

Media release

Varda Shine Address to DTC Sightholder Cocktail Party

London 19th January 2010 Thank you Nicky, thank you Gareth. May I also extend my welcome to you all, and offer my best wishes for the New Year to those I have not yet had the chance to speak to. Of course, it is not just a New Year that we are entering, but also a new decade which, it must be said, offers great promise for the diamond industry. We stand on the brink of a new chapter for diamonds and it is for this reason that we must recognise the importance of the actions we take now and understand that what we do in the course of 2010 is likely to shape the future for several years to come.

So, as we head into a new decade I would like to spend a bit of time looking ahead, but before that I think it's also worth thinking back to this time last year and seeing how far we have come. When we consider what we have achieved together over the last 12 months, I think we should all be immensely proud.

January 2009 was full of symbols of difficulty throughout the diamond pipeline – whether it was the size of the DTC Sight, the closure of polishing units, the depressed levels of polished exports or the reduction in retail demand, everything suggested substantial challenges ahead. But I am really pleased with the way these challenges have been met and with the leadership role fulfilled by De Beers and the DTC during the downturn.

As the leading rough diamond supplier, we believe we played our part through reducing our production in line with client demand, introducing extra flexibility in our sales, communicating with key industry stakeholders, bolstering bank confidence, catalysing new marketing activity to stimulate consumer demand and maintaining diamond equity.

But we could not have achieved anything alone. You too played key leadership roles by rightsizing your businesses, working down debts and inventories, displaying responsibility with your purchases, supporting new marketing activity and seeking out new and more efficient ways of doing business. The individual efforts that we have made have enabled us to start this new decade with renewed optimism.

In this vein, it was heartening to hear early reports suggesting that jewellery retail over the Christmas period in the US was slightly above expectations and stores saw an improved performance year on year. We must remember, however, that this improvement is from a depressed base. We may well see some of the momentum continue and ongoing improvements in the health of the diamond industry but consumers have undoubtedly been scared by the size and speed of the downturn and they are continuing to spend their discretionary income cautiously. It is unrealistic to expect consumer demand for diamond jewellery to return to pre-downturn levels during the course of 2010 and it is more likely to be a year of transition, as the world catches its breath. It appears that consumers are now functioning with a new normal, spending at levels between the highs of mid 2008 and the lows of 2009. The diamond industry needs to find a similar balance in 2010 and any business returning its operations to 100% capacity this year may therefore find that they are substantially overproducing.

Our focus in 2010 must be on making sure that we as an industry are prepared to grow as the decade progresses. The outlook for the industry is excellent in the medium term but we need to remember that every long journey starts with a small step. With this in mind we should aim to use the tough market conditions we saw in 2009 to our advantage. Although 2009 saw levels of financial turmoil which were unprecedented in our lifetimes, this also means that it has provided us with a once in a lifetime learning opportunity.

For me there were five key things to take away from the downturn:

1. Cash is king – and in the diamond industry, it's king, queen and emperor all rolled into one. As we work in such a capital-dependent industry, those maintaining the strongest cash flows will always be well placed to grasp opportunities as they arise. This will require strict management of costs and a measured and long term – rather than speculative and short term – approach to business

2. People will always want hard assets – and there are none harder than diamonds. We saw an increased level of interest in diamonds due to their unique ability to act as an enduring store of value. This is testament not only to the product, but also to the fact that we have managed to generate continued growth in the value of our industry. This notion of sustained value growth is at

the heart of the DTC value proposition and, if effectively positioned, provides us with compelling new marketing opportunities in emerging markets for diamond jewellery

3. The world just got bigger. For several years now there has been a lot of talk about the growth of the Chinese and Indian consumer markets but in 2009 we really saw strong evidence of how a geographically diverse distribution network can provide insurance against difficulties in one particular market. We also saw further strides being made in internet sales of diamonds. Those who embrace these web-based techniques for their customers will be likely to hold an advantage

4. We need to drive consumer demand as we have demanding consumers. Although we have an amazing product with timeless beauty, diamond jewellery is still a discretionary purchase. Although we have created some insurance against this through tying diamond jewellery to key occasions such as weddings, we must continue to drive consumer demand for diamonds as this will be the eventual arbiter of our success. New consumer groups and tastes are emerging and if we do not keep our focus trained on consumers then we risk losing out to competing industries as the 'new normal' beds in

5. Your core business is at the core of your success. Diamond jewellery held its value relatively well through the downturn thanks to our focus on maintaining diamond equity, and those who kept their focus on their diamond operations actually found a great degree of opportunity, both in 2009 and looking to the future. The diamond business is something that demands the sharpest focus, however, if one wishes to succeed. There are real rewards to be had, but faith in your product and your business's core strengths is necessary. Those who looked for other 'easy money' in activities which are outside their sphere of expertise have generally found that taking their eye off their core business has led to missed opportunities or bad investments in assets which are less liquid, less tangible, less secure or less valuable. In the diamond industry, even when trading activity stalled, the fact that we deal with treasures of nature meant that we were holding hard assets which will only become more and more valuable in the years ahead. We should all make sure that we concentrate on our core strengths and build on these during this year of transition. There are tremendous financial opportunities in the decade ahead for the diamond industry and we believe that the DTC's leadership in rough diamond supply means we are ideally placed to help our partners unlock this value.

Rough availability will be reducing over the next decade as no sizeable new mines have been discovered, and even if a new Jwaneng were to be found tomorrow, it would still take at least seven years to bring into production. In this environment, continuity and predictability of supply becomes more important than ever. We are also seeing the diamond landscape shifting subtly and those with access to the best industry insights and market know-how will be those best placed to benefit. We know that ethical consumerism is set to increase in importance and so working with a trusted supplier with a strong reputation can provide competitive advantage. We have a strong track record of partnerships at the DTC and De Beers, and we believe the value we add for our partners through those arrangements is unrivalled.

While partnerships have always been the foundation of De Beers' business, there will be a stronger spotlight on this in 2010 than at most other times. On the downstream side of the business, we are making preparations for the new Sightholder contract period. We are working on this at the moment to simplify the process and we expect to give you more details about this after the first quarter, so watch this space. On the upstream side we are looking forward to continuing our successful 40 year partnership with the Government of Botswana. It's going to be another busy year ahead, full of challenges, but I'm very confident in our product, our people and our passion and I know that we have a hugely exciting decade ahead of us.

I've touched briefly today on the past and the future but this is also a time of celebration and so before I finish I'd like to come back to the present and propose a toast. Ladies and gentlemen – to diamonds, for now and forever!