

WFDB PRESIDENTS' MEETING

TEL AVIV, ISRAEL

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REMARKS BY PHILIPPE MELLIER, CHIEF EXECUTIVE, DE BEERS GROUP

CHECK AGAINST DELIVERY.

- Hello everybody and thank you for inviting me to speak at today's Presidents' meeting, it's great to see you all gathered here
- Of course, with the global nature of the modern diamond industry, busy schedules and frequent travel are the norm and I know that you are all as accustomed to travelling as I am
- Perhaps you also run through the same type of mental checklist before you fly to ensure that you are prepared
- And as I got ready for my trip to Israel I was struck by how different my preparations are now from how they used to be
- In days gone by I would have to make sure I had all the relevant business papers and travel documents for each and every location
- But these days I simply bring my iPad and iPhone
- While we often take changes like this for granted, they really are symbolic of how the world has changed around us
- And we should make no mistake – the world is not just changing, it has changed
- In recent years we have seen fundamental and permanent shifts in the way we interact with technology, the expectations we have of the products we buy and the way we consume media
- And these are far from the only changes we have seen
- For example, the world of international finance has seen major changes after the Great Recession in 2008-2009 and it will not be changing back
- It is undeniable that we live in a completely different world from that in which we grew up and the changes inevitably leave us thinking about how we can thrive in this new world
- Naturally, this has raised a number of questions about business prospects, because the structures of success are not the same as they used to be

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- At De Beers we have thought long and hard about this because we face related challenges
- Diamantaires need to make sustainable returns so they can invest in things such as new technology, marketing activities and business efficiency
- Meanwhile at De Beers we need to make sustainable returns so we can invest in things such as production capacity, with our current projects requiring expenditure of more than \$3 billion
- We are all seeking the right strategies to enable us to succeed both now and in the future and we are all dealing with similar challenges as our fortunes are interconnected
- But of course, while we are all connected, each of our businesses is different and this means there is no 'one size fits all' approach to success
- There are things that we can do that will benefit all of us in the long run, but each of us must also look at the changes we see through the lens of our own company's aims and attributes
- Different companies make money in different ways, some requiring frequent stock turns to generate profit, while others depend instead on the mark-up achieved from a differentiated offering
- This means there really is no 'silver bullet' that will provide sustainable returns for all participants in the diamond trade
- When I have said in the past that "we must all own our margins", this is the point I was trying to make
- No one is better placed to run a business than those who live and breathe it on a daily basis, and each and every diamond company in this great industry must make its own choices about how to succeed in this new world
- But throughout the pipeline there are of course activities and investments that can enhance midstream prospects
- First, there is a need to generate consumer demand growth downstream – this supports the value of diamantaires' polished diamond sales
- Second, there is a need to facilitate efficiency and maintain third party confidence in the midstream – this will reduce diamantaires' operating costs
- And third, there is a need to maintain availability upstream – this will limit the escalation in diamantaires' input costs

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- While each business is different, each of these measures will play a direct role in underpinning long-term profitability
- So, as an industry leader, what is De Beers itself doing in each of these areas?
- Well, starting with the downstream, we continue to be one of the biggest investors in the marketing of diamonds through our rapidly growing Forevermark programme
- Forevermark employs a multi-channel marketing approach that enables us to reach out to consumers young and old and it has at its core a message of responsibility, answering the needs of the consumers of the future
- You will also have seen that we have recently brought the most successful advertising line of the 20th century – A diamond is forever – into the Forevermark programme, enabling us to mobilise one of the world's most recognisable advertising slogans in our efforts to stimulate even greater demand for diamonds
- Of course, we also spend substantially on maintaining diamond equity, gathering consumer insights and engaging with other key industry players, such as with the recently announced Diamond Producers Association
- Turning next to the midstream, we have invested significantly in supporting diamantaires' prospects
- First, following a long period of consultation, we began a new Global Sightholder Sales supply agreement this year which is centred on a commitment to the Sight system. We heard loud and clear that this was central to our customers' planning efficiencies so we kept this successful approach in place
- Meanwhile, the new contract period requires greater financial transparency and robustness from our customers. While this may have presented some challenges when it came to compliance, the new approach is a crucial step given the changes to the world of financing. It will help the industry regain its reputation as a worthy recipient of the bank finance that provides oxygen to the midstream. And it will mean greater midstream liquidity, helping diamantaire businesses bridge through periods of lower seasonal demand
- We have also introduced more flexibility in the new contract period to help support distribution efficiency. Customers have even greater control over their own supply from De Beers, thereby helping establish more efficient routes to market

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- Beyond this, we also continue to make substantial investments in technology that will underpin success in the midstream. Our recent acquisition of a share in Synova will help us to support the development of improved cutting and shaping solutions for the manufacturing sector, while the millions of dollars we have committed to synthetic detection technology have played a major role in helping to underpin trade confidence
- Turning finally to the upstream, we are all aware of the rarity of diamonds and, while this is a major selling point for consumers, it presents an equally big challenge for those in the trade as existing deposits diminish and untapped sources are more remote and costly to mine
- We are therefore supporting the industry's future by undertaking a multibillion dollar programme of investment in three of the world's most important diamond projects – at Jwaneng, one of the world's richest diamond mines; at Venetia, South Africa's largest diamond mine; and at Gahcho Kue, the largest diamond mine currently under development in the world today
- This type of investment is not undertaken lightly as we know that it will be many years before we stand to make a single dollar of return on the billions we commit
- But our optimism in the industry's long-term future is shared almost universally by industry analysts and commentators, as hundreds of millions of new consumers around the globe are set to purchase diamonds in the coming years
- With all this in mind, we are undertaking one of the most comprehensive programmes of investment to support long-term industry profitability ever set in motion in the diamond sector
- But we recognise that we cannot sacrifice today at the altar of tomorrow, so we have also continued to recalibrate our business in recent times to reflect the tougher trading conditions. We have provided greater flexibility in our deferrals process and we have responded to the prevailing demand environment through adjusting our rough prices and our production
- Because of course, we must all focus on how to optimise success not just for our own companies, but for the wider industry
- I am confident that we can achieve this, however, and the industry here in Israel provides strong evidence that we can capitalise on opportunity
- The diamond businesses here have taken tough decisions to manage their cash positions and stand ready to take advantage of the anticipated improvement in demand
- The industry leadership here has responded directly and firmly to deal with those who undermine the trade's reputation by supplying stones that have been subjected to undisclosed treatments

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- And the manufacturing sector has once again used its world-renowned innovation to enable it to compete with any other diamond centre around the world
- And ladies and gentlemen, these stories of success and resilience can be found all around the world of diamonds
- From Surat to Antwerp, from Dubai to Gaborone and from New York to Shanghai, we are seeing outstanding businesses establish new and exciting approaches that will not only respond to the changes we see in the world around us, but that will catalyse new changes and areas of opportunity
- We have experienced challenging times recently and we have had to make some difficult decisions in order to adapt
- But the diamond industry has always been seasonal and cyclical and the steps we have taken to come through these challenges have put us in an even stronger position for the future
- The strategies we are now putting in place will help to reduce the volatility that we experience through each year and over an economic cycle, and they will help prevent us from facing the same issues time after time
- They will support success throughout the pipeline and they will enable us to make the diamond industry shine brighter than ever before
- As I said at the start of my speech here today, the world has changed and it will not be changing back
- But the diamond industry has also changed and we will not be looking back
- We have come a very long way in a very short space of time and we should be proud of all we have achieved
- Even though we still have a way to go and there may still be some bumps in the road, much like the miracles of nature that we work with, we in the diamond industry are bright. We are resilient. And we are defined by how we respond to pressure
- So let us navigate the changes together by reshaping the industry for success and we will release our true brilliance
- Because if we keep pace with this rapidly changing world then, despite our bright history, our greatest successes will lie ahead of us
- Thank you