

2017 DE BEERS SIGHTHOLDER AND ACCREDITED BUYER RECEPTION
GABORONE, BOTSWANA
17 JANUARY 2017

REMARKS BY BRUCE CLEAVER, CEO, DE BEERS GROUP

CHECK AGAINST DELIVERY.

Debswana Board of Directors present here: Neo Moroka, Linah Mohohlo, and Kgomotoso Abi.

Board of directors of De Beers plc.

Members of the De Beers plc Executive Committee.

Members of the Debswana Executive Committee.

Members of Diamond Trading Company Botswana Executive Committee.

Distinguished guests.

All protocol observed.

Good evening everybody and a very warm welcome to you all at the first Sight of 2017.

I hope you are all well – it's a real honour to have my first chance as CEO to speak to you at one of our year-opening Sightholder and Accredited Buyer receptions. And first things first, I'd like to start by thanking each and every one of you for your support and hard work over the past year.

It's become traditional at these events to look back at the 12 months just gone and take stock of where we are. And what a year it was.

Clearly 2016 was always set to be a significant year globally, given the range of events and decisions that were due to take place. Of course, there were also many different views about how the year would unfold:

- First, a forecast about Brexit: "The UK is not going to leave the European Union. Of course not. We are inextricably wound up with Europe. In terms of culture, history and geography, we are a European nation." That was from the UK's former Deputy Prime Minister, Nick Clegg. You hit the nail right on the head there, Nick.
- Second, here's a prediction relating to the US Presidential election: "I don't think that Donald Trump has any chance of being elected." That one, from billionaire George Soros, makes it two out of two.
- And a final pearl of wisdom: "There's absolutely no chance that Iceland will beat England at the European football championships." Unfortunately, this last insight was from the CEO of De Beers Group, a certain Mr Bruce Cleaver...

Beyond this, some events were so surprising that no predictions were made about them whatsoever – no one even saw the potential for them to happen. Of course, the most serious of the surprises for many of us in this room, Prime Minister Modi's demonetisation programme in India, falls squarely in this category. Demonetisation is likely to have an impact on several of our businesses so we need to respond with care and in the right way, and I will touch on this topic more later on.

Clearly, not everything went quite as expected last year. 2016 saw an increase in volatility across the world and perhaps my prospects of becoming a professional fortune teller have diminished somewhat. But what can we learn from what we saw last year?

Looking first at events in the sporting world, 2016 repeatedly reminded us of power of the collective. Whether it was Iceland at the Euros, Leicester City in the Premier League, the West Indies in the T20 World Cup, Sunrisers Hyderabad in the IPL, the Chicago Cubs in the World Series or the Fiji rugby sevens team in the Olympics, it was proven beyond a shadow of a doubt last year that by working together towards a common objective, you can surpass everyone's expectations of what's possible.

Meanwhile, the political events of 2016 showed us very clearly what happens when certain groups' interests are not catered for. With both the EU referendum in the UK and the US Presidential elections, substantial sections of society felt excluded from the economic progress that was being made and voted accordingly. Large swathes of the electorate felt that the ruling administrations had neglected to take the right steps or make investments to support their interests – and the rest is now history. Politicians ignored them at their peril.

Additionally, the political landscape also reminded us last year that if you fail to prepare, you prepare to fail. The Democrats' inability to recognise and plan for the type of challenge they would encounter from the Trump campaign was fatal to their chances of success, while after the EU referendum results, it's the lack of preparation for a post-Brexit world that has created a new round of political upheaval in the UK.

I believe that each of these lessons highlights some very important considerations for all of us in the world of diamonds.

First, as I have said since the start of my tenure as CEO, I see the future of the industry being defined by our ability to work together and pull towards the common goal of industry value growth. Just as some of the celebrated sports teams of 2016 overcame the competition by harnessing the power of the collective, so we in the diamond industry must find ways to make the sum of our efforts more than the individual parts. We have made some good steps in this direction, with greater collaboration across the value chain to stimulate demand, to share industry insight and to support pipeline efficiency. But we must continue on this path and maximise the impact of our combined efforts to grow industry value.

Alongside this, it's also clear in the diamond sector that for one part of the value chain to succeed, all must succeed. Just as the Remain camp couldn't win the EU referendum without the support of the working class, and just as Clinton couldn't win the US election without America's Central and Midwest blue collar workers, none of us in the diamond industry can succeed sustainably in isolation. We must find ways to progress together, and we must continue to view challenges and opportunities from each other's perspectives.

Thirdly, the requirement to prepare for the future in the diamond industry is equally self-evident. Just as the world turned on its political axis as a result of the level of preparedness of the competing camps, so we in the diamond sector must control our destinies by making sure we are ready for what is coming.

And this is exactly why we at De Beers continue to implement a strategy of putting in place the building blocks for all of us to thrive in the long term. We started this process several years ago and it's vital we all continue to take the necessary steps for long-term industry success, even if they can be challenging or expensive in the short term.

If we look at the major issues facing the sector, our approach is all about preparing the ground for collective progress for De Beers and its partners. Many commentators would agree that three of the major challenges for the sector relate to product integrity, midstream financing and industry competitiveness. And looking at these in turn, the value of our work becomes clear:

- Turning first to the issue of product integrity, 2016 clearly saw a lot of media interest in synthetics. While it seems that the media coverage continues to far, far outweigh the level of demand at the consumer level, the key for us as a sector is to ensure that people can continue to be confident in the integrity of their purchases.
- And the steps we took last year were all about underpinning confidence as we expanded the melee testing service at our International Institute of Diamond Grading and Research; we launched a new fast, efficient and low cost instrument for detecting HPHT synthetics; and we continued with our development programme for the next generation of diamond verification devices.
- I am pleased to say that you will see the fruits of our labour in this area in the near future, as we will demonstrate our new Automated Melee Screening instrument, the AMS2, at this year's March Hong Kong Show. The new version of the AMS, which will be available to purchase from mid-year, will be considerably faster than the previous machine, with even fewer referrals. It will also process smaller sizes and all shapes – yet it will also be less expensive than the previous version. This is a significant leap forward in the technological response to product integrity challenges and we believe the AMS2 will play a major role in bolstering confidence across the value chain.
- Second, when considering financial sustainability, 2017 will see the diamond industry take the next steps in its journey towards being more bankable. We all began this journey several years ago, with key roles being played by Sightholders, Accredited Buyers, auditors, brokers and others – and while the financial compliance criteria we have established are exacting, it is clear that this additional transparency and financial robustness will help usher in a more successful future for all our businesses. With the industry's medium to long term fundamentals being so positive, clearly there is opportunity for investing in financially robust and transparent diamond businesses. With all of you as Sightholders and Accredited Buyers having proven your credentials by complying with our stringent criteria, we will continue to work with you to seek new and innovative ways to capitalise on the GSS customer community's improved financial position.

- Finally, turning to the question of industry competitiveness, we have also made great strides, with much more still to come. Although we are increasingly competing with a greater number of industries when it comes to share of consumer wallet, we have undoubtedly upped our game in recent times as we have sought innovative solutions to the challenges we face. Last year we found ways to increase efficiency and improve industry competitiveness through greater supply flexibility, improved pipeline planning and the introduction of the concept of tailored products.
- It's important that we continue to look for new and different ways to ensure success, because if we didn't know it already, the events of the last year proved beyond doubt that change is a given. The commercial environment in which we operate is changing rapidly and that means that all of us, De Beers and our customers, are going to have to keep up and change too: we will all need to innovate and think differently. But it's important to bear in mind that this challenge is not confined to the diamond industry - it's common to all businesses and this means that if we can find ways to compete more effectively in this evolving environment, then the change becomes a great opportunity instead of a challenge.
- One example of how we are already changing to respond to the evolving external environment is with the range of consumer marketing activities we have established to spread the message of diamonds to different countries, different generations and via different channels. Whether it was through a proprietary vehicle such as Forevermark, which once again delivered positive results for participants in the programme, or through collaborative approaches such as the DPA's *Real Is Rare* programme and the campaign we funded alongside the GJEPC in India, diamonds continue to compete more strongly for share of voice at the consumer level.
- I'm pleased to say that this will continue in 2017 as De Beers and GSS will keep seeking new ways to meet your business's needs and to partner with you more effectively, while we will also maintain our commitment to diamond marketing via both proprietary and category-based campaigns.

Of course, beyond these there are also other lessons from 2016 that we can apply to the diamond industry: within the sector we have been speaking for some time about the impact of online and, if asked, I'm sure Hillary Clinton would agree that 2016's events reinforced this sentiment.

In addition, the unpredictability of the world in which we live was emphasised by Prime Minister Modi's surprise demonetisation programme in November. This obviously has much more direct relevance to the diamond sector and it's likely that we will continue to experience the impact in the Indian industry in the coming months, even if the programme yields a positive outcome in the long run. As industry leaders, it will therefore require us all to act prudently and take a calm and responsible approach so that we do not sacrifice long-term benefit at the altar of short-termism.

We also heard a louder and more confident voice emerge from the younger Millennial generation. They will soon be the ones shaping the whole world in which we live, so we must continue to listen to their views and interests. Just as they influence the societies in which they live, we must ensure that we create diamond jewellery propositions that reflect their outlooks on life.

So clearly there is lots for us to learn and lots for us to do if we are to ensure our long-term success. We have come a very long way together already and it's vital that we continue to work together as this will amplify the impact of each of our efforts and ensure we all share responsibility for co-creating a more beneficial future for the entire diamond industry.

So, ladies and gentlemen, thanks again for your invaluable support over the last year and let's carry the same energy and commitment forward as we seek to capitalise on the opportunities of 2017. I would like to say that there are truly exciting times ahead – but given how well my prediction went last year, I think it will suffice for now to say that I'm looking forward to continuing building valuable relationships with each of you in the coming year...

Thank you and enjoy the rest of the evening.