

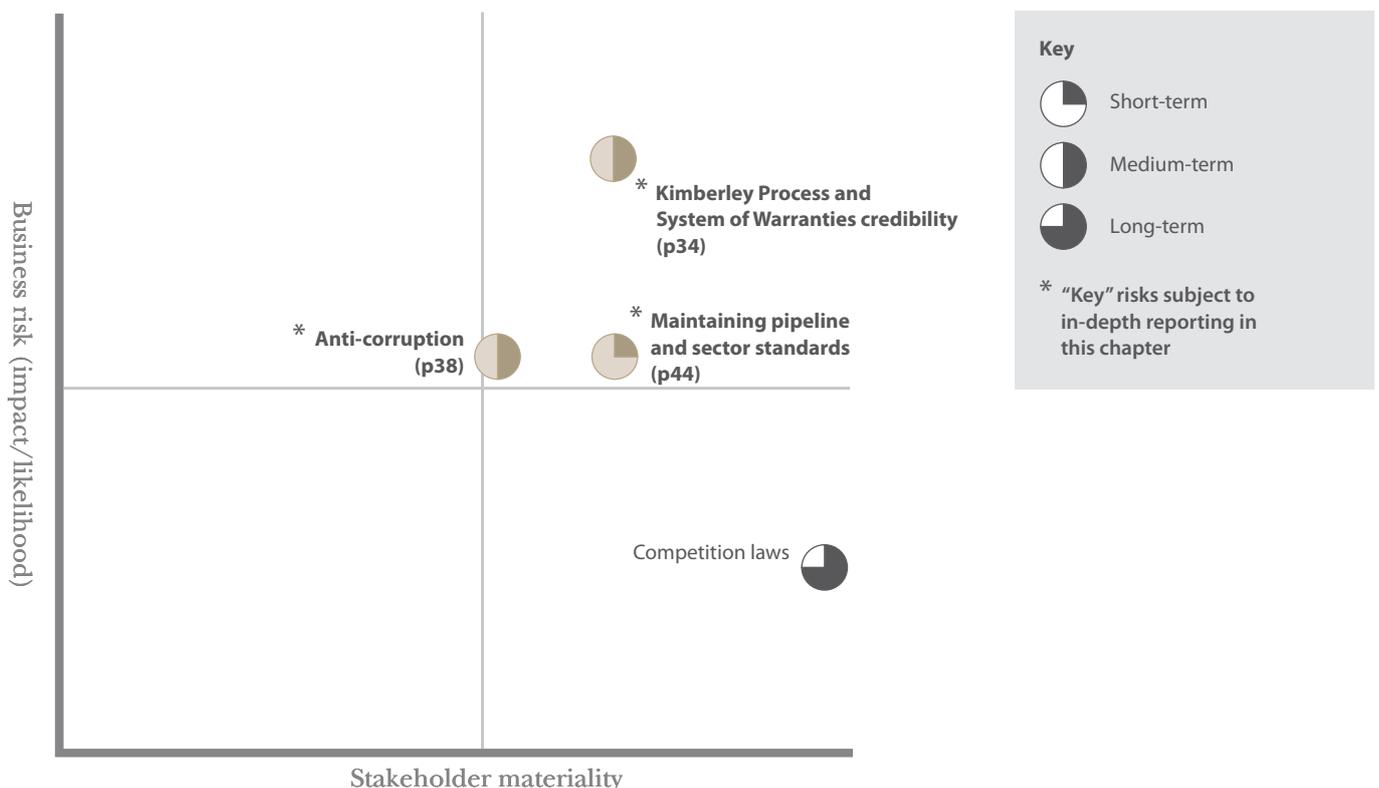
3 Ethics

Our commitment to meeting the highest ethical standards is founded on our aspiration to live up to the unique qualities of diamonds. This commitment has remained undiminished throughout the recent economic turmoil in the industry and the global marketplace. The behaviour of our employees, the robust nature of our assurance systems and the transparency of our business transactions are intended to maintain stakeholder confidence in our business and play a key role in upholding “diamond equity”.

De Beers operations aspire to meet or exceed all applicable statutory requirements, as well as international standards on issues ranging from conflict diamonds to anti-corruption. This includes compliance with and continued promotion of the Kimberley Process and the Extractive Industries Transparency Initiative protocols, which in tandem assure the provenance of our diamonds and facilitate the responsible distribution of the revenues our business generates in producer countries.

The Family of Companies also works with its business partners to develop and embed ethical standards throughout the diamond value chain. Our Best Practice Principles (BPPs) apply not only to our own operations, but also to Sightholders, contractors and suppliers. We also work with sectoral initiatives such as the Responsible Jewellery Council to drive high standards throughout the industry.

Key ethical risks



Risks

* Kimberley Process and System of Warranties credibility (p34)

The Kimberley Process has been criticised over the strength of its enforcement mechanisms, as well as its ability to deal with serious human rights violations associated with diamonds. Such criticism has been spurred by reports of corruption and human rights violations in Zimbabwe, as well as Ivory Coast, Venezuela, Guinea and Lebanon. Likewise, the diamond jewellery retail sector has not traditionally provided necessary consumer assurance that diamonds are from conflict free sources. This presents a risk to the reputation and sustainability of the industry.

* Anti-corruption (p38)

Corruption poses serious legal, commercial and reputational risks to our business. Moreover, the corrosive social, political and economic effects of corruption pose a potential threat to the sustainable development and enduring stability of our current and potential operating environments. Our ability to transform natural resources into national assets depends on empowered and stable governments that are able to responsibly deploy related resources and revenues.

* Maintaining pipeline and sector standards (p44)

De Beers, our joint venture partners, contractors and Sightholders subscribe to the Best Practice Principles (BPPs) – a mandatory code of ethical business conduct. It remains essential that the application of these Principles throughout the pipeline is maintained as our business partners come under strong commercial pressure. Similarly, the consolidation of ethical codes of conduct across the jewellery industry presents both a risk and opportunity for the company. It is essential that high standards are maintained and that the transition from our BPPs to the Responsible Jewellery Council Code of Conduct is seamless.

Competition laws

De Beers is committed to ensuring compliance with competition and antitrust laws and regulations in all of the jurisdictions in which we operate. This requires the maintenance of a “zero-tolerance” stance towards any non-compliance.

Individually traceable rough diamonds

Highlights

- ◆ All diamonds sold by De Beers are 100% conflict free. Compliance with the Kimberley Process and System of Warranties for 2009 was verified by Société Générale de Surveillance (p37, p104)
- ◆ No significant incidents of corruption were identified during 2009 and no significant fines or non-monetary sanctions were imposed on the Family of Companies in relation to non-compliance with anti-corruption legislation and regulations (p38)
- ◆ In February 2009, a new “SMART” approach to the BPP Assurance Programme was implemented to verify Family of Companies and Sightholder conformance with the BPPs and to improve the efficiency of the verification process (p44)
- ◆ Over 600 individuals were nominated to participate in online competition law compliance training in 2009, with those who completed the training scoring an average of 94% (p41)

* Further information presented in this report

3.1 Kimberley Process and System of Warranties credibility

Risk: The Kimberley Process has been criticised over the strength of its enforcement mechanisms, as well as its ability to deal with serious human rights violations associated with informal diamond mining. Such criticism has been spurred by reports of corruption and human rights violations in Zimbabwe, as well as Ivory Coast, Venezuela, Guinea and Lebanon. Likewise, the diamond jewellery retail sector has not traditionally provided necessary consumer assurance that diamonds are from conflict free sources. This presents a risk to the reputation and sustainability of the industry.

In 2009, the Kimberley Process came under increasing criticism from sections of the international community following revelations of alleged human rights abuses in the artisanal alluvial diamond fields of Zimbabwe. While De Beers does not operate in Zimbabwe it was incumbent upon the company, as a responsible industry leader and a founder member of the World Diamond Council, to work with stakeholders towards a constructive and sustainable solution to the issue.

All De Beers diamonds are certified to be conflict free and are produced in full compliance with national and international law, the Kimberley Process and our Best Practice Principles (BPPs). Today, more than 99.8% of world diamond production originates from, and circulates amongst, countries that participate in the Kimberley Process.

3.1.1 The Kimberley Process

The Kimberley Process was established in 2000 by the United Nations (UN), governments, non-governmental organisations (NGOs) and the diamond industry to eliminate conflict diamonds from the legitimate diamond supply chain.

The UN defines conflict diamonds as *“rough diamonds which are used by rebel movements to finance their military activities, including attempts to undermine or overthrow legitimate Governments.”*¹

Conflict diamonds were used by rebel movements, mainly during the 1990s, as a source of funding for civil wars against legitimate governments in countries such as Angola, the Democratic Republic of the Congo and Sierra Leone.

Members of the Kimberley Process agreed on a simple system in which rough diamonds are sealed in tamper-resistant containers and accompanied by forgery-resistant certificates with unique serial numbers each time they cross an international border.

This initiative, known as the Kimberley Process Certification Scheme (KPCS), was enshrined into national law in the participants’ countries in 2003. In 2004, the Chair of the Kimberley Process announced that considerably less than 1% of diamonds are conflict diamonds, reduced from approximately 4% before the establishment of the Kimberley Process. While this was an improvement, it was still not enough.

Decreasing the trade in conflict diamonds in diamond-producing countries minimises the ability of rebels to fund violence. By allowing only legitimately sourced diamonds to be traded, revenues from these diamonds can then be used to benefit the people of that country. Today, the vast majority of diamonds traded internationally are from conflict free sources.

The international diamond industry also developed a “System of Warranties” to support implementation of the Kimberley Process. The System of Warranties is a business to business scheme that applies to both rough and polished diamonds. It requires companies to implement a system that ensures all invoices for the sale of diamonds, and jewellery containing diamonds, include a written guarantee that the diamonds invoiced are conflict free. Records of all warranty invoices given and received must be kept and externally audited on an annual basis.

The Family of Companies was instrumental in developing the System of Warranties through its work with the World Diamond Council. The Kimberley Process and the System of Warranties are also embodied in the De Beers BPPs and our Principles.

 www.kimberleyprocess.com
 www.worlddiamondcouncil.com
 www.debeersgroup.com

“In southern Africa, diamonds are an engine for growth, employment and prosperity. The World Diamond Council believes that, in addition to combating the scourge of conflict diamonds, the Kimberley Process has helped to safeguard these benefits that are shared and enjoyed by thousands of people in communities across the region.”

Eli Izhakoff, Chairman of the World Diamond Council

3.1.2 Successes and challenges

Events during 2009 highlighted the need for continued vigilance in terms of ensuring the ongoing integrity and enforcement of the Kimberley Process.

3.1.2.1 Key events in 2009

- Namibia was the Chair for the Kimberley Process with Israel as Vice-Chair
- The seventh annual plenary session of the Kimberley Process was held at Swakopmund, Namibia. The World Diamond Council delegation and civil society attended the plenary as observers
- The total number of participants in the Kimberley Process stood at 49 representing the governments of 79 countries (including 27 members of the European Union represented by the European Commission)
- The Kimberley Process Working Group on Monitoring (WGM),² which deals with issues relating to the full and effective implementation of the KPCS by participants, carried out review visits to Angola, the Democratic Republic of the Congo, Liberia, Sierra Leone and Zimbabwe, as well as to trading centres in the European Community and Turkey
- In November 2009 Israel became the 2010 Chair for the Kimberley Process with the Democratic Republic of the Congo elected as Vice-Chair

“We want Israel to take the lead. We want Israel to accomplish what needs to be accomplished in this window of opportunity... I think it’s potentially a good thing for the Kimberley Process, a good thing for the people of Zimbabwe and a good thing for the State of Israel to have the Israeli government take and succeed, in a leadership role, on an international human rights issue.”

Carroll Bogert, Associate Director of Human Rights Watch

² The WGM, responsible for the peer-review mechanism, organises review visits in participating countries and conducts an assessment of participants’ annual reports. It also deals with crises relating to difficulties of implementation in specific countries that might endanger the integrity of the Kimberley Process

¹ UN Resolution 55/66, 2000, <http://daccess-dds-ny.un.org>



3.1.2.2 Challenges to enforcement

In late 2008, the international community became increasingly aware of alleged human rights abuses carried out in Zimbabwe's Marange diamond fields. In June 2009 Human Rights Watch issued a report: "Diamonds in the Rough", in which it cited serious human rights abuses carried out by public security forces.

The report also reported on the army's alleged takeover of the Marange diamond fields in late October 2008. Critics argued that the then-ruling Zimbabwe African National Union-Patriotic Front (ZANU-PF) party was complicit in these abuses.

According to Kimberley Process statistics, Zimbabwe produced 797,198 carats in 2008 valued at US\$43.8 million.

Failure on the part of participant governments to take decisive action in the face of serious non-compliance in Zimbabwe provoked calls from NGOs and industry alike for the strengthening and reform of the Kimberley Process. The World Diamond Council called on government participants to:

- Take swift action when faced with cases of non-compliance and agree on interim suspension mechanisms with clear criteria
- Implement stronger government oversight of the diamond industry, including spot checks of companies
- Ensure the cutting and polishing sector adheres to Kimberley Process minimum standards
- Improve internal controls and increase collaboration and enforcement efforts to combat rough diamond smuggling

 www.hrw.org

3.1.2.3 Conflict and human rights

The Kimberley Process was established to eliminate the potential for rebel movements to finance and prolong civil war through the sale of rough diamonds. As such, an extension of the Kimberley Process mandate would be required if sanctions were to be lawfully imposed on Zimbabwe, a country where direct or indirect complicity for human rights violations allegedly lay with the government.

In their most extreme, sanctions could have included the expulsion of Zimbabwe from the Kimberley Process. To do so would have diminished the influence and credibility of the Kimberley Process in the country and allowed the situation in Marange to run its own course.

De Beers was in favour of voluntary suspension by Zimbabwe, until such time as the country became compliant with the Kimberley Process. Ultimately the Kimberley Process chose the route of positive engagement, as opposed to exclusion, in order to try to remedy the Zimbabwean situation.

3.1.2.4 Zimbabwe: working towards a solution

April 2009

Avi Paz, President of the World Federation of Diamond Bourses (WFDB), called on members of 28 affiliated bourses to take all measures necessary to ensure that they do not trade, directly or indirectly, in diamonds originating from Zimbabwe. Paz stated: *"Any bourse member who trades in rough diamonds without Kimberley Process certification is liable for expulsion from his bourse, which in all practical terms means the exclusion from the entire diamond business community."*

June and July 2009

Representatives from governments, civil society and the diamond industry conducted a Kimberley Process review mission to Zimbabwe. A series of recommendations were made to address issues of non-compliance and alleged human rights abuses in the country in the form of a 12 month Joint Working Plan. The Government of Zimbabwe, in particular, was requested to develop an action plan in accordance with recommendations of the review. This included the demilitarisation of the Marange diamond fields and measures to ensure that production could be managed in a manner fully compliant with the requirements of the Kimberley Process.

July 2009

Varda Shine, De Beers Diamond Trading Company (DTC) CEO, wrote to DTC Sightholders urging them to ensure rough diamond purchases from non-De Beers sources do not contain stones from Marange. This followed a similar letter sent to Sightholders in December 2008. In addition, the Family of Companies provided photographic examples of diamonds from Marange as well as expert instruction on identification.

September 2009

The International Diamond Manufacturers Association (IDMA) supported the World Diamond Council's four-point position on Kimberley Process implementation (p35), as well as the July 2009 review mission to Zimbabwe. The organisation further stated that: *"if the KP review commission's recommendations are not implemented and addressed in an acceptable timeline, a call for the suspension of Zimbabwe from the Kimberley Process Certification Scheme is the only route to follow."*

November 2009

The Joint Working Plan was submitted to the Kimberley Process WGM before presentation to the Kimberley Process Plenary in Windhoek for discussion and ratification.

A key feature of the Joint Working Plan was the placement of a Special Monitor, appointed by the Kimberley Process WGM and mandated to oversee the export of rough diamonds from Marange. Exports from Marange were suspended pending the appointment of the Special Monitor. Although the Joint Working Plan fell short of recommending actual suspension, as requested by the United States, the European Community, Israel and Canada, it nonetheless marked a constructive step towards remedying the situation in Zimbabwe. As a result it is being supported, both in terms of funding and technical support, by the European Commission and the World Diamond Council.

Owing to systematic anomalies exposed by the Zimbabwe issue, NGOs called for reform of the Kimberley Process, including a constitutional shift from consensus to majority voting. Supported by the World Diamond Council, NGOs also proposed the inclusion of wording related to human rights into the minimum requirements of the KPCCS.

The World Diamond Council also called on government participants of the Kimberley Process to redouble their efforts in enforcing systems and standards to ensure that all diamonds are lawfully mined, documented and exported.

 www.wfdb.com
 www.idma.net

3.1.2.5 The Kimberley Process in action elsewhere

Ivory Coast

In 2009, reports from the United Nations (UN) Group of Experts and satellite imagery recorded by the Kimberley Process Working Group of Diamond Experts highlighted increasing diamond mining activity in rebel controlled areas of northern Ivory Coast. They also suggested rough diamonds were subsequently illicitly infiltrating the legitimate global supply chain.

The WGM and the Kimberley Process Working Group of Diamond Experts discussed further collaboration with the UN Group of Experts under UN Security Council Resolution 1893, including prospects for a Kimberley Process visit to Ivory Coast. The WGM also liaised with Ivory Coast representatives in response to a WGM report to the Kimberley Process Plenary and the country's request for assistance in preparation for future certification.

Guinea

The Kimberley Process adopted a decision on the strengthening of Guinea's internal controls and assessment of the country's production capacity through cooperation between the government, the WGM and the Working Group of Diamond Experts.



The Forevermark Pipeline Integrity Standard

In 2004, Forevermark produced a Pipeline Integrity Standard in conjunction with the British Standards Institute (BSI). The initiative ensures that each and every diamond inscribed with the Forevermark icon can be tracked and traced back to a responsibly mined, conflict free source. The Pipeline Integrity Standard represents a non-prescriptive process and systems quality standard that can be applied to a range of diamond manufacturing business models.

On-site auditing is carried out by Société Générale de Surveillance (SGS). This involves checking that each and every Forevermark-eligible diamond consignment (from rough to polished) can be tracked and identified as eligible at all stages in the cutting and polishing process. Should there be any doubt as to the integrity of the system at any point in the process, the Pipeline Integrity Standard allows for immediate reconciliation to be performed.

All Forevermark Diamantaire-nominated entities around the world are audited for pipeline integrity annually. In addition, the Forevermark Diamond Institute in Antwerp (FDIA) is audited twice a year. Auditing twice annually at FDIA is required given the volumes of diamonds to be inscribed and graded. In 2009, the FDIA inscribed 51,031 diamonds and graded 15,552.

The Pipeline Integrity Standard has become a recognised and much valued process in helping both Forevermark and its partner Forevermark Diamantaires demonstrate a clear and strong commitment to responsible business practice and sourcing.

 www.forevermark.com



All Forevermark diamonds are marked with an icon and unique identity number before being graded



Tamper-resistant containers for the import and export of rough diamonds

3.1.3 Supporting Kimberley Process credibility

3.1.3.1 Internal integration and compliance

Our worldwide compliance with the Kimberley Process and the industry System of Warranties was reviewed by a third party. This engagement excluded Element Six, Hindustan Diamond Company and De Beers Diamond Jewellers (DBDJ), which were independently reviewed. It related to the period commencing 1 January 2009 and ending 31 December 2009.

This report includes a statement by Société Générale de Surveillance (SGS) as part of its verification of the BPP Assurance Programme that supports our compliance and commitment to the Kimberley Process and the industry System of Warranties (p104).

 www.e6.com
 www.debeers.com
 www.debeersgroup.com

3.1.3.2 The System of Warranties and the BPPs

The KPCS and the System of Warranties form part of the De Beers BPPs and our Principles. Any non-compliance with the KPCS and System of Warranties by DTC Sightholders will result in a material breach of contract and subsequent sanction.

No material breaches relating to the Kimberley Process were identified for the Family of Companies or Sightholders in the 2009 BPP assurance cycle.

3.1.3.3 The Kimberley Process in the future

While accepting that the Kimberley Process is not perfect, De Beers remains deeply committed to the initiative and its positive evolution. The company will continue to offer its full support to Israel as Chair and the Democratic Republic of the Congo as Vice-Chair of the Kimberley Process for 2010.

De Beers is committed to the enhancement of Kimberley Process implementation and coverage. We believe this can be best achieved by the following means:

- Support for a permanent Kimberley Process "secretariat"
- The establishment of majority rather than consensus voting within the Kimberley Process
- The improvement of statistical capabilities across Kimberley Process participants
- The inclusion of human rights language within the Kimberley Process framework

The Kimberley Process remains highly reliant on the political will of its national participants. Any enhancement or broadening of its mandate to explicitly include human rights will be conditional on the political will of its participants. So far this will has been lacking amongst many governments. The Kimberley Process may instead need to examine the potential benefits of increased multilateral engagement via the UN.

3.2 Anti-corruption

Risk: Corruption poses serious legal, commercial and reputational risks to our business. Moreover, the corrosive social, political and economic effects of corruption pose a potential threat to the sustainable development and enduring stability of our current and potential operating environments. Our ability to transform natural resources into national assets depends on empowered and stable governments that are able to responsibly deploy related resources and revenues.

De Beers explores for, mines and markets diamonds in a number of countries that are considered to be of a "high risk" from a corruption perspective. The nature of our business is such that our employees are exposed to a multitude of circumstances, be they geographical, commercial, political or other. As such, it is imperative that those most at risk of exposure, whether exploration staff, marketing managers or government relations specialists, receive appropriate training and furthermore have access to relevant channels through which they can learn how to combat corruption and, where necessary, confidentially disclose the activity.

The integration of a clear anti-corruption commitment into the corporate citizenship agenda sends a strong signal that the Family of Companies shares responsibility for the challenges of eliminating corruption. Countering corruption, however, remains one of the most challenging topics for the Family of Companies to implement, monitor and report on, due to its complex and hidden nature. Our commitment to the fight against corruption is demonstrated through:

- Our Principles
- The BPPs
- Our membership of the Partnership Against Corruption Initiative (PACI) of the World Economic Forum
- Our membership of the United Nations (UN) Global Compact
- Our support for the Extractive Industries Transparency Initiative (EITI) (p42-43)

In 2009, this commitment was further reinforced when Gareth Penny, CEO of the Family of Companies, signed the CEO Letter on UN Convention against Corruption calling for more effective enforcement of the Convention by governments.

No significant incidents of corruption were identified during 2009. No significant fines or non-monetary sanctions were imposed on the Family of Companies in relation to non-compliance with anti-corruption legislation and regulations.

- 📄 www.idma.net
- 📄 www.weforum.org
- 📄 www.unglobalcompact.org
- 📄 www.eitransparency.org

3.2.1 Defining corruption

Corruption in any form is recognised to be one of the world's greatest business challenges. Transparency International defines corruption as: "*the abuse of entrusted power for private gain*". This covers both financial gain as well as non-financial advantages.

Corruption can take many forms ranging from small "facilitation payments" to institutionalised and large-scale bribery. It can take place with or without the knowledge of the payer or payee of bribes. Common forms of corruption include: extortion, fraud, deception, collusion and money laundering, all of which constitute criminal offences in most jurisdictions.

📄 www.transparency.org

3.2.2 Risks and consequences

3.2.2.1 The impact of corruption

Corruption acts as a major barrier to sustainable development. It undermines good governance and the rule of law, distorts fair competition and hinders economic growth and development. Together these have the potential to seriously undermine our operating environments, with long-term consequences for our business.

Not only can corruption create considerable financial and legal risks to the Family of Companies, but it also presents a significant reputational risk to the company. This has the potential to disrupt stakeholder relations, hinder our aspiration to be a "Partner of Choice" and ultimately damage the confidence of consumers in De Beers and diamonds as positive agents for global sustainable development.

3.2.2.2 The impact of the recession on corruption

The economic downturn has heightened the risk of corporate fraud and corruption. Strained economic circumstances can result in increased competition between companies to secure contracts and other commercial opportunities. They also mean employees are more likely to accept poor business practice or "cut corners" to improve their own financial situation. This risk is believed to become ever greater in developing countries and the extractive sector.

3.2.2.3 Sources of risk to the Family of Companies

The Family of Companies strives to meet the highest ethical standards in its relationships with governments, business partners, competitors, suppliers and communities. This is not only in order to live up to diamonds, but also because of the severe impact that unethical and corrupt practices can have on our business, our legal standing and our reputation.

Figure 3-1: The benefits of anti-corruption engagement with external stakeholders

Reduced risk of:

Criminal and/or civil sanctions against the company and its employees

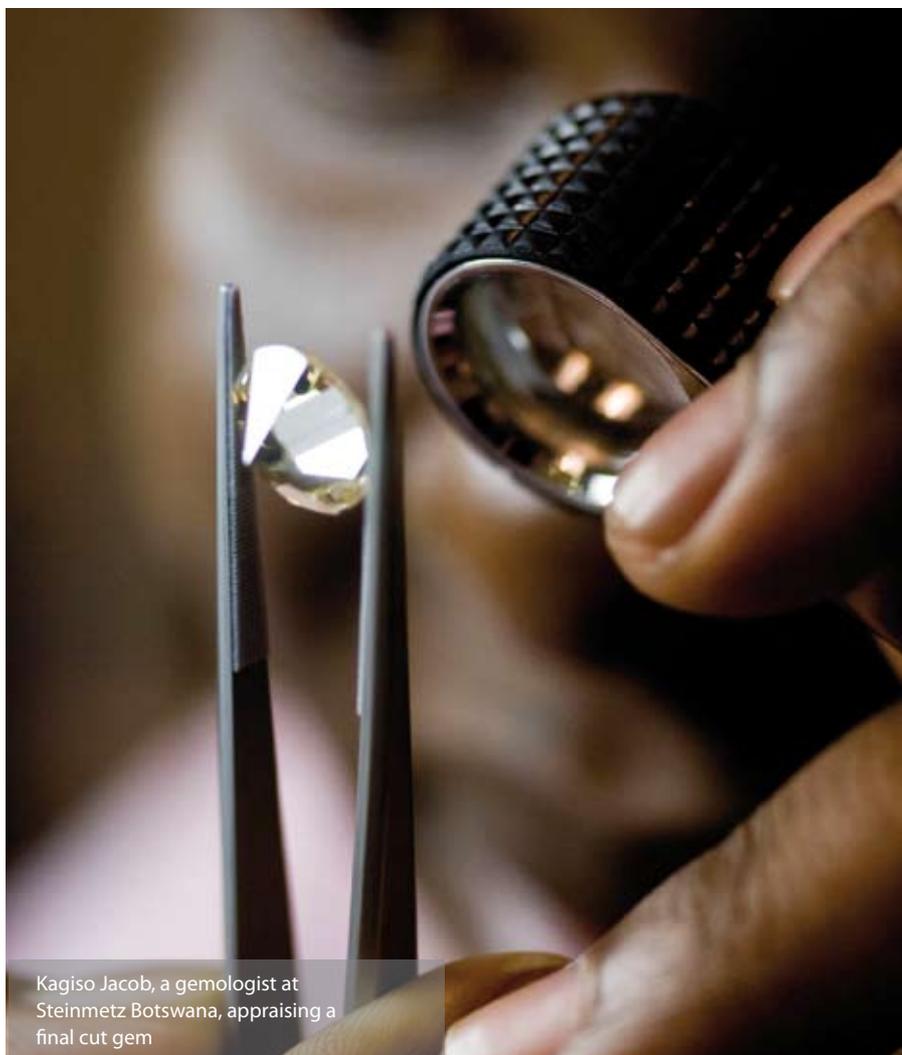
Damage to reputation and brand resulting in reduced sales and erosion of "diamond equity"

Increased poverty and reduced growth in the communities in which we operate

Reduced investment interest from ethical and mainstream investors

Exclusion from bidding processes and other business opportunities

Less stable operating environments due to public resentment and political illegitimacy



Kagiso Jacob, a gemologist at Steinmetz Botswana, appraising a final cut gem

In 2009, an internal assessment of our existing Anti-Corruption Programme was carried out. The assessment was based on qualitative and quantitative data collected from managers across the Family of Companies, which was benchmarked against the Business Principles for Countering Bribery of the World Economic Forum PACI. The gap analysis identified the following areas for improvement:

- A formal, up-to-date published policy of zero tolerance of corruption
- A formal corruption risk assessment
- Explicit communication and awareness raising (including third parties)
- Comprehensive training of staff
- Upgraded internal anti-corruption controls and monitoring systems
- Upgraded procedures to deal with incidents of corruption

3.2.3 Business Principles

The Family of Companies is committed to fighting corruption and the damaging effects it has on business and economic growth. Accepting or giving bribes in all forms is prohibited in business transactions undertaken by the Family of Companies or through third parties. This includes subsidiaries, joint ventures or agents. This requirement is present in our Principles, the BPPs and our Code of Business Conduct and Ethics. It is further supported by our commitment to the 10 principles of the UN Global Compact, the UN Convention against Corruption, our support for the EITI and our participation as a founding signatory of PACI.

3.2.3.1 Dealing with unethical behaviour

The BPP third party Assurance Programme verifies compliance with national and, where appropriate, international legislation with respect to:

- Money laundering
- Terrorism financing
- Bribery
- Corruption
- Smuggling
- Embezzlement
- Fraud
- Transfer pricing
- Tax evasion

The Assurance Programme checks for the development and application of relevant policies, programmes and practices, including the recording of all transactions over US\$10,000. Most importantly, it requires evidence of due diligence and exceptional record-keeping.

An outsourced global Fraud and Ethics Hotline Service was launched across the Family of Companies in May 2008 to replace the existing in-house hotline facility (see inside-back cover for details). The hotline is a safe and secure channel through which information on fraud, corruption, theft, diamond control, intellectual property or deviations from good corporate governance practice can be anonymously reported without fear of recrimination.

The Family of Companies does not tolerate unethical or illegal behaviour and will dismiss individuals identified as being in breach of these requirements. In 2009, there were 631 internal investigations into alleged illegalities and/or breaches of the current Code of Business Conduct and Ethics at our operations (2008: 718). This figure includes all allegations irrespective of severity, though they mainly relate to dishonesty including diamond theft. As a result, 162 employees (1.23% of our total workforce) were dismissed (2008: 120, 0.70%). Of these, 126 employees (0.95% of our total workforce) were referred to the appropriate law enforcement agencies (2008: 69, 0.40%). Not all of these cases were as a result of whistle blowing. A number were identified independently by the investigation departments of the various business units through a variety of means, including security controls, audits, and investigations.

No fines or non-monetary sanctions were imposed on the Family of Companies in relation to non-compliance with applicable laws and regulations.

3.2.4 Mitigating corruption risks

In 2007, the Family of Companies undertook an internal Corruption Perception Survey covering business units in Angola, Botswana, the Democratic Republic of the Congo, India, Namibia, South Africa and Tanzania. The survey was conducted to identify those areas of the business that were perceived to be most exposed to corruption and to assess the general perception of corruption in our countries of operation.

In 2009, findings from the survey directly informed the development of the new De Beers Anti-Corruption Programme, which clearly articulates policies and procedures to combat corruption across the business (p42-43).

The launch of the new Anti-Corruption Programme was prompted by the need to:

- Reflect developments in anti-bribery legislation in the UK
- Ensure maintenance of our reputation as a leading multinational company
- Ensure the mitigation of relevant risks, some of which were recession-based

The Family of Companies is also committed to meeting the standards and requirements established by the Responsible Jewellery Council (RJC). The RJC requires that the company has a comprehensive anti-bribery programme in place as well as policies, procedures, training, monitoring and reporting systems. The Family of Companies is to be certified as RJC compliant by 2012.

3.2.4.1 Anti-Corruption Policy

In 2009, De Beers made a public commitment to ensure that its new Anti-Corruption Policy was communicated and implemented across the entire Family of Companies. The document was published on our website in order to ensure that employees and other stakeholders could freely access the document.

The Policy requires full compliance with national and international legislation. It also requires the disclosure of transactions and relationships that might give rise to illegalities.

In 2009, business leaders across the organisation committed to ensuring that the policy was clearly communicated to, and understood by, every employee at every level of the business. Our Anti-Corruption Training Programme will be central in giving practical effect to this commitment.

www.debeersgroup.com

3.2.4.2 Anti-Corruption Programme

The De Beers Anti-Corruption Programme was constructed in such a way as to fully reflect the nature of the business, its size and sector, and the complexities associated with each operating environment.

Anti-corruption training, scheduled for implementation in 2010, focuses on defining corruption, highlighting corporate and personal liabilities, and raising the awareness of risks and consequences that corrupt activity may have on our financial standing and reputation. It will also give employees practical guidance on how to manage high risk situations. Training will focus initially on those teams considered to be "most exposed" in light of our 2007 Corruption Perception Survey. It will reflect real life scenarios collated from business units across the Family of Companies. Importantly, the Programme will enhance employees' understanding of corruption, and give them the confidence to report corrupt practices through conventional channels and our "Fraud and Ethics Hotline Service".

3.2.4.3 Political donations

The Family of Companies does not participate, directly or indirectly, in party politics nor does it make payments to public officials. In exceptional cases, political donations may be made in support of the democratic process. They are made only to pro-democratic registered parties that are committed to the protection of human rights, good governance and the rule of law. These are parties that support regular multi-party elections, sound financial/fiscal policies, executive accountability and parliamentary oversight. We believe these criteria support our shared long-term goal of a more conducive, transparent and responsible business environment.

Angola

In 2009, De Beers Exploration made two political donations in support of the democratic process in Angola. Both payments were committed in 2008 but only paid in 2009 following requisite due diligence checks on payees' accounts. The payments included:

- US\$100,000 to the Comissão Nacional Eleitoral de Angola (Angolan Electoral Commission)
- US\$500,000 to Movimento Popular de Libertação de Angola (MPLA)

www.cne.ao

Canada

De Beers Canada donated US\$437 in 2009 in support of a provincial political reception with stakeholders. The payment was for tickets to a fundraising dinner for a Member of Provincial Parliament, Gilles Bisson, MPP. Mr. Bisson is a member of the New Democratic Party (NDP) of Ontario and represents the Timmins-James Bay Region (near the Victor Mine). He currently serves as the party critic for Francophone Affairs, Ministry of Natural Resources, Transportation and Native Affairs.

www.ontariondp.com

Namibia

Following recently concluded elections, De Beers Namibia donated US\$2,500 in support of a "Born Frees" music concert. "Born Frees" are those voters born post-independence and who were entitled to vote for the first time. The celebration event, spearheaded by the South West Africa People's Organization (SWAPO) Youth League, was inclusive of all young voters.

www.swapoparty.org

3.2.4.4 Anti-money laundering and terrorist financing

The Family of Companies is committed to the prevention of money laundering and to combating the financing of terrorism.

In 2009, no fines or non-monetary sanctions were imposed on the Family of Companies in relation to money laundering. No material breaches relating to anti-money laundering have been identified for the Family of Companies or Sightholders since implementation of the BPP assurance cycle in June 2005.

Our policy on anti-money laundering and combating the financing of terrorism applies to all our operations. It has also been communicated to both joint ventures and partner companies. The policy ensures the Family of Companies is only able to enter into transactions with approved financial institutions. It also forms part of the Sightholder selection process, which relies on comprehensive background checks. These checks are supported by a Datanomics information technology system implemented in early 2009, as well as World-Check.

www.datanomics.com

www.world-check.com

3.2.4.5 Legal compliance and competition law

The Family of Companies has taken clear and demonstrable action to ensure continued compliance with competition and antitrust laws and regulations in all jurisdictions in which it operates. This commitment is integral to our continued success in a competitive global economy. Our Legal Compliance Training Policy applies to all members of staff at every level of wholly owned and managed companies. Companies that are not wholly owned or managed are strongly encouraged to adopt this policy. Compliance training is regularly undertaken by our Corporate Legal Services team, including guidance on competition laws and how these apply to each business and functional area. Employees are requested to report any breaches of this policy through our Fraud and Ethics Hotline. De Beers will not tolerate violations of competition law, or mistakes resulting from carelessness or inattention to legal compliance by its employees.

Key highlights from our online competition compliance training in 2009 include the following:

- Over 600 individuals were nominated by management to participate
- Two training programmes were used according to nominee participation and achievement in the 2008 online training: a long version (around 90-120 minutes) and a short version (around 45 minutes)
- Of those individuals who completed the training the average score achieved was 94%

In order to encourage greater completion rates in 2010 and to further convey the compliance message, online training will be streamlined by using the shorter 45 minute programme and a refresher session for those nominees who successfully participated in 2009. Longer sessions will only be used for individuals who repeatedly fail the short version.

Case study: Enhancing airport security through Scannex diamond detection technology

Following an attempted terrorist attack against an aircraft flying to Detroit in the United States on 25 December 2009, significant interest was shown by stakeholders internationally in the application of De Beers proprietary Scannex technology to airport security.

Scannex is an advanced X-ray scanning technology developed and assembled in South Africa by the De Beers research unit DebTech. The technology is currently utilised by Family of Companies security teams in South Africa and Namibia.

The images produced by Scannex are of such a high resolution that it can detect diamonds as small as 1 carat, wherever they may be located on or in the human body. Images, whether normal, "masked" or three dimensional, are immediately available on an operator's screen and can be stored electronically.

A complete scan can take place in 10 seconds and exposes subjects to a very low level of X-ray radiation. This means it can be used on a subject more than 200 times a year and still remain within legal exposure limits.

In addition to security technology, DebTech provides timely, cost effective and value adding technology to the Family of Companies in the areas of diamond exploration and ore treatment. This is with the aim of underpinning a sustainable competitive advantage for the Family of Companies.

 www.debtech.com



Scannex monitoring

Anti-Corruption Programme

In support of its commitment to the United Nations (UN) Global Compact, the De Beers Family of Companies has a zero tolerance policy towards corruption and is committed to carrying out its business fairly, honestly and openly.

The De Beers Anti-Corruption Programme aims to:

- Develop appropriate anti-corruption mechanisms throughout the Family of Companies' value chain
- Raise awareness among employees and third parties of the risks and implications of corruption
- Educate employees on the forms of corruption and appropriate responses
- Further strengthen our ethical working culture
- Maintain our long-term strategic commitment to business ethics and economic development

5% of global GDP

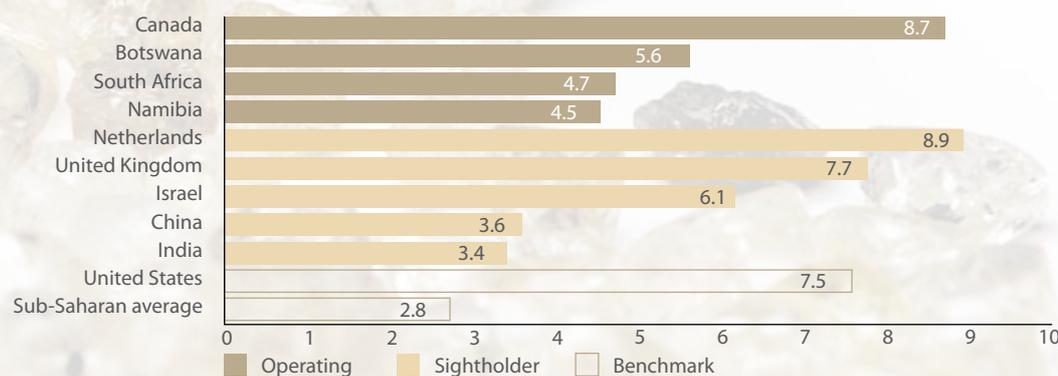
Annual global cost of corruption

Internal anti-corruption initiatives

Development and use of global anti-corruption tools

Participation in global anti-corruption initiatives

Figure 3-2: 2009 Transparency International (TI) Corruption Perception Index (CPI) for De Beers Sightholder and operating countries



The TI CPI measures the perceived level of perceived corruption in 180 countries. A score of 10 indicates lowest risk and a score of 0 represents highest risk.

2009 Anti-Corruption Programme activities

Initiated **employee consultation and stakeholder engagement**

Obtained external assurance on the Anti-Corruption Programme from **Transparency International (TI)**

Hosted **Diamond Dialogues** (p12) on (1) the Kimberley Process Certification Scheme; and (2) corruption, money laundering and conflict

Developed a draft **Anti-Corruption Policy (ACP)** and supporting guide (including content on risks, responsibilities, scenarios and response actions)

Submitted the **Partnership Against Corruption Initiative** "Highlighting Achievers" self-assessment survey. This assesses and benchmarks company anti-corruption frameworks

Contributed to **Resisting Extortion and Solicitation Scenarios in International Transactions II**. This employee training tool provides guidance on how to respond to high-risk business scenarios

Participated in field-testing the **UN Global Compact** reporting guidance on the tenth principle against corruption

Became a **Corporate Supporter** of TI (UK), publicly supporting its mission and values

Participated in Ethical Corporation's **European Anti-Corruption Summit** in Brussels, Belgium

Signed the CEO letter requesting improved enforcement of the **UN Convention against Corruption**

Continued support of the principles and aspirations of the **Extractive Industries Transparency Initiative (EITI)**, which promotes transparent reporting of company payments and government revenues in the extractive sector

Future Anti-Corruption Programme activities

Stage 1:

- Publish the ACP
- Conduct a communication and awareness-raising campaign
- Establish an Anti-Corruption Peer Group

Stage 2:

- Tailored training for senior management
- Conduct "train the trainer" workshops for middle managers in order to cascade training to local employees that are exposed to corruption risks
- Provide managers and employees with documented guidance for managing unethical scenarios
- Reinforce reporting channels
- Incorporate the ACP into employee handbook and induction programmes

Stage 3:

- Implement ACP monitoring and review systems
- Upgrade internal anti-corruption auditing
- Incorporate monitoring results into ACP design to ensure continuous improvement

3.3 Maintaining pipeline and sector standards

Risk: De Beers, our joint venture partners, contractors and Sightholders subscribe to the Best Practice Principles (BPPs) – a mandatory code of ethical business conduct. It remains essential that the application of these Principles throughout the pipeline is maintained as our business partners come under strong commercial pressures. Similarly, the consolidation of ethical codes of conduct across the jewellery industry presents both a risk and opportunity for the company. It is essential that high standards are maintained and that the process of aligning our BPPs to include the Responsible Jewellery Council Code of Conduct is seamless.

In 2009, the diamond industry faced unprecedented commercial pressures. Few companies, if any, could maintain “business as usual”.

Regardless of industry sector, the recession has had a profound impact on the manner in which businesses approach decision-making. With cash conservation and staying in business a central focus for many companies worldwide, some commentators have speculated on the possible demise of responsible business practices during and post recession.

Aware that ethical complacency could present a significant risk to the company and to the industry as a whole, De Beers acted to underpin consumer confidence and “diamond equity”³

3.3.1 Protecting diamond equity and the recession

A diamond’s rarity, and the immense skill required to release its brilliance, make it unlike any other jewel or luxury item. Diamonds stand alone in their distinctive appeal and hold a unique place in people’s hearts and minds. When someone buys a diamond, they do so to represent a significant moment in a person’s life. It is therefore vital to ensure that the integrity of a diamond is as exceptional as the moment, commitment or love that it represents.

³ “Diamond equity” refers to the ethereal value that society ascribes to diamonds

In the diamond industry we believe it is in the long-term interest of all members of the trade to meet consumer and stakeholder expectations relating to business ethics and economic contributions, health and safety, labour standards and the environment. At De Beers we have sought to meet these expectations at our operations through the application of our Principles, policies, standards and the BPPs. The BPPs also apply to Diamond Trading Company (DTC) Sightholders, their contractors and suppliers. Given the scale and scope of such operations, the BPPs have ensured that a sizeable segment of the industry has been positively influenced through the application of our exacting standards.

3.3.2 Best Practice Principles

3.3.2.1 The BPP framework

The BPPs are a continuously evolving standard intended to ensure that consumers buying diamond jewellery can rely on the professional, ethical and technical standards of the gem diamond industry. They do so by protecting against unacceptable business ethics as well as social and environmental practices that might undermine consumer confidence in diamond jewellery.

The BPPs include a requirement for the recording of all Kimberley Process Certification Scheme (KPCS) certificates and System of Warranty invoices received and issued when buying or selling diamonds. This helps eliminate the possibility of a transaction taking place involving conflict diamonds. The BPPs also require the disclosure of all use of synthetics, treatments and simulants, and adherence to strict social and environmental requirements, including those relating to health and safety, child labour and forced labour. Sightholders have participated in the BPP programme since 2005.

Contractors that derive 75% or more of their revenue from a Sightholder or a Family of Companies entity have actively participated in the BPP programme since 2008. Contractors that fall below the 75% mark are required to sign a declaration of integrity stating that they are free of any material breaches.

In February 2009, a new “SMART” approach to the BPP Assurance Programme was implemented with a view to verifying Family of Companies and Sightholder conformance with the BPPs. The SMART system has dramatically increased the efficiency of the BPP process through the generation of customised self-assessment workbooks linked to the risk exposures of each individual entity. The SMART system also serves as an online database for the legal, commercial, sales and distribution functions of the DTC, providing considerable efficiencies for both the DTC and Sightholders.

3.3.2.2 BPPs and our Sightholders

As the sales and marketing arm of De Beers, the DTC is responsible for implementing our sales strategy. Our strategy seeks to align those Sightholders best placed to drive demand for particular categories of rough diamonds with the promotion of appropriate business practice. Sightholders are selected against a pre-defined set of performance criteria relating to core business strengths and their ability to meet BPP requirements. Compliance with the BPPs and the maintenance of a good business reputation and financial standing are mandatory.

Each Sightholder operation employs a BPP Manager, who is responsible for the maintenance of relevant systems and processes, the accuracy of data capture and the submission of BPP workbooks, which fully articulate a Sightholder’s performance.



Eric Austein of Leo Schachter, a DTC Sightholder, examines a parcel of rough diamonds during Sight week

In 2009, the scope and volume of information required in the BPP workbooks was reduced in recognition of the commercial pressures faced by Sightholders. The workbooks only required information that was essential to meeting legal obligations, such as adherence to anti-money laundering procedures and Kimberley Process compliance. During 2009, a limited amount of additional information was required to reflect evolving legal demands. This included:

- Information relating to company directors that receive goods or invoices from Family of Companies entities in order to satisfy anti-money laundering requirements
- Workbooks required “facilities”, not only companies, to be listed as part of operating company structures
- When one of our Sightholders’ operations becomes dormant or inactive, formal notification must be provided so that relevant changes can be made to the SMART system

Despite the general easing of workbook requirements, where Sightholders had made “major breaches” of the BPP system in 2008 full workbooks were required in 2009. At no point were standards of compliance or auditing softened or reduced.

Our pursuit of this strategy enabled all operations under the BPPs to maintain their legally robust status. It also encouraged a smooth transition to the online SMART system and helped Sightholders weather the impacts of recession.

While workbook requirements were reduced in 2009, the number of Sightholder operations audited for BPP compliance remained consistent with 2008 levels at 10% coverage of a total complement of 75 Sightholders (2008: 79 Sightholders).

In 2009, 14 Sightholders were found to have at least one major case of non-compliance (2008: 11). Nonetheless, the total number of breaches fell dramatically compared with 2008, with an overall reduction of 47.9% (Figure 3-3). In part, this is likely to be due to reduced cutting and polishing activity during the course of 2009. It is also reflective of the continuing maturation of the BPP process, as well as the deepening integration of the BPPs into Sightholder business practices.

Figure 3-3: BPP infringements by Sightholders

	2007	2008	2009
Business	177	54	17
Social	378	186	119
Environment	41	21	0
Total	596	261	136

3.3.2.3 BPPs and our operations

A full review of conformance by the Family of Companies to the BPPs can be found in our first and third party assurance statements completed by De Beers Group Services Internal Audit (p101) and Société Générale de Surveillance (SGS) (p104) respectively.

3.3.3 The BPPs and the Responsible Jewellery Council

The BPPs have enabled De Beers and its Sightholder community to protect and promote diamond equity and consumer confidence at a difficult time for the industry. This system has contributed significantly to underpinning stakeholder confidence in the industry and ameliorating risk and uncertainty when scrutiny by stakeholders, be they investors, bankers, NGOs or others, has never been greater.

Recognition by the diamond, gold and jewellery industry of the need to underpin consumer confidence has led to the development of a number of initiatives similar to the BPPs. While this initiative is a positive development reflecting growing industry-wide ethical standards, it has created complication and bureaucratic friction that has stymied efficiency, particularly where there is a need to complete multiple compliance workbooks and audits which are, in essence, attempting to achieve the same goal. With this in mind De Beers and 13 other organisations came together in 2005 to establish the Responsible Jewellery Council (RJC).

3.3.3.1 The RJC certification system

The RJC is an international not-for-profit organisation representing over 200 member companies across the gold and diamond jewellery supply chain. The organisation aims to reinforce confidence across the diamond and gold jewellery supply chain and to exploit synergies with respect to the standards members demand of themselves and those they do business with. De Beers is represented on the RJC Board of Directors and Executive Committee.

Over the last three years, the Family of Companies has been actively involved in developing the RJC certification system. The system, which was launched in December 2009, will certify its members for responsible ethical, social and environmental practices throughout the jewellery supply chain. All members of the RJC are required to undergo independent verification by December 2011 (or December 2012 if they have mining facilities).



The RJC Code of Practices is the standard against which members' conformance is assessed. This covers four key areas:

- Business ethics (including bribery, the Kimberley Process and synthetic diamonds)
- Human rights (including child labour, health and safety, security and artisanal mining)
- Environmental performance (including hazardous substances, energy use and biodiversity)
- Management practices (including impact assessment, closure planning and reporting)

All members are required to receive third party accreditation to ensure compliance with the Code of Practices. An auditor accreditation process is currently underway and training is being delivered to members. Members who have been independently verified can benefit from the RJC brand. This will not only enhance the reputations of members, but it will also help enhance the reputations of the suppliers and customers with which they do business.

 www.responsiblejewellery.com

3.3.3.2 RJC scope

In 2011, the Family of Companies aims to integrate the RJC Principles and Code of Practices into the existing BPP Assurance Programme. Due to our part in the creation of the RJC Principles and Code of Practices the number of differences between the two systems is limited. One area that contains a small amount of material not covered by the current BPP structure is the RJC "Mining Standard". The Mining Standard incorporates topics such as community development and engagement, artisanal mining and environmental performance at mining facilities. At present these matters are addressed through, for example, the implementation of Anglo American's Socio-Economic Assessment Toolbox, our engagement with the Diamond Development Initiative and our adherence to the ISO 14001 Environmental Standard.

3.3.3.3 Evaluating RJC opportunities

The strategy to shift from BPP to RJC certification is currently being carefully considered by the Family of Companies. The decision will be broadly consulted across the organisation and take cognisance of the risks and opportunities associated with transition. For example:

- The RJC benefits from a broad membership base, all of whom are committed to promoting responsible ethical, human rights, social and environmental practices in a transparent and accountable manner
- The RJC represents a single, universally acceptable, certification scheme that covers all elements of the supply chain from "mine to finger"
- The RJC Mining Standard requirements are, in the opinion of De Beers, calibrated on the basis of "good" rather than "best" practice. We intend to maintain a number of systems and processes in addition to the RJC to ensure that our approach remains leading edge and to enable continuous development of the RJC by providing feedback to the RJC
- The RJC provides a recognisable brand of surety likely to inspire confidence at a retail level. This level of consumer recognition is unlikely to be realisable through the BPPs
- The online BPP SMART system is capable of a seamless transition to the RJC system, saving time and costs for both Sightholders and the DTC

3.3.3.4 The RJC in the future

De Beers is in the process of developing a hybrid RJC/BPP system for downstream application. This is with the intention of offering Sightholders the possibility of RJC certification on the basis of BPP compliance and RJC membership. The hybrid system will be rolled out to Sightholders at the start of 2011, at which point it will have become fully integrated across the Family of Companies as part of our legal mandate to treat Sightholders and our own entities equally.