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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Harry Winston Diamond Corporation fiscal year 2012 third quarter conference call. My name is Carissa and I will be your conference coordinator for today. At this time all participants are in a listen-only mode and 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.

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

Thank you. Good morning, everyone, and welcome to the Harry Winston Diamond Corporation's third quarter results call. Joining us from New York is Frederic de Narp, the CEO of Harry Winston Inc., our brand's jewelry and timepiece division. And with me here in Toronto with Cyrille Baudet, our Group Chief Financial Officer. Following this introduction, Cyrille will discuss our financial results, followed by Frederic's perspective on the brand business. I'm then going to come back to discuss the mining business and the rough diamond sales.

On a global basis, then, the third quarter might best be described as turbulent and lacking a clear trajectory. At least as far as the rough diamond and jewelry markets are concerned. Although European consumers are not one of the largest markets for diamond jewelry, the Euro crisis has affected the confidence of the lending banks to the industry, thus removing liquidity from the supply chain. As the industry sold down stocks to raise liquidity levels, the demand for rough diamonds faltered and pricing became uncertain.

We elected not to sell our full production, but only diamond assortments where demand remained robust, such as items that yield polished diamonds for the watch industry, for example. The rough diamond market is now more settled, allowing us to resume much broader sales at prices that, although down around 25% from the speculatively high prices of July, are still around 25% above the prices of a year ago.

Unlike the dramatic collapse in 2008 and 2009, the global consumer is, collectively at least, still performing well. With Chinese tourists increasingly prominent in the shopping cities of the world. Our own business has been especially successful in growing the bridal and timepiece segments with new marketing campaigns and designs that have broad appeal. This has changed the composition of sales from dependence on the unpredictable ultra-high ticket sales to more repeatable transactions. The transition of course requires some one-off costs to create platforms that can then be expanded to support future growth.

I'm now going to hand the call over to Cyrille to discuss the actual results, followed by Frederic to discuss the brand business in more detail, and I'll then return. Over to you, Cyrille.

Cyrille Baudet - *Harry Winston Diamond Corporation - CFO*

Thank you, Bob, and good morning, everyone. Our Company's consolidated sales for the third quarter were $119.7 million, which were down 15% versus last year. This was driven by a 40% decrease in our mining segment sales, partially offset by a moderate 4% increase in our luxury brand segment sales. Frederic will speak to the luxury brand numbers later on, and I'll cover-off on our mining results. Sales for our mining segment were $36.2 million in the third quarter versus prior year sales of $60.7 million. While the average rough diamond prices increased 68% versus last year comparable quarter, $159 per carat versus $95 per carat a year ago, the achieved rough diamond price per carat was skewed by the Company's decision to hold back some lower-priced goods due in part to a current oversupply in the market.

In terms of volume, we sold 230,000 carats this third quarter versus 640,000 carats last year, which represents a 64% reduction in the volume of carats sold. Our share of Diavik production for the third quarter was 773,000 carats, up 8% versus the prior year, primarily due to increase in ore processed. The reduced sales and the related inventory build in the quarter were mostly the result of our selling strategy. We choose not to sell our rough diamond inventory at significantly discounted price. And the demand for rough diamonds slowed between August and the end of the traditional Indian holiday of Diwali in October. The wider range of rough diamond sales started again during the fourth quarter and at an improved price.

Our consolidated operating results for the quarter was a loss of $1.9 million versus an operating profit of $14.8 million in the prior year third quarter. This quarter included a non-cash de-recognition charge of $13 million for the mining segment relating to certain component of the backfill plant that will no longer be required for the sublevel retreat and underground mining method. Most of you are aware of this changing of our mining method will enable us to significantly reduce our operating costs at the mine from what we previously planned.

Excluding this charge, the consolidated operating profit would have been $11.1 million. And the mining segment operating profit would have been $9.7 million, which would have been slightly ahead of a year ago of $9.4 million. Our consolidated gross margin was 36.9% in this quarter versus 39.8% in the prior year quarter. The mining gross margin was 5.9% in the quarter and would have been 41.8% excluding this one-off de-recognition charge versus 25.8% gross margin last year.

Consolidated EBITDA was $21.2 million in the quarter versus $33.5 million in the prior year. For the mining segment, EBITDA was $16.7 million or 46% of sales versus $24.9 million or 41% of sales last year. The Company loss per share for the quarter was $0.06 or earnings per share of $0.04 when excluding the de-recognition charge. This result is compared to earnings per share of $0.15 last year for the same quarter.

Our liquidity is solid with cash of $83 million and availability under our credit facilities of $106.2 million. Also during the third quarter we repaid the Kinross promissory note of $70 million plus accrued interest.

In terms of our outlook, we anticipate production at Diavik will be 6.9 million carats for the current calendar year with production activity of approximately 8.3 million carats. We expect that some of the carats produced in 2011 will be sold next year along with 2012 production. I will now hand over to Frederic de Narp, the Chief Executive of Harry Winston Inc. who will discuss the results of our jewelry and timepieces business.

Frederic de Narp - *Harry Winston Diamond Corporation - CEO Harry Winston Inc.*

Okay, thank you very much, Cyrille. I would like to briefly talk about our results in the quarter and update you on the execution towards our five-year vision.

During the third quarter, our sales were $83.5 million compared to $80.2 million in the same quarter of the prior year. Up 4%, or down 4% on a constant exchange rate basis. On a regional basis and at constant exchange rate, our sales during the third quarter were up strongly in the US and Japan and were lower in Asia, outside of Japan, and Europe. We also have an undeveloped footprint versus our competition, both in Asia, outside of Japan, and Europe which we believe contributed to the softer results.

Year-to-date our sales were $298.1 million, up 41% versus the prior-year, or up 29% on a constant exchange rate basis. Our regional results on a constant exchange rate basis year-to-date are strong in all regions, with the exception of Europe which has experienced lower high jewelry sales.

In the quarter, our gross margin is flat with a year ago at 50.4%. And our operating profit is down versus the prior year at 1.6% versus 6.7%. The increased margin that came from our positive change in product mix was offset by the negative impact of a strong Swiss franc and higher raw material costs, including diamonds and precious metals; platinum and gold. While we implemented price increases this year, we did not pass 100% of the increase in raw materials costs onto the consumers.

Our SG&A expenses increased by $5.7 million in the quarter to $40.8 million which represents 48.8% of sales versus the prior year of 43.7% of sales. These additional expenses are related to the support of the brand vision and the expansion of our retail network. We generated EBITDA of $4.5 million and an operating profit of $1.3 million in the third quarter compared to EBITDA of $8.6 million and operating profit of $5.4 million last year. In addition to the higher raw material costs and negative currency impacts that I just mentioned, we had seasonal increased market expenditures leading into the holiday season and expenses related to the anticipated openings of new salons in China during early 2012.

We continue to make significant investments in SG&A to drive our growth strategy, especially in geographies where we are adding new salons and in our timepiece manufacturing facility in Geneva where we are adding machinery and investing in the development of our own movements.

The work and the investment by the Harry Winston team continues to bear fruit translating into growth in the predictable segment of our business, such as bridal, jewelry collections and timepieces. We are continuing to implement the five-year vision, which consists of maintaining our unique position as one of the most exclusive brands in the world, while expanding the bridal jewelry collection and timepieces segment to reach new audiences.

The synchronized 360-degree action plan we have developed to grow our bridal segment has resulted in sustained growth of the business globally. This year we developed new advertising, visual merchandising, we began in-store training programs for sales executives, developed a CRM strong program, and had a very successful public relations campaign. After a successful launch of the Lily Cluster collection in the second and third quarter, we are now launching the ultimate adornment high jewelry collection, ranging in price from $40,000 to $5.8 million. And this is the most important designed high jewelry collection launched by Harry Winston in the last 80 years.

In order to achieve accelerated growth within our timepieces segment, we raised Harry Winston's visibility by increasing our communication investments. Just between September and November, we secured a premium presence for Harry Winston at global watch events worldwide, including the Salon Belle Montres in Shanghai, Belle Montres in Paris, Munich Time in Germany, SIAR Watch Fair in Mexico, QP Salon in London, the Bahrain Watch Fair in the Middle East.

After the successful launch of the Midnight collection in the second and third quarter, we are now launching the Ocean Sport line during the fourth quarter. Our new boutique concept in Las Vegas was created by Studio Sofield and will be rolled out in the rest of the salons. This new design concept includes a modified facade which is less intimidating and contains separate areas dedicated exclusively to bridal collections, jewelry collections, high jewelry, and timepieces, respectively. This allows us to attend to the particular needs of our diverse clients or to the needs of both our most exclusive clients and more accessible clients.

Our retail expansion is in full swing. We have salons opening in the most prestigious and exclusive areas of the world. In fact, during the third quarter we opened a licensed salon in the Middle East in the Dubai Emirates Towers and a second salon will open in the Dubai Mall in December. We are also preparing to open a licensed salon in Moscow in March 2012. Harry Winston has limited exposure in mainland China but will open three salons in next fiscal year. Harry Winston's unique diamond jewelry and heritage brand, built upon quality, craftsmanship, design has untapped potential in China as consumers become more selective.

In terms of our outlook, we experienced accelerated growth in the final quarters of last year, with sales in Q3 up 48%. And in Q4 up 89% from the Q3 and the Q4 in fiscal year last year. This growth was mainly due to the sale of a small number of high-end jewelry items related to the Court of Jewels event which means that we have very challenging comparisons versus the prior year for the third quarter this year and the fourth quarter.

While the short-term economy conditions remain uncertain, the pace of wealth creation in emerging countries continues to trend strongly upward. The increase of travelers who represent 30% of luxury consumers, and the increasing appetite for authentic luxury, will benefit Harry Winston over the mid- to long-term. Additionally, the bridal trends in China are following a similar pattern to those in the US and Japan, with many first-time brides receiving diamond engagement rings.

We remain optimistic about the holiday season and expect a solid fourth quarter this year. There is a possibility that we do not repeat several of the significant high jewelry sales of last year's fourth quarter. But we have important jewelry events we are working on, and over time we expect the high jewelry business will perform well with the inevitable peaks and valleys. We continue to believe that we will achieve results consistent with our five-year vision.

I will now hand the call back to Bob.

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

Thanks, Frederic. So, then, turning to the Diavik Mine and our rough diamond business, this year is seeing the beginning of the transition to underground mining. As well as a year of recovery from the effects of development projects halted during the 2008-2009 economic crisis. A lower-cost, higher-velocity underground mining method has been adopted for both the A-154 South and the A-418 kimberlite, while a cheaper fill methodology is to be employed in the A-154 North pipe. These changes mean the paste backfill plant will not be required, at least in its original role, and has therefore been written down in our accounts. Although this has an effect on the financial numbers for this quarter, the benefits of not having the operating expense of this type of backfill method are substantial.

The first production from the new mining method has already been achieved at A-154 South and the new fill process has started in A-154 North. A revised mine plan, both near term and life-of-mine is now undergoing the Rio Tinto approval process and we anticipate that prior to our fiscal year end we will be able to release details of this, and a new ore reserve and resource statement will follow shortly thereafter. The deep drilling program over the last year has identified additional resources at depth in the existing kimberlite pipes, as well as allowing earlier resources to be promoted to reserve category.

The A-21 kimberlite pipe, which is important to maintaining processing velocity after 2013 when the other three pipes will be entirely mined from underground, is also undergoing advanced prefeasibility review to enable a decision to commence production in 2013 for first production in 2016. This development and the other changes to the underground mine position Diavik to remain a strong producer of good quality rough diamond product well into the next decade, while our brand business builds both sales and operating margins.

So thanks for listening to us. We're ready now to listen to you and answer your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Irene Nattel of RBC Capital Markets.

Irene Nattel - *RBC Capital Markets - Analyst*

I was wondering, Frederic, if you could talk a little bit about what you're seeing right now in terms of demand from the customers in the various geographies around the world, recognizing of course, the high mobility of your customers. And also if you could provide a little bit more color around the evolution within bridal and timepieces and Lily Clusters in terms of units sold, and whether you think you can achieve your targets for the year.

Frederic de Narp - *Harry Winston Diamond Corporation - CEO Harry Winston Inc.*

Yes. Thank you, Irene. Good morning. So for us, what we acknowledge first is that where the brand is well-installed and well-established, that is to say, North America and Japan, we performed very well. And we continue to perform very well. Where instead we feel we are under-visible, with no visibility or not the visibility we would like, especially in Europe and in Asia, except Japan, then this is where we suffer. This is where we suffer where you will see like the second quarter this year -- fantastic second quarter, plus 89% because you process a fantastic high jewelry sales of big transaction. And a quarter yes, a quarter no; so it's less stable. And less predictable. The thing is that it is in these continents, Europe and Asia, except Japan, that we are focusing all our efforts. And you will see the development and the opening of new doors and new salons coming in the next few months in an accelerated manner. So that's a positive thing.

In term of predictable business, while predictable the business, the segments we are building, it's very exciting to see the bridal development. Bridal is steady for us. Winston has this reputation for high-end quality stones. And there is an appreciation for authentic luxury and beautiful stones in all the continents. So, the bridal segment for Harry Winston grows double digit in every single continent, which is a very good thing because this is (spoken in French), the essence of who we are.

The watch business, it's starting pretty well. As I said before, we launched the Midnight collection. Not only are we already started to sell out, but already reordered from the retail point of sales, which is truly positive, that before the holiday season, just reordering. So, we already can see in the Midnight collection a pillar to the watch activity, to the timepiece activity, which is fantastic to realize just after six months launching the collection. So, that's very encouraging.

The rest of the jewelry collection, Lily Cluster was launched in May, June last year, and continues on a positive trend. And it does do what we wanted. That is to say, capture a new audience. This new audience of a new woman, 25, 45 years old to buy something for herself. The Lily Cluster is exactly this kind of thing that she likes. And it is a new audience for us. So, we are pretty positive.

Irene Nattel - *RBC Capital Markets - Analyst*

That's great. And the corollary question is -- and this is always the challenge, and particularly when you are in the kind of global environment we're in today -- but it really is a truism that you have to spend money to make money. On the other hand, you have to be careful how much money you are spending to open new salons and investing in marketing because of the wobbly demand. So, how do you guys internally try and manage the objective and the challenge of the spend? And what kind of checks and balances might you have in place?

Frederic de Narp - *Harry Winston Diamond Corporation - CEO Harry Winston Inc.*

The most important thing, Irene, is to balance. It's all a question of balance. And we are balancing the development of our networks between the licensed salons, as we call the partner salons internally, the licensed salons, and the internally operated salons. For example, we had talked about one new partner salon in Dubai. Well, we have two now, because the partner is so excited by the launching of the first one, wanted to open a second one. And here we are at the end of this month opening a second partner salon in Dubai. This is a great way to create awareness, presence of the brand, visibility, image. But balancing because most of the capital investment and investment is done by the partner, of course, who believes in the brand.

Same for Russia. We are embarking into doing one salon and probably two salons next year with our partner in Russia. So, you have ways to do that. And as well, open new directly operated salons that you entirely want to control. Like, it is a case for us in Beijing and Shanghai, and own entirely the relationship. So, we balance to half and half open new salons with partners, and balance our own. It's a good way for us to manage the cash, as well.

Cyrille, maybe you want to add some more color?

Cyrille Baudet - *Harry Winston Diamond Corporation - CFO*

Yes. In addition, you can see that there is a spike in our SG&A versus sales in the third quarter because we reached 48% of selling SG&A. But this is due to the seasonality of our expense. On a 12-month basis, we are in line with our 40% ratio of SG&A on sales, which is comparable to what is spent in the industry. And we don't look at it at all SG&A the same way. We pay particular attention to fixed long-term SG&A as opposed to controllable SG&A. And we are very careful when building our budgets to differentiate between these two things.

Irene Nattel - *RBC Capital Markets - Analyst*

That's very helpful Cyrille. So, we should still be thinking about 40% overall for an annual number?

Cyrille Baudet - *Harry Winston Diamond Corporation - CFO*

Yes. There is a seasonality in SG&A that is not the seasonality of sales. And you don't spend on advertising at the same time you do your best selling. So, you are always spend in advance, which is quite typical of the third quarter.

Irene Nattel - *RBC Capital Markets - Analyst*

That's absolutely great. One final question on luxury, and then I have a question for Des. I noticed that you're going to be opening another salon in London. Can you talk about where it's going to be, why you feel like you need a second salon in London, and how has the evolution been of the one salon that you do have open in London?

Frederic de Narp - *Harry Winston Diamond Corporation - CEO Harry Winston Inc.*

London is really a hub for high-end luxury. Maybe it's one of, if not the capital of high jewelry in the world, for the very high end. We open our salon on Bond Street, and we know that at Harrods there is a complementary position there. It's not far from Bond Street. But different types of clientele shop in Bond Street and shop in Harrods.

Harrods is reconsolidating their watch area and high-end jewelry area. They want Winston, and we want to be there. And this is where we will be, in the center of these high jewelry places. This is part of a new development for distribution where we want to capitalize on the tourist. 30% of the spending in luxury goods around the world is done by travelers. And it is important we secure positions where the tourists go. Harrods is this one place.

Operator

Edward Sterck with BMO.

Edward Sterck - *BMO Capital Markets - Analyst*

I've got a couple of questions. The first is, if you look at the Q3 results for the retail division, and then back out the advertising costs ahead of the Christmas and holiday sales season, and also the expenses associated with opening the new salons in China, what would the adjusted Q3 operating profit have come to?

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

They probably need to do a little bit of math on that.

Cyrille Baudet - *Harry Winston Diamond Corporation - CFO*

Yes, we don't really disclose that. But we could get back to you on that.

Edward Sterck - *BMO Capital Markets - Analyst*

That would be great, if that's possible. I've got a couple of follow-up questions. The first is just in terms of the timing, when new salons are opened, how soon after they open can one expect to see reasonable revenue flow from them?

Cyrille Baudet - *Harry Winston Diamond Corporation - CFO*

From the new stores? Yes, we define the maturity of a store between two and three years. It depends on the market. But it's the time it takes the management team to establish its ground and to build the clientele. So, we have, of course, revenue from day one, but the expected normal level of revenue within year two operate.

Edward Sterck - *BMO Capital Markets - Analyst*

And then just turning to Diavik, does the cost guidance for fiscal 2013 include the impact of the sublevel retreat mining?

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

Not really. We're still waiting for the new mine plan. Obviously, we've got a pretty good view of what it is now. But, nonetheless, to finalize that, we have to wait for the new mine plan. And I would also say that, like any new mine plan, a lot of this is going to be based on actual experience. In other words, yes, there will be a projection of what the costs are going to be, and it's going to be as good as anybody can do it at the moment, but it will certainly be subject to review as we go along. So far, things are looking better than they had been projected, is the only thing I would say. The actual costs so far are working out better than we had initially thought. But this does need refinement before it's really a base number.

Edward Sterck - *BMO Capital Markets - Analyst*

So that $275 million, I think it is, for next year, that's based upon underhand cut and fill and blasthole open stoping for the Underhand cut and fill.

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

No, it's not. It's based on a very preliminary view of what some savings should be from doing some of it with a different mining method. But it's not what I would consider to be the final guidance for next year. That can't come until we have the mine plan.

Edward Sterck - *BMO Capital Markets - Analyst*

And then my final question is, just on the open pit, from recollection, that's due to cease operations next year. Is that still the case? It looks as though the production from open pit for next year is a bit higher, at least than I've been expecting anyway.

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

It is supposed to cease production towards the end of next year. I would just say the experience on the A-154 south pit was that as the pit got towards the very bottom, it was realized that the granite conditions were good enough that there could actually be another couple of sizable lifts taken at the bottom of the pit instead of doing it from underground. And we did that.

But as far as to get to be slightly academic, whether you're doing a final bench from the bottom of the open pit, or whether you're actually taking that bench as a first cut from underground. Other than the difference in the haulage method, the costs are pretty similar. So, I don't think it has a dramatic impact when the open pit actually finalizes. But it should be sometime in the final quarter of the coming calendar year.

Edward Sterck - *BMO Capital Markets - Analyst*

And then just one last question on that. Can you provide, just looking one year further ahead, with the open pit potentially closed, what can we expect in terms of the increase in production from underground?

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

The underground -- the hope is to get it up to 2 million tons. It's pretty straightforward to do 1.8 million tons. There is some modifications, further modifications that are being considered now that look very sensible, that should make it easier to achieve, say, 2 million tons. And that should be perfectly feasible, I think, in the upper reaches of the underground mine. Where it will get more challenging -- the challenge is haulage. It's not drill and blast. The challenge is haulage. And as you get deeper, of course, the hole gets longer, and the traverse time for trucks and so on. So, there is some innovative concepts being looked at. Perhaps conveyor haulage of a sort, and this kind of thing, in order to speed up haulage from the deeper parts of the mine. But the other important thing is, that as the underground mine gets deeper, is when A-21 will come into production, so that we've then got the supplementary tonnage from A-21 and can go back up to even north of 2 million tons again.

Edward Sterck - *BMO Capital Markets - Analyst*

That's great, thank you very much indeed.

Operator

Daniela Nedialkova of Atlantic Equities.

Daniela Nedialkova - *Atlantic Equities - Analyst*

I wanted to focus a little bit more on the Chinese customer. I appreciate that you are just getting started in the mainland. But I was wondering if you could say anything about what percent of your sales on a global basis is made to Chinese customers, and how that has been trending. And also, I suppose, as you expand into mainland China, how familiar are they with the brand? Do you have a different kind of strategic approach towards that customer in the mainland versus how you're approaching the US or European customer?

Frederic de Narp - *Harry Winston Diamond Corporation - CEO Harry Winston Inc.*

Yes. So, here, I have not deep knowledge. We are learning every day. We currently have one salon in Beijing with not even one window on the street, since it is in the hotel of the Peninsula at Beijing. It's difficult for us to talk about trends. But what I can tell you is that different things. First, is that we see, as an approach, we are different from some other brand names, as we don't see China as the edorado for mass luxury at all. And we see it as the most exclusive destination. In fact, I was, four weeks ago, launching the new Ultimate Adornments collection, high jewelry, very high jewelry collection in Shanghai to pre-announce the coming of Harry Winston next year in Shanghai. In fact, our largest salon in the world will be in Shanghai opening first quarter next year. So, we wanted to pre-announce the launching, and launch our new high jewelry collection in China before the rest of the world. Never done.

So, we treat China as a priority. And we treat Chinese for what they are -- extremely sophisticated. The kind of Chinese clientele we see are extremely sophisticated. They care for quality, they care for authenticity, they care for heritage, they care for all of that, and the craftsmanship. So, it's pretty exciting. 1996, Harry Winston was the first brand to enter the Forbidden City with a major jewelry exhibition. Now, this next year coming with the flagship store, the largest one in Shanghai. So, we don't go with quantity, we go with quality. Next year, three salons will open in China. It's not many. And we don't want to open many. So, this is the way we approach China.

Chinese clients are clients you want to also particularly respect and do things like we did with Ultimate Adornments. Or we will do in next Basel when we will launch a limited series of watches only for China, for example. So, we embark into this level of sophistication with the Chinese client. Chinese clientele around the world, they move. The number of travelers ought to increase by 17% for the next 10 years. And that will not stop. And we see Chinese starting traveling.

We learn from them. For example, the percentage of bridal rings we sell from our London salons is extremely high to Chinese clients, which is unbelievable because we don't have visibility yet in mainland China. But they come already to us and purchase their engagement ring in our salon of London. So, that's pretty encouraging.

And last thing, we put Chinese-speaking people in all of the international destinations. Until three months ago, we had zero Chinese-speaking people in our salons. Now we start having, with already some great results, in Las Vegas, in South Coast Plaza, Orange County, it's going to be the case in London, soon in Paris. But in these international hubs, we hire talented Chinese-speaking people.

Daniela Nedialkova - *Atlantic Equities - Analyst*

And as a follow-up, in your salons around the world, other than the Chinese, do you see any particular other nationality as a tourist inflow? And thinking maybe Russians, Middle East. Is there anything identifiable that would point you to opening salons in that particular region?

Frederic de Narp - *Harry Winston Diamond Corporation - CEO Harry Winston Inc.*

It's more the knowledge we have of the brand. The brand has developed the watch activity for the last 20 years, importantly in Russia and Middle East. But we had no salon visibility. It was handled only by partners dealing with multi-brand stores, which is not the best to expand the image of the brand. So, this is why we embarked into immediately developing in the Middle East. So, we start with Dubai. Dubai is the one hub that helps us serve our Middle Eastern clients. But also the Indian clients who oftentimes come to shop high end in Dubai. And Chinese clients coming to Dubai Mall now to shop also exponentially. Russia, it's a given, we have been having these solid partner, Mercury, with the best retailers actually in Russia, who want to invest in the brand, developing the brand. And it's a development that ought to happen.

Daniela Nedialkova - *Atlantic Equities - Analyst*

And my last follow-up is just, can you say how much of your salon sales are made to local customers versus international visitors?

Frederic de Narp - *Harry Winston Diamond Corporation - CEO Harry Winston Inc.*

A good question. In Japan, this is nearly close to 100%. So, 95% is local. America, it is still very local for us. Which is a good point, because we grow with local clientele, and this is what we want to do. And most of the sales in America are still local. It's in Europe that it is really majority international.

Daniela Nedialkova - *Atlantic Equities - Analyst*

Thank you very much.

Operator

Jafar Alam of Berenberg Bank.

Jafar Alam - *Berenberg Bank - Analyst*

Just three questions from me. The first one being on the constant currency growth rates for Europe and Asia, if you would be able to give us some figures there. And secondly, just to give us some figures around if you were to take out the Court of Jewels one-offs from last year, what do the constant currency rates look like? Secondly, if you could give us a bit more information about demand so far in Q4, what that's looking like. And finally, last question, if you could speak about your stockpiles in diamonds at the moment. Do you expect to sell those in Q4?

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

While Cyrille is writing out some notes on the other questions, I'll give you the answer to the last one, while I can still remember it. The price of diamonds, the stockpile of diamonds, no we wouldn't expect to sell it all in Q4. We wouldn't even particularly want to sell it all in Q4. The reason for stockpiling is, the kind of goods that we're stockpiling are those that are similar to the diamonds that are coming out of the so-called Marange diamond fields in Zimbabwe. These tend to be smaller diamonds, and lower-quality diamonds. So, these diamonds are being stockpiled in Zimbabwe because they couldn't get export licenses for them until last month. So, there was a big burst of these things that has come onto the market. And in that kind of category, has therefore, depressed the prices. This surge of diamond production, it's not necessarily production, it's actually a surge of stockpiled goods, which need to be sold by the people that have put up the cost of mining them. And so they're going to go get washed through the market. It's probably going to take a few months for that type of diamond to get through the market. Then we'll be on a steady state again, and the prices of those kind of articles will go up again.

We don't wish to try and sell the kind of diamonds that we have that are similar to those in competition with them, just simply because we believe there is a better price not very far around the corner. So, we expect to sell them, that kind of material, which is really mostly of what we've got stockpiled, throughout the coming year. Perhaps, well, most of it gone by the end of the first six months, I would expect. But on the other hand, we are now selling it at, for instance, the sales that we're making this particular month are at full velocity in the sense that we are selling diamonds for the dollar equivalent, sales are at a dollar level that is compatible with a full run cycle of production from the mine. So, we are already reducing the stockpile that we have, to some extent. But we don't expect to get through it all in the fourth quarter. So, that answers that question.

Cyrille, do you have your other list there?

Laura Kiernan - *Harry Winston Diamond Corporation - Director Investor Relations*

Yes, as far as the constant currency, Jafar, sales in the US were up 44% in the quarter, and 53% for the year to date. Sales were down 31% in Europe, down 3.6% year to date. And sales in Asia, including Japan, were up 13.5% in the quarter, and up 77% in the year-to-date period.

Jafar Alam - *Berenberg Bank - Analyst*

Brilliant, thank you.

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

Was there another part to your question?

Jafar Alam - *Berenberg Bank - Analyst*

The other question was related to the constant currency, if you were to exclude the one-offs, because obviously there was tough comparables. So, if you were to exclude the one-offs of the quarter from last year, what do the growth rates look like? You may not have that information but --.

Laura Kiernan - *Harry Winston Diamond Corporation - Director Investor Relations*

Right, Jafar. We don't separately disclose that. However, what we did do in the segment footnotes is we listed the value of the high-value transactions. So, in the segment footnote for example, last quarter I think we said we had $55 million. This quarter... I don't even know that we disclosed something this quarter because we really didn't have sales at that level. Last year in the quarter, we had Court of Jewels, so if we do have a lot of high-value transactions in the last fourth quarter that will probably be in the segment footnote when we report our fourth-quarter results.

Jafar Alam - *Berenberg Bank - Analyst*

Brilliant. Okay, I will go back and look at that. And just finally the market for Q4, what does that look like at the moment?

Frederic de Narp - *Harry Winston Diamond Corporation - CEO Harry Winston Inc.*

We see Q4, it is difficult to have a crystal ball as we still -- the bulk of the holiday season is starting from now on. But what we will see is surely a sustained growth of the most predictable business segments that have grown until now steadily quarter after quarter that we will continue to grow. Of course, last year, the fourth quarter, the realized plus 89%, thanks to these big transactions that some of these transactions will not be repeated this fourth quarter. But what counts for us is building these solid brands, and developing in all these segments at the same time, in all these countries. And that's working well, so we see the steady growth of this. So, most probably, and naturally an increase of margin in the fourth quarter, but a decrease of top sales.

Jafar Alam - *Berenberg Bank - Analyst*

Thank you very much.

Operator

Richard Hatch of RBC.

Richard Hatch - *RBC Capital Markets - Analyst*

You've held back inventory to sell later when prices improve. Can you just give a little detail as to when you see that improving? And do you feel that you're comfortable in your cash position to hold back these sales going forward?

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

We already see prices improving. If you think about it, what really happened here was the world knew that the Marange goods were going to start to arrive, but they didn't really know what they looked like. They didn't know what the range of qualities, and sizes, so on was that were in there. So, then this big surge comes. So, the world sort of stops for a while in fear of whether these things are going to swamp the entire diamond market for a little while. Then they arrive, and everybody can start to see what the range of size and qualities are. Realized that that's going to affect the pricing of those. But also realizing that it doesn't affect the sizes and qualities that are outside of that type of production. So, that's what's happened now. And so the diamond market has picked up again, prices have improved once the fear factor has been removed and prices have generally improved actually. So, it's already on an improving trend.

What was the other part of the question?

Richard Hatch - *RBC Capital Markets - Analyst*

The cash position.

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

Cyrille, I think we are about 80 --?

Cyrille Baudet - *Harry Winston Diamond Corporation - CFO*

Yes, we have cash balance of $83 million, and we have availability under our credit facility of $106 million.

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

We have, if you like, what we've done is deliberately -- if you look at running the business on a cash basis, which is the way I look at it, what we've really done is sell rough diamonds. We've sold the ones where the pricing is still very strong. Where the pricing isn't so strong, we sold some additional diamonds in order to comfortably cover our cash requirements. In other words, paying cash for those at Diavik, dealing with expansion of the retail site, and so on. So, we've done that. On the basis of that, we will get improved revenue for diamonds that we actually hold onto, even for quite a short period of time. There's not much point in converting those diamonds to cash at low prices, and then putting that money in the bank and collecting virtually no interest on it. When the actual diamonds themselves perform better than a bank account. So, that's the basic logic here.

Richard Hatch - *RBC Capital Markets - Analyst*

Thank you very much.

Operator

Tanya Jakusconek of Scotia Capital.

Tanya Jakusconek - *Scotia Capital - Analyst*

I've just got a couple of questions, one on Diavik, and then one on the ETF, the diamond ETF fund that was being proposed. Just on Diavik, just on A-21, Bob, we had originally talked about a capital cost of about $250 million to build. And with the inflation that has been heading through the whole industry, it seems that that number will likely be low, maybe a little bit on what you see there. And if I understood correctly, it looks like A-21 is now coming in in 2016. I think we had previously talked about 2015, so just checking on that. And then sustaining capital is $40 million on a 100% basis. Still a good number, given all of these inflationary factors. So, maybe just those on the Diavik first.

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

You're quite right about that. A-21, although it's not really quite the same project now because they're now looking at a capital budget for it. But the new budget includes all of the pre-strip and then some additional equipment. And then also I think a remote truck shop, so it's easier to service those pit vehicles, somewhere closer to where they're actually operating. So, somewhat different parameters. But nonetheless, the project, if you include all of the contingencies which are added onto it, we get into the $400 million to $450 million range, Tanya. We don't actually have a hard number, but it will be in there. Fortunately, it's not that sensitive to capital, but nonetheless, you're right, this is the inflation that's happened, it affects all of these kind of projects.

Tanya Jakusconek - *Scotia Capital - Analyst*

Yes, for sure, especially up North, too.

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

That's right. The production date isn't changing. I think it's on the cusp of 2015, 2016. I think at the moment we're going to liberate ore in '15, but it's probably not going to get through the processing plant until the very beginning of '16. But this is really a little bit of a subtle difference about year ends.

Tanya Jakusconek - *Scotia Capital - Analyst*

And this is calendar '16, right, Bob?

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

Yes, that's right. So, that's that. Where else -- there was another part to your question.

Tanya Jakusconek - *Scotia Capital - Analyst*

There was a sustaining capital of $40 million that we had already talked about on a 100% basis. Is that still a decent number? Or should we inflate that, too?

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

I think what you should do is wait until we get the new mine plan. I don't think it's going to be a material change, really. You sort of say -- if it goes from $40 million to $50 million, isn't that material? Well, not really, in the context of all the OpEx of the project. I don't have any fear that it's going to go up. And a lot of what really might have gone into sustaining capital is actually being included now in specific, or has already been included in specific capital projects. So, I don't have any great fear about that, but it wouldn't surprise me if it went up some.

Tanya Jakusconek - *Scotia Capital - Analyst*

And actually before going to the ETF, Bob, you mentioned that going underground you're positively surprised, your costs are better than you anticipated. Is that due to the fact that the ground conditions are better? And maybe you're getting less mining dilution? Or maybe just a little bit of clarity on that.

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

Yes, ground conditions are good. And I think probably also -- this is just the difficulty of making estimates. For typical jobs, Rio to be able to make accurate estimates, here again, you pointed out the location we're in and so on. I think their estimates remain in a generous manner, and therefore, what's happened is the actual cash flows have not been as high as they had budgeted.

Tanya Jakusconek - *Scotia Capital - Analyst*

So, they put maybe a fudge factor in.

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

Yes, that's right.

Tanya Jakusconek - *Scotia Capital - Analyst*

And maybe just on the ETF --.

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

The ETF, of course, a lot of customers for this were European family money. So, when this most recent crisis struck the world, these guys basically turned their attention elsewhere. It wasn't that they went away, it's just that they started to have to spend a lot of time managing their equity portfolio, and didn't have time to read thick prospectuses. However, that's kicked back into gear now. I was just talking to Ray Simpson, who is putting that together. And, in fact, I gather it's going along very nicely now. Although we expected to get it away by the end of our financial year, I think we've probably got a couple of months of delay in that, but I don't think it's gone away, that's for sure.

Tanya Jakusconek - *Scotia Capital - Analyst*

So, sometime, let's say, closing mid next year, would that be fair?

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

I think that would probably be on the pessimistic side.

Tanya Jakusconek - *Scotia Capital - Analyst*

Okay, so we'll then put Q1. Thank you very much.

Operator

(Operator Instructions) Matthew Hill of Mining Weekly.

Matthew Hill - *Mining Weekly - Analyst*

Firstly, I was hoping you could give some comment on what sort of ongoing impact you might see in the diamond market from the Zimbabwe supplies? On the lower quality side, obviously.

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

I was up early enough this morning to actually read your own note on our results. And I would just like to correct about it. Your headline says that depressed diamond prices have pushed us into a loss; what pushed us into a loss was taking the write-down on the paste plant. In fact, diamond prices are still 25% higher than they were last year. In fact, that's still a very comfortable number.

What do I see with respect to going forward? I think we're going to have probably about three months of, if you like, little bit sustained lower pricing in the smaller, cheaper goods. Fortunately, that doesn't affect us greatly. Because the bulk of our value doesn't come from those categories of diamonds. But I think it's caused all producers, I'm sure, although I'm not privy to people's thoughts, of course, but I'm quite sure that all of the other producers are holding more stock than they normally would at this time.

And so, if we think about them getting all of that sold through the system, I think it's going to take us most of next year. So, my own planning, if you like, is not to anticipate rough diamond price rises overall throughout next year. There will be some categories that go up, some categories that don't. But I think the overall result is likely to be that we more or less stay where we are for a year despite the fact that there's clearly a growing imbalance between demand and supply, which will definitely mean higher prices in even the medium term. But I think if we're talking about the next three or four quarters, I think one should think about probably flat diamond pricing, albeit at a level that is 25% higher than it was last year.

Matthew Hill - *Mining Weekly - Analyst*

And then just lastly, is Harry Winston at all interested in participating in BHP Billiton's review process for its Canadian diamond assets? Which, of course, could present a once-in-a-life opportunity to buy a large diamond mine in a stable jurisdiction such as Canada.

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

We are, of course, familiar with the stable jurisdiction that is Canada. And of course, familiar with the area. We don't obviously discuss M&A initiatives on conference calls, for obvious reasons. Usually, as you know, these things tend to involve confidentiality agreements. Clearly it's of some interest, but nonetheless, it is close to the end of its existing life. And of course, there is a reclamation liability there as well.

Matthew Hill - *Mining Weekly - Analyst*

Okay, great, thank you.

THOMSON REUTERS

Operator

Edward Sterck of BMO.

Edward Sterck - *BMO Capital Markets - Analyst*

I just have one follow-up question. Am I correct in thinking it's been a bit warmer than normal up in the North so far this winter? And if that is right, how is the sort of ice road shaping up at the moment?

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

I don't even think it is right. It actually got quite cold very early in the fall this year. The optimal conditions for winter road are -- it gets cold before you get much snow. And I think this year would be characterized as not bad. It got cold, but actually fairly quickly got some snowfall. And of course, the snowfall does two things. One is, it insulates the ice that's already built. So, you don't get as much thermal transmission between the ice and the cold air above it. And you've got a snow blanket on it. And the other thing is, the weight of the snow. If the ice is thin, it produces enough weight that it pushes the ice down, and you get overflow of water on top of the ice. You get a very lumpy surface, which nobody likes very much.

But my understanding is, we are okay with the winter road this year. What's already happened is what's important on the winter road. It's always going to be cold in January and February, we don't worry about that. It's just a question of whether you've built ice, particularly in the period of mid-November to mid-December. My understanding is it's looking pretty good.

Edward Sterck - *BMO Capital Markets - Analyst*

Thank you very much.

Operator

And there are no further questions at this time. I'd like to turn the call back over to management for closing remarks.

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

Okay. Thank you. One special thank you, I think. This has been a complicated quarter. We stockpiled some goods. In other words, we don't make sales of run-of-mine; it introduces another layer of complexity to something that's already a complex business. And for those of you that have the patience to actually analyze this and publish the analysis, just a special thanks for having made the effort to actually try to understand this complexity. So, thank you all.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.
