

## MIRA INFORM REPORT

<b>Report No. :</b>	526428
<b>Report Date :</b>	29.08.2018

### IDENTIFICATION DETAILS

<b>Name :</b>	LLD DIAMONDS LTD.
<b>Registered Office :</b>	23 Tuval Street, Diamond Exchange, Noam Bldg., Ramat Gan 5252238
<b>Country :</b>	Israel
<b>Date of Incorporation :</b>	12.10.1997
<b>Legal Form :</b>	Private Limited Company
<b>Line of Business :</b>	Miners, international manufacturers and traders in diamonds, dealing as cutters, polishers, importers, exporters and marketers of all sorts of diamonds for fine jewellery.
<b>No. of Employees :</b>	60

**RATING & COMMENTS**

(Mira Inform has adopted New Rating mechanism w.e.f. 23<sup>rd</sup> January 2017)

**MIRA's Rating :**

B

Credit Rating	Explanation	Rating Comments
B	Medium Risk	Business dealings permissible on a regular monitoring basis

<b>Status :</b>	Moderate
<b>Payment Behaviour :</b>	Unknown
<b>Litigation :</b>	Clear

**NOTES :**

Any query related to this report can be made on e-mail : [infodept@mirainform.com](mailto:infodept@mirainform.com) while quoting report number, name and date.

**ECGC Country Risk Classification List**

Country Name	Previous Rating (31.12.2017)	Current Rating (01.04.2018)
Israel	B1	B1

Risk Category	ECGC Classification
Insignificant	A1
Low Risk	A2
Moderately Low Risk	B1
Moderate Risk	B2
Moderately High Risk	C1
High Risk	C2
Very High Risk	D

### ISRAEL - ECONOMIC OVERVIEW

Israel has a technologically advanced free market economy. Cut diamonds, high-technology equipment, and pharmaceuticals are among its leading exports. Its major imports include crude oil, grains, raw materials, and military equipment. Israel usually posts sizable trade deficits, which are offset by tourism and other service exports, as well as significant foreign investment inflows.

Between 2004 and 2013, growth averaged nearly 5% per year, led by exports. The global financial crisis of 2008-09 spurred a brief recession in Israel, but the country entered the crisis with solid fundamentals, following years of prudent fiscal policy and a resilient banking sector. Israel's economy also weathered the 2011 Arab Spring because strong trade ties outside the Middle East insulated the economy from spillover effects.

Slowing domestic and international demand and decreased investment resulting from Israel's uncertain security situation reduced GDP growth to an average of roughly 2.8% per year during the period 2014-17. Natural gas fields discovered off Israel's coast since 2009 have brightened Israel's energy security outlook. The Tamar and Leviathan fields were some of the world's largest offshore natural gas finds in the last decade. Political and regulatory issues have delayed the development of the massive Leviathan field, but production from Tamar provided a 0.8% boost to Israel's GDP in 2013 and a 0.3% boost in 2014. One of the most carbon intense OECD countries, Israel generates about 57% of its power from coal and only 2.6% from renewable sources.

Income inequality and high housing and commodity prices continue to be a concern for many Israelis. Israel's income inequality and poverty rates are among the highest of OECD countries, and there is a broad perception among the public that a small number of "tycoons" have a cartel-like grip over the major parts of the economy. Government officials have called for reforms to boost the housing supply and to increase competition in the banking sector to address these public grievances. Despite calls for reforms, the restricted housing supply continues to impact younger Israelis seeking to purchase homes. Tariffs and non-tariff barriers, coupled with guaranteed prices and customs tariffs for farmers kept food prices high in 2016. Private consumption is expected to drive growth through 2018, with consumers benefitting from low inflation and a strong currency.

In the long term, Israel faces structural issues including low labor participation rates for its fastest growing social segments - the ultraorthodox and Arab-Israeli communities. Also, Israel's progressive, globally competitive, knowledge-based technology sector employs only about 8% of the workforce, with the rest mostly employed in manufacturing and services - sectors which face downward wage pressures from global competition. Expenditures on educational institutions remain low compared to most other OECD countries with similar GDP per capita.

Source : CIA

## **COMPANY NAME AND ADDRESS**

### **LLD DIAMONDS LTD.**

Telephone 972 3 755 11 11  
Fax 972 3 612 27 15  
Email: [dan@lld-diamonds.co.il](mailto:dan@lld-diamonds.co.il)

## **HISTORY & LEGAL FAORMATION**

A private limited company, incorporated as per file No. 51-254128-5 on the 12.10.1997, continuing activities which began in the mid 1970's by Lev Leviev.

## **SHARE CAPITAL**

Authorized share capital NIS 34,300.00, divided into -  
34,300 ordinary shares of NIS 1.00 each,  
of which 104 shares amounting to NIS 104.00 were issued.

## **SHAREHOLDERS**

Subject is fully owned by Lev Leviev.  
(Note: According to the Registrar of Companies, Moshe Leviev holds 1 single share).

## **SOLE DIRECTOR**

Zevulun Leviev, Chairman & General Manager.

## **BUSINESS**

Miners, international manufacturers and traders in diamonds, dealing as cutters, polishers, importers, exporters and marketers of all sorts of diamonds for fine jewellery.

62% of sales (in 2014) were for export (later export rate unavailable).

LEVIEV Group operates in all stages of the diamonds chain – from mining and production to sales and marketing. Dealing in cut and rough diamonds.

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LEVIEV Group controls its own diamond mines, some of which are located in Namibia and Angola. Most manufacturing and processing is abroad, imported to Israel either as rough for sale to other dealers or as cut diamonds for sale and export.

Diamonds and jewelry are sold also via the Group's chain of fancy stores, called "Leviev", around the world.

Operating from premises, owned by shareholders, on a total area of 1,200 sq. meters, in 23 Tuval Street (*Note*: size of premises based on data disclosed in end 2015 and not confirmed since then), Noam Building (11<sup>th</sup> & 9<sup>th</sup> floors – subject's shareholders own and occupies the entire floors), Diamond Exchange, Ramat Gan. The Group also operating from mines, plants and offices in South Africa, Namibia (see below) and Angola, polishing plants in India and Far East and branches in Antwerp, New York, London, Moscow, Rome, China/ Hong Kong, India and Dubai/ UAE.

Having 60 employees in Israel (had 80 employees in end 2015, 90 employees in mid-2014, similar to 2013 and end of 2012), as well as hundreds of employees serving LLD Group worldwide (couple of hundreds in Israel).

## **MEANS**

Financial data not forthcoming, however subject has been known to be financially strong and solid. Yet, subject and LEVIEV Group has been hit by the present crisis in the global diamond industry (plus Leviev's other problems in the framework of his other businesses, mainly in the real estate field in Russia - see more in CHARACTER).

Subject, like other diamond companies, got hurt from the severe depression in the diamond industry which erupted in the last third of 2008 and lasted throughout 2009, then improved in later years, but never recovered to the levels prior to the crisis. According to media reports, following the crisis subject's bankers asked in the beginning of 2009 from subject to lower its credit exposure and Mr. Leviev fueled NIS 400 million and subject was left with US\$ 800 million debt to its banks.

There are 4 charges for unlimited amounts registered on the company's assets, in favor of Union Bank of Israel Ltd. and Israel Discount Bank Ltd. (last charge placed in 2008, prior charges placed in 1997).

## **REVENUES**

According to the data published by the Israel Supervisor on Diamonds in the Ministry of Industry & Trade, export of polished diamonds by subject (actual overall sales presumed to be higher, as there are local sales of polished diamonds and may have sales of rough diamonds as well), were as follows:

2007 sales were US\$ 522 million.

2008 sales were US\$ 417 million.

2009 sales were US\$ 241 million.

2010 sales were US\$ 366 million.

Later data not published.

LEVIEV Group whole diamond and jewelry business was estimated at US\$ 3 billion per year (several years ago).

## **OTHER COMPANIES**

AFRICA ISRAEL INVESTMENTS LTD., Leviev holds 48.1%, publicly traded on the Tel Aviv Stock Exchange, a holding company, current market value US\$ 7.8 million; in process of sale to new investor (*see below*).

MEMORAND HOLDINGS & INVESTMENTS LTD., holding company via which Lev Leviev has been holding AFRICA ISRAEL Group.

In addition, Leviev holds other foreign companies, engaged in diamond and other mineral mining, real estate and more.

Subject's Chairman and General Manager, Mr. Zevulun Leviev, owns L.R.D. DIAMONDS INTERNATIONAL LTD., traders, importers, exporters and marketers of diamonds.

## **BANKERS**

Union Bank of Israel Ltd., Ramat Gan Branch (62), Ramat Gan.

Also: Israel Discount Bank Ltd., Diamond Exchange Branch (No. 80), Ramat Gan.

## **CHARACTER AND REPUTATION**

Nothing unfavorable learned on subject.

Subject's accountant refused to disclose financial related information.

Subject has been the leading largest diamond company in Israel, most of the years by far largest than others. In the lists of Israel's largest polished diamonds exporters (published by the Israel Supervisor on Diamonds in the Ministry of Industry and Trade) until 2010 subject was ranked 1<sup>st</sup> as Israel's largest polished diamonds exporter. Since 2011 LLD Group chose to refrain from being reported in the list (which is the company's own choice, as several other diamond companies do), though still estimated to be one of the largest in the branch.

Mr. Lev Leviev is a well-known veteran diamond dealer, with worldwide reputation, and has been considered one of the world's largest private diamond dealers. According to 'Forbes' World's richest persons, Leviev was ranked 1678<sup>th</sup> in 2015 (1533<sup>th</sup> in 2015) with personal wealth estimated at US\$ 1.2 billion.

In the past Leviev was a DE BEERS sightholder in South Africa, however following continuous conflicts he departed and became the largest independent cutter and processor of diamonds in the world, and the main source of rough diamonds, challenging the long standing hegemony of DE BEERS and revolutionized the sector. Mr. Leviev controls many other international companies in the diamond sector, among them are ASCORP, RUIS DIAMONDS, WELOX LTD., etc. He is involved in mining and manufacturing in Africa, in particular Angola, where he is very well connected to the regime (although in 2003 he lost the exclusivity for diamond export from Angola). During 2004 and 2005 Leviev opened, jointly with the local authorities, 2 major plants for diamonds polishing and cutting in Namibia and in Angola.

Born in Tashkent, Uzbekistan, Leviev is also strongly involved in the Russian diamond industry and trade.

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In Israel, Leviev was until few years ago one of the leading business figures, via his AFRICA ISRAEL Group, taking over control in 1996 in one of the largest concerns in Israel AFRICA ISRAEL INVESTMENTS LTD. (AFI), publicly traded on the Tel Aviv Stock Exchange, managing and dealing, via subsidiaries, in real estate (yielding properties, initiation, land development, building and infrastructure contractors) in Israel and abroad, and steel and metal fields. However, his influence fell over the last years – the hit in the real estate and diamond businesses due to the global crisis. AFI was adversely hit by the 2008/9 crisis in the world's financial and real estate markets, mainly due to its real estate holdings in Russia and the USA, accumulating huge losses. Following AFI's announced in August 2009 on uncertainty in their ability to meet all its future obligations, debt arrangement with its bonds holders was completed in May 2010 in volume of NIS 7.45 billion: part of the debt erased, a re-schedule for payments spread till 2021, and Leviev fueled his own capital (NIS 750 million) though remained in control.

Thanks to its reputation and the fact it deals in all the diamond sector chain, LEVIEV Group managed to cross over the 2008/9 crisis (according to sources in the diamond branch subject met all liabilities promptly, enjoying the fact that both customers and suppliers want to work with subject), and the Group's financial standing improved also, thanks to the debt arrangement, as well as some recovery in global markets, including the real estate market in Russia. Yet, with the global economic circumstances kept changing for the bad, especially in Russia, AFI experiencing another crisis, forced to go another debt arrangement in volume of NIS 3.5 billion, while Leviev personal debt to local banks standing on total of NIS 1.1 billion (part of the loan Leviev took for acquiring AFI in 1996).

In September 2016 it was reported that Leviev had to put his shares in his "LEVIEV" jewelry chain, valued at hundreds NIS million, as collateral in order to pay the Israeli institutional pension funds (which according to the media report proves how distressful is Leviev's private liquidity), getting NIS 550 million private loan (reportedly, from Russian bank VTB).

However, this time Leviev around has been one too many, and after long negotiations between Leviev and other investors in one side, and the bond holders on the other, Leviev lost in the battle, and the ownership in AFI is in process of being transferred to a new investor. On the 08.08.2018 AFI's bond holders approved the sale of AFI to businessman Motty Ben Moshe.

In June 2012 it was reported that Namibian Diamond Trading Company (NDCT), owned by Namibian Governmental and DE-BEERS, announced it will cease the supply of rough diamonds to LLD Group. LLD had a 5-years agreement with the Government, who announced the license (Sight) is not being renewed due to "not meeting the requirements". The Namibian polishing and cutting plant, opened in 2004, known as the largest of its kind in African continent. Consequently, LLD Group fired all its 150 employees in Namibia and suspended the work in its plant.

In March 2014 it was reported that Leviev purchased the Dutch SIEBEL Jewelry chain in a sum estimated at several tens NIS millions.

A media article from April 2015 reports on a dispute between Lev Leviev and his brother Moshe Leviev (who served as subject's General Manager until several years ago).

Export (net) of polished diamonds from Israel in 2017 totaled US\$ 4,478 million, some 4% lower than in 2016 and 2015 (US\$ 4,675 million and US\$ 4,996 million, respectively), and well below 2014 (US\$ US\$ 6,269 million) and from its peak on the eve of the crisis in the branch, with export of polished diamonds of US\$ 7 billion.

The diamonds market has been volatile over the last years after experiencing its worst depression due to the global economic crisis, then recovered in 2010 but fell again in 2012. According to Israel's Diamond

Administration (IDA) at the Ministry of Economics, profit margins have been decreasing due to smaller gaps between rough (increasing) and polished (decreasing) diamond prices.

In addition, the local diamond sector has been negatively affected by other significant factors: the production of counterfeit diamonds, whose quality keeps improving (harming the raw diamonds market), the entrance of new rules by the local Tax Authorities on the Diamond Exchange for enforcing money laundering, and the "underground bank" affair – as below.

As a result, local diamond dealers report on difficulties in executing transactions and bad atmosphere in the branch. Signs of recovery appeared towards the last quarter of 2016 – mainly due to the growing stability of the market and the industry's agreement with the Israel Tax Authority in December, yet the market is still volatile, as witnessed with the endurance of the depression trend during most of 2017.

Export (net) of rough diamonds fell 10.4% in the first 9 months of 2017 (compared to the parallel period in 2016), reaching US\$ 1,796 million (summed up to US\$ 2,702 million in all 2016, 23% higher than 2015).

Net imports of polished diamonds in 2017 totaled US\$ 2,700 million, compared to US\$ 3,282 million in 2016. Net import of rough diamonds summed at US\$ 3,246 million in 2016, up 16.7% from 2015, and reached US\$ 2,089 million in the first 9 months of 2017, down 11.6% compared to 2016.

The United States continued to be Israel's major market for polished diamonds, accounting for 45% of the market in the first 9 months 2017 (was 39% in 2016). Hong Kong is 2<sup>nd</sup> largest market with 30% of exports (26% in 2016), followed by Switzerland 9% (7%), Belgium 8% (8%), and the rest of the world account for the remaining 8% of Israel's polished diamond export.

An affair of an "underground bank" (known as the "Check List" Affair) shocked the local diamond branch, after in late January 2012 Police raided the Diamond Exchange (after a long undercover operation), arrested several individuals for investigation, caught diamonds and various assets worth NIS millions, and blocked several bank accounts. It is suspected that a group of people, including diamond dealers, run an illegal bank in the Diamond Exchange compound for loans, money transfer abroad based on fictitious transactions and exchange in volume of NIS 1 billion for several years.

The affair led to several of reported bankruptcies of local diamond firms, a decrease of up to 70% in transactions in 2012, and for a while to paralysis (especially in raw diamonds purchase) due to uncertainty among local and foreign dealers. Later in 2012 the Police decided to lower the profile of the investigation for a while (pressure from the diamond branch due to the continuing damage inflicted and the Government (losing US\$ hundred millions from decrease in tax collection), but resumed investigation in 2013.

In mid-2014, based on the Police and Tax Authorities recommendations, the State Attorney started the process of filing indictments against central defendants in the affair, initially against dealers who provided foreign currency services to the "bank" (in June 2015 the court made the first conviction in the affair, sending a foreign currency dealer who pretended also to be a diamond dealer, for 4 years prison, a fine and confiscation of assets in volume of NIS millions, part of a plea bargain). Since late 2015 indictments for severe charges pressed against 11 diamond dealers and their firms for tax felonies committed and issuing fictitious invoices in volumes of millions US\$ (latest indictments filed by the Tel Aviv District Attorney in August 2016). In the case of one of the prosecuted, a plea bargain was reached in May 2018 (fines and serving community services). Other cases are pending.

## **SUMMARY**

Notwithstanding the refusal to disclose financial-related details, considered for trade engagements.

**FOREIGN EXCHANGE RATES**

Currency	Unit	Indian Rupees
US Dollar	1	INR 70.17
UK Pound	1	INR 90.33
Euro	1	INR 81.93
ILS	1	INR 19.38

**Note :** Above are approximate rates obtained from sources believed to be correct

**INFORMATION DETAILS**

Analysis Done by :	PRI
Report Prepared by :	KET

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**RATING EXPLANATIONS**

Credit Rating	Explanation	Rating Comments
A++	Minimum Risk	Business dealings permissible with minimum risk of default
A+	Low Risk	Business dealings permissible with low risk of default
A	Acceptable Risk	Business dealings permissible with moderate risk of default
B	Medium Risk	Business dealings permissible on a regular monitoring basis
C	Medium High Risk	Business dealings permissible preferably on secured basis
D	High Risk	Business dealing not recommended or on secured terms only
NB	New Business	No recommendation can be done due to business in infancy stage
NT	No Trace	No recommendation can be done as the business is not traceable

NB is stated where there is insufficient information to facilitate rating. However, it is not to be considered as unfavourable.

This score serves as a reference to assess SC's credit risk and to set the amount of credit to be extended. It is calculated from a composite of weighted scores obtained from each of the major sections of this report. The assessed factors are as follows:

- Financial condition covering various ratios
- Company background and operations size
- Promoters / Management background
- Payment record
- Litigation against the subject
- Industry scenario / competitor analysis
- Supplier / Customer / Banker review (wherever available)

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