

**GLOBAL SIGHTHOLDER SALES COCKTAIL EVENT, SIGHT 1 2016**

GABORONE, BOTSWANA

20 JANUARY 2016

REMARKS BY PHILIPPE MELLIER, CHIEF EXECUTIVE, DE BEERS GROUP

*CHECK AGAINST DELIVERY.*

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- Good afternoon everybody
- It's great to see you all again. Thanks for joining us at our annual cocktail event at the first Sight of 2016
- I hope the end of year season has been a positive one for you and your businesses, and that this Sight Week continues in the same vein
- Of course, it's often been said that a week is a long time in politics. Well, if that's the case, then I think a year must represent an eternity in the diamond industry
- 2015 was a year in which it felt as though the fates conspired against us. There were several persistent headwinds and many unforeseen challenges. Each time it looked as though there might be the opportunity for an improvement, another unexpected problem raised its head
- Altogether, we saw a number of difficulties relating to midstream inventory levels, downstream inventory levels, profitability, liquidity, currency movements and macroeconomic changes, among others
- And, given all these issues, we fully appreciate how tough the year was for your businesses
- Of course, the saving grace within this almost perfect storm was that consumers were still buying diamonds. 2015's challenges were very different from those presented by the demand crisis that followed the 2008 downturn, but that does not mean they were any less difficult to deal with. All of us involved in the industry's upstream and midstream experienced the financial impacts of extreme inventory indigestion and many different views were expressed on what needed to be done
- And whether or not everyone agrees with the details of each of the actions taken, or the specific timing of those actions, I would like to state just how proud I am of how we all responded. The industry needed demonstrable leadership and it required all of us to play our part
- We all had to take difficult decisions, considering trade-offs between what was right for our businesses and what was right for the industry. We all had to absorb the impact of negative trading conditions in the short-term so as to protect the industry's long-term interests. And we all had to employ our hard-earned experience and expertise to navigate through some very difficult times
- For our part at De Beers, we did things that we have never done before and we resumed some other activities that we had not undertaken for a number of years
- First, we put in place unprecedented supply flexibility. Second, we substantially reduced our production. And third, we made a major investment in additional fourth quarter marketing

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- These steps, combined with the actions that you all took, underlined our resilience and ability to take control of our own destinies in the face of extreme challenges
- I am proud of the fact that, in the heart of the storm, we all took decisive action for the good of the wider industry – no matter how difficult or expensive – and it appears that this action is starting to show some early signs of success
- We have seen polished diamond prices start to stabilise and even increase in certain areas; we have seen some encouraging – not magnificent, but definitely encouraging – early indications from holiday season sales in the US consumer market; and we have seen greater trading activity than at the end of 2015
- After such a difficult year, it seems that there are some reasons to be cautiously optimistic as 2016 begins, and we may be starting to recover some of the lost momentum
- But of course, these initial positive signs must not be viewed as grounds for complacency. In fact, this is possibly the most crucial point as we now stand at a crossroads. The midstream trading environment remains delicate, the recovery remains a work in progress and our actions in the near future remain crucially important. Just as we have needed to take great care with our actions in response to the recent challenges, we must be equally watchful as things begin to improve
- And while we may have seen a few encouraging signs, if there's one thing we can be sure of in the year ahead, it's that we will experience volatility. There continues to be uncertainty regarding the macroeconomic outlook, currency pressures have the potential to weigh on downstream demand in a number of locations and we will need to see how retail restocking appetites develop
- Meanwhile, trends are changing faster than before and consumers are increasingly setting out specific expectations, whether around the products they purchase, or the way they research and buy
- Of course, volatility has been in evidence on a broader scale in recent times and in the diamond industry we have in fact performed comparatively well when looking at the mining sector as a whole. The actions we have all taken have been an important contributor to this performance and you can rest assured that, regardless of the uncertainties of the external environment, we will continue to do what is right for diamonds in the years ahead
- So what does this mean for De Beers and our approach in 2016? It means that we will put in place a comprehensive plan to support and accelerate the improvements we are starting to see in the diamond sector
- In this uncertain world we need to focus on both supply and demand in order to get things fully back on track. Our 2016 strategy therefore comprises important points on how we intend to supply you, as well as how we intend to improve pull-through from the consumer end of the value chain
- The starting point for our 2016 plan is that we recognise that strengthening our relationships with you will be crucial in the year ahead. We are all vital, interconnected parts of this industry and we can only help you to play your part fully if we have a very deep understanding of your businesses and the environments you operate in
- We will therefore be implementing some changes to how we organise our Global Sightholder Sales business

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- We will continue on the journey we have started with the current supply contract but, given the expected volatility of the world in which we will operate, we will restructure Global Sightholder Sales so we can sharpen our focus on customer relationships and on product and service delivery. This will improve our responsiveness and provide all our businesses with the best insulation against those challenges that remain outside of our control
- At the time of the 2008-2009 financial crisis, we heard a lot of talk about breaking the cycle of boom and bust. While it may never be possible to completely eradicate the human tendency to always want that little bit more – whether that is in the global financial markets or the diamond industry's midstream – there are undoubtedly things we can do to improve our long-term prospects and avoid some of the most turbulent waters
- Part of this will need to be achieved by maintaining a responsible approach as demand conditions improve. But we also believe we can enhance all our prospects by changing our structure and developing an improved internal ability to deal rapidly with changes to your activities or the external environment
- We are therefore looking at refining our Global Sightholder Sales operating model for a number of reasons:
  - The new approach will help us better understand each of your businesses and its specific requirements
  - It will enable us to better appreciate the macro and micro trends in the cutting and trading centres
  - It will provide us with a more integrated understanding of demand patterns across the value chain
  - And finally, it will help us better anticipate your future needs and find ways to meet them through more efficient internal processes
- With this review of how we are internally structured, we will create new, multifunctional teams within the organisation so that agility and responsiveness is further hardwired into our activities
- And as we build these additional capabilities into the Global Sightholder Sales structure, how will this benefit you as Sightholders? Well, it will enhance our ability to identify new, value adding products and services. And these new products and services will increasingly be targeted towards *your* business and its individual needs. Wherever possible, given the constraints of commercial efficiency, we will seek to facilitate more tailored solutions, based on an enhanced knowledge of your individual strengths and opportunities
- There is more work to be done in this area before we can provide full details, but I am excited about the potential benefits of this enhanced agility, both for you and for us
- But of course, our ability to recognise your changing needs must also be underpinned by the flexibility in supply to meet those needs wherever possible. Another crucial part of our 2016 plan is therefore the continued provision of supply flexibility through our 'demonstrated demand' distribution system
- As you know, one of the main objectives when we commenced the 2015 - 2018 supply contract period was to provide you with more flexibility in purchasing opportunities. And of course the demonstrated demand approach to distribution continues to give you greater flexibility to adjust allocations in the event of a changing demand profile

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- While the actions we took last year in response to lower levels of demand mean that we will have a smaller level of forecast availability for the 2016 – 2017 ITO period, we will continue to focus on being flexible and attempting to meet your needs if demand conditions change
- Should your requirements for rough increase as we head into the second half of the year, you will still have the opportunity to increase your share of our availability through mechanisms such as ex-plan allocations, additional requests and purchases from our Auction Sales events
- And of course, we all hope that 2016 brings happier times for the diamond industry's midstream and that demand conditions are such that you do have a need for more goods. But hope is one thing and action is another. Our actions on the supply side will only be effective in improving industry prospects this year if we also take concrete actions to stimulate demand
- So, I am therefore pleased to say that another central part of our 2016 plan will be a continued investment in non-proprietary marketing. We will need to find the most effective method of pooling our resources, and the most effective vehicles for delivering the programmes, but we saw the power of diamond marketing (and specifically De Beers' expertise) at the end of last year and we will ensure that consumers – young and old, eastern and western – continue to celebrate their own facet of forever with the magic of diamonds
- So, ladies and gentlemen, let me finish by wishing you all a very healthy, happy and prosperous 2016, or year of the monkey. It may not be an easy 12 months, but there will certainly be opportunities and it will be up to us how we use them
- We at De Beers will focus all our efforts on helping to identify, create and capture those opportunities and we look forward to working even more closely with you, our partners, as we do so
- And if the coming year is to feel anywhere near as long as that just gone, then let's make sure that it is characterised by success
- We know what we as an industry need to do. We know that we are on the right path. And we know that if we trust the sector's positive fundamentals, then we can usher in a bright new dawn for the world of diamonds
- Ladies and gentlemen, let's look to the future and make 2016 the year that the diamond industry truly regains its sparkle
- Thank you