth opportunities on retail. On the mining side, as you well know, it is more opportunistic.

And I think the only thing I would add is after the redemption of the Kinross note, we would look to make further investments in retail. And the retail business can fund most of that out of its credit facility, and I think we would then probably look and say, okay, if the cash flow profile is going to continue to be sufficiently robust, then does it make sense to consider dividend policy again.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Or share buybacks, or some of both.

David Christie - Scotia Capital - Analyst

Sorry, just to expand a little bit. So does retail expansion supersede wholesale expansion? Which one do you favor as your priority of increasing cash flows?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

When you say wholesale, what -- do you mean --?

David Christie - Scotia Capital - Analyst

Mining.

Alan Mayne - Harry Winston Diamond Corporation - CFO

Rough diamonds. No, I don't think -- there is not a specific priority here. I view the two as having kind of different profiles in expansion. There is one that we can do predictably, is the way I would put it. And there is one that you have to do opportunistically. I mean, we would certainly love to buy some more rough diamond production, because we have a very good marketing platform for it. But there have to be willing sellers of things that are worthy purchases.

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Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Yes, it is organic -- the same message, different words. Organic versus acquisition plan. We have got a long runway of organic opportunities in the retail business, whereas on the rough side, the visibility on how we grow that is more difficult.

David Christie - Scotia Capital - Analyst

Yes, I agree. On the mining side, are you still sticking with the theme that you would only really look at things that are near production or in production?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

No, not at all. I would be happy to look at something that was way back on the exploration pipeline.

David Christie - Scotia Capital - Analyst

Okay, good.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

I think we sort of feel that we have -- having been through it, we kind of know what a good one looks like.

David Christie - Scotia Capital - Analyst

That is great to hear. Thank you.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Thank you.

Operator

Des Kilalea, Royal Bank of Canada.

Des Kilalea - Royal Bank of Canada - Analyst

Thanks. Three questions, and the first is retail. And I am aware I am stepping into something I don't know very much about. Just a point that was made about Japan and the success you are having in Japan. As I understand it, you have changed the mix to a little more bridal jewelry, although not doing away with the Harry Winston image.

Is there a suggestion that this will be rolled out into many more stores and that we'd see price points dropping over time? I mean, not going to, say, Tiffany price points, but dropping over time.

And then I have a couple of mining questions. The one is another project has been partly kind of promoted -- partly, I say, promoted on the potential for electrical power being run in, I think from the Mackenzie Valley Authority or something like that. And it would be running all the way to Diavik, Ekati, Snap Lake.

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Could you address that, and if it is possible, what is going to happen, what sort of timing and what it might do to costs, given that you are going underground and the (inaudible) become less important?

Finally, on costs at Diavik, do you believe that costs could be brought down? Are there things that you can see, as partners rather than operators, that you would like to see happening to bring down the costs at Diavik?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Okay, we will go through the list, and we will start with Frederic on your retail question.

Frederic de Narp - Harry Winston Diamond Corporation - CEO & President of Harry Winston Inc.

Bridal, of course, for Harry Winston being famous for being the king of diamonds and using the best-quality diamonds actually has this reputation, it is natural for us that we develop the bridal activity. So the first thing we did is absolutely reorient and push as much as we could of our existing inventory in the best-performing market, Japan. Japan is a bridal market by incidence and by definition, so it was natural for us to reorient our inventory -- this inventory gain towards Japan, immediately bringing some great results.

That, together with the marketing campaign and some strategic action plan -- proactive action plan to create in-store events extremely successful in Japan. Of course, bridal is one of our main destinations. It is natural fit for Harry Winston to develop bridal corners, bridal specialist, bridal inventory in every of our salon, which is not necessarily something we have currently. So we expect -- and together with that, we are building a team and we have developed a team of bridal experts in the head office in New York to develop a worldwide integrated marketing strategy around bridal.

Des Kilalea - Royal Bank of Canada - Analyst

Okay.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Okay? Does that deal with that one? And I will move on to power.

Des Kilalea - Royal Bank of Canada - Analyst

Yes.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Electrical power, actually I've been fairly involved in that. This really stems from -- Des, if you remember Pine Point Mines, operated by Cominco on the south shore of Great Slave Lake for 20 odd years, which is now closed, was powered by a hydropower development that was actually built by Cominco at a site called Taltson. So obviously, the customer for that power disappeared when the mine closed, and that power is available.

However, it is on the south side of Great Slave Lake, it requires a very long transmission line to get it all the way around the east arm of Great Slave Lake, which is although not formally a national park yet, is certainly a protected area. So there is -- as well as the hurdle of the distance, there is also some other issues there. Then it inevitably means that it is passing through very different territories, with different aboriginal groups, who feel differently about having power lines strung across their land. And frankly,

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it required take-or-pay contracts from customers, being the mines, that weren't able to provide them. Obviously, the only way to develop this is to have like 15- or 20-year take-or-pay power contracts. Well, none of us have got the ability to make 20-year commitments, because of ore reserve life and so on.

So it was then talked about as something that maybe the GNWT, the Government of the Northwest Territories, might seek federal government funding help with. But then they had financial problems with the bridge project crossing the Mackenzie River, which basically sucked up any kind of loose money that the federal government might have thought about for the Northwest Territories. So in my view, it is pretty much dead at this point.

Des Kilalea - *Royal Bank of Canada - Analyst*

Okay, all right.

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

So that was that one. Cost savings at Diavik. Yes, there certainly is potential for cost savings, particularly, as I say, in these new underground mining methods. It is obvious that if you don't have to produce backfill in a location like that, particularly where you can't use your own tailings for backfill, so it is a very expensive process to actually take lumps of granite and turn them into sand.

And then the cement addition, where the cement has to come up a winter road. I mean, anything that avoids that is obviously a big win. And so we are definitely optimistic that there will be some significant savings to what was the existing mine plan.

Des Kilalea - *Royal Bank of Canada - Analyst*

And on other areas of cost, you are fairly comfortable as a partner that the mine is being operated optimally (multiple speakers)?

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

Rio Tinto, we value Rio Tinto as a partner. They certainly operate in a safe and conservative way, but it is not inappropriate to the environment that we are in or to the fact that we also operate a branded business. So we are certainly happy with Rio as a partner.

Des Kilalea - *Royal Bank of Canada - Analyst*

Thanks very much.

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

Thank you.

Operator

Irene Nattel, RBC Capital Markets.



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Irene Nattel - RBC Capital Markets - Analyst

Thanks again. Just looking a little bit for more color on this demand for significant pieces. I presume it is coming, as you said, from Asia, from the Middle East. Is it your sense that these are for investment purposes, that it really is more for as the wealth is really starting to be generated, people are wanting to wear them out and about? And how do you see this evolving as we move forward?

Frederic de Narp - Harry Winston Diamond Corporation - CEO & President of Harry Winston Inc.

First of all, effectively, the wealthy people of the world have grown. In 2009, taking statistics of Merrill Lynch or Capgemini, the (inaudible) high net worth in the world grew by 19.6%, and the high net worth have grown by more than 17% in 2009, to start with. So there are more wealthy people around the world.

Second, it is true that in this volatile world, we note that people would rather spend \$1 million on a necklace of the person they love as an investment-type investment, as a glamorous investment, something they can enjoy, instead of some other investments that they don't really know. Also because unique stones and unique pieces have proven to be extremely profitable, and the price has been growing tremendously during the last five years.

And last, it is a moment where people do not hesitate to celebrate the meaningful moments of their lives investing in some authentic, true-value craftsmanship pieces, and this is what Harry Winston stands for. So we have an offer and we have a brand positioning which does correspond exactly, precisely to this quest for authentic, unique pieces that people want.

So we see it growing, growing exponentially and growing for the next quarters and growing as a trend (inaudible), yes.

Irene Nattel - RBC Capital Markets - Analyst

Wow. Can I get you to talk to my husband?

Frederic de Narp - Harry Winston Diamond Corporation - CEO & President of Harry Winston Inc.

Indeed, yes, with pleasure.

Irene Nattel - RBC Capital Markets - Analyst

Merci, Frederic.

Frederic de Narp - Harry Winston Diamond Corporation - CEO & President of Harry Winston Inc.

You are welcome.

Operator

That concludes the Q&A portion of today's conference. I'd now like to turn it back over to management for closing remarks.

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Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

Thank you very much for joining us. Obviously, a pleasure to be able to report a quarter of this type. We are glad to be coming out into the sunshine again and look forward to many more like them. Thank you all for joining us.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

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