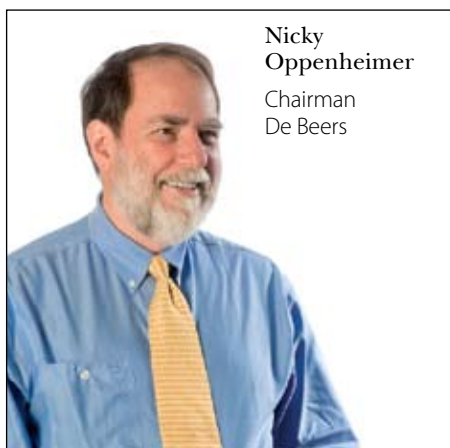


# Introduction from the Chairman



**Nicky Oppenheimer**  
Chairman  
De Beers

In our 2007 Report to Society I wrote of how, across the De Beers Family of Companies, our understanding of sustainability is shaped by the societal imperatives of the countries in which we work and the vision of an ever-more prosperous Africa we share with our host and partner Governments. As we reflect on 2008 and plan to meet the numerous challenges of the forthcoming year, these words have lost none of their resonance. Indeed, the continuing fallout of the global financial crisis that emerged in the fourth quarter of 2008 has, if anything, underlined the importance of a holistic sustainability model and reaffirmed the historical value of our partnerships in Africa as a framework for sustainable development.

Our continuing commitment to Africa's sustainable development converges with two clear business imperatives. The first of these relates to maintaining consumer confidence through ensuring that the way we do our business measures up to the integrity of our product. We call this "living up to diamonds" and do this through ensuring that our major suppliers, our contractors and our clients' operations meet a range of standards on issues ranging from labour to environment.

The second relates to ensuring our long-term access to supply and, correspondingly, the sustainability of our mining operations. Diamond mining is a long-term and capital intensive enterprise. With mines requiring significant front-end investment and having a lifespan of up to a century, the stability, security and predictability of the environment in which we operate is a critical factor for success. In these circumstances it makes good business sense to work on the basis of a partnership model that contributes energetically to the growth, sustainability – and hence stability – of local and national communities. In other words we not only seek to secure social licence to operate in our producer countries, but also work to foster social and economic conditions that are conducive to long-term economic and social development and hence business success.

Historically, our partnerships with producer country governments have contributed to local economic growth and development almost exclusively through mining activities. However, with the launch of the Namibia Diamond Trading Company (NDTC) and the Diamond Trading Company Botswana (DTCB) we took a significant step towards maximising the benefits derived from downstream diamond activities in our producer countries. Through the progressive transfer of our sorting and selling operations into our producer countries we anticipate the development of a robust downstream diamond cutting and polishing industry in what were once regarded solely as production centres. In Botswana, for example, it is hoped that this programme of beneficiation will create employment and raise Botswana's manufacturing capacity. While the speed of southward migration of the downstream diamond industry's centre of gravity will doubtless be impeded by the economic crisis, the positive long-term outlook for the diamond industry suggests that the positive impact of beneficiation will be lasting.

## **The global economic crisis**

The unprecedented scale and reach of the 2008 economic crisis differentiates it from other economic shocks we have experienced in recent decades. While its overall impact is yet to be revealed we can be sure that it will be felt as keenly in many developing economies as in those countries where the crisis originated. The commodities boom that fuelled rapid economic growth in mineral rich sub-Saharan Africa has lost momentum. This in turn has led to diminished Gross Domestic Product (GDP) and growth forecasts for many states dependent on mining royalties and has effected an inevitable contraction in the revenues available to governments.

While the value of diamonds has not been subject to the same degree of volatility as commodities, the global diamond industry has not been unaffected by the downturn. High levels of inventory and debt amongst our clients in cutting and polishing centres coupled with the challenging trading conditions in key markets has required that we prepare for a challenging 2009. As the scale of the global financial crisis' potential impact on the diamond industry became apparent in the final quarter of 2008, De Beers reacted quickly by taking steps to ensure that production levels are aligned to diminished client demand.

However, what differentiates our key producer partners from many other resource-rich states in sub-Saharan Africa is the extent to which their management of historical revenues that they have derived from diamonds and other resources has empowered them to weather the downturn. In Botswana, for example, the Government has husbanded a proportion of their historical diamond revenues accrued through dividends, royalties and taxation in a foreign currency reserve valued at over US\$9 billion and equivalent to 28 months of goods and services. This fund provides the Government a cushion with which to maintain short-term spending on critical development and welfare programmes despite reduced income. As importantly, the diamond industry's historical investment in building Botswana's social and human capital base has meant that Botswana will be relatively well positioned to capitalise on opportunities that will arise when the green shoots of economic recovery emerge.

Botswana's ability to cope with diminished short-term revenues relative to other sub-Saharan African states suggests that if a silver lining is to be found in the current economic crisis, it lies in the opportunity to apply lessons drawn from past and present successes to the process of rebuilding, recovery and future growth.

### **Business in Africa**

Somewhat unsurprisingly those elements of our business model that have simultaneously contributed to the stability and prosperity of the local and national communities in our producer countries have been the most critical to ensuring our success. This simple equation underwrites our unfailing support for beneficiation initiatives and likewise our plans as we look to securing future access to supply.

Unquestionably the most important element of our business model is its emphasis on "partnership", a concept that frames our stakeholder relationships at a national and local level. In southern Africa in particular, the process of sharing wealth through joint-venture partnerships with, in the case of Namibia and Botswana, national governments, creates a framework for taking a shared responsibility for success. This commitment to partnership is manifest not only at a national level but also on a local scale through our focus on citizen employment (at every level of the business), our support for local enterprise development and our strategic, needs-responsive, corporate social investment.

The second critical element is the integration of a holistic approach to sustainability into the very heart of our business. This involves taking shared responsibility with our neighbours and communities to meet the societal and environmental challenges that will ensure our collective sustainability. Examples of this include our commitment to the health and education of our employees and our sustained contribution to biodiversity around our operations now linked together through our Diamond Route.

Collectively these elements are captured eloquently in the challenge of transforming natural assets into shared national wealth. This challenge remains front of mind in Africa where, the recent crash in commodity values notwithstanding, natural resources remain the key national assets and the likely catalyst of sustainable, long-term social and economic development. While to be sure our perspective has been positively tinted by our partner governments' exemplary commitment to good governance, there is no question that our experience demonstrates that responsible business can be a powerful force for good in the developing world.

### **Looking to the future**

Over 2008 we saw the significant maturation of systems and processes to ensure that our Values and Principles are embedded in our business. As a result we can be confident that the actions we undertake now to ensure the long-term sustainability of our industry will neither compromise our relationships with our local communities nor undermine the equity of our product. In practice this will mean ensuring that we understand and mitigate wherever possible the potential human costs of the exercise. Thus, for example, any HIV positive staff that are retrenched or their dependents reliant on our anti-retroviral programmes will suffer no interruption in treatment either through remaining within our programme, or in states like Namibia, transferring into state-run programmes.

During times of adversity it is sometimes difficult to see beyond the immediate challenges that lie before us. To overcome these, however, it is critical to keep an eye on the future. Doing so not only provides vital context to some of the painful steps necessary to expedite a strong recovery, it also ensures that those steps are in the right direction. Over 2009 we will work closely with our partners to ensure the health of the diamond industry, its ability to serve as a development catalyst in our producer countries and ultimately its capacity to deliver long-term sustainable value to all of its stakeholders. Responsible business can and should be a driver for Africa's development and, as painful as it is, we believe that the current economic crisis offers an opportunity to apply the lessons of the past to help define the most productive role for business in this process.



**Nicky Oppenheimer**  
Chairman  
De Beers

# Performance overview from the Managing Director



**Gareth Penny**

Managing  
Director  
De Beers

The 2008 calendar year was an extraordinary one for De Beers. During the first three quarters we enjoyed strong sales and value growth and brought two new mines in Canada and a third, in South Africa, into production. We also celebrated the launch of the Diamond Trading Company Botswana (DTCB) as our beneficiation programme, aimed at stimulating a downstream diamond industry in producer countries, gathered momentum.

The final quarter of 2008, by contrast, was defined by the rapid deterioration in trading conditions brought about by the global economic downturn. In response, we embarked on a range of initiatives with the common objective of ensuring the sustainability of our business and correspondingly our ability to generate the sustainable long-term returns on which our key stakeholders – our government partners, shareholders, suppliers, community partners and employees – depend.

These initiatives focus on aligning production to reduced short-term demand and streamlining our operating costs accordingly. While this is undoubtedly in the best long-term interests of our business, it will have a negative short-term impact on many of our stakeholders. Revenues generated for government and community partners will decline relative to 2008 and many employees, suppliers and contractors will be adversely impacted.

The values embodied in our commitment to Live up to Diamonds come into their own during challenging times like these. Not only do they inform the difficult decisions we make, they also define how we implement these decisions and, by virtue of this, who we are. We view this commitment as fundamental to ensuring not only the equity of our product, the diamond, but also the integrity of our business. This, our fourth Report to Society, reaffirms our commitment to sustainable practice and responsible conduct. It also demonstrates how we work with and aim to integrate the interests of each stakeholder group into our decision making processes.

This report is designed to be read alongside our Operating and Financial Review 2008. It documents our sustainability performance in a rigorous, transparent and accessible way. It complies with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines and fulfils our reporting commitments to the UN Global Compact (UNGC) to which our own Principles are aligned.

## Safety

It is with much sadness that we report the deaths of six people at our operations in 2008 as a result of individual industrial accidents. Each isolated accident occurred despite the highly formalised nature of diamond mining, the communication of Fatal Risk Control Guidelines and extensive training programmes. As a result the aggregate safety performance of the Family of Companies in 2008 deteriorated relative to the progressively improving levels achieved in the recent past. Underlying causes can in part be traced to the shared trend of increasing contractor numbers at operations in Africa, skills turnover and the uncertainty linked to market-driven operational cutbacks and mine disposals. These events have shocked our people into corrective action and resulted in an urgent and deep review into both our Safety Strategy and Risk Management leadership capacity and resourcing as we pursue a goal of zero-harm.

## Development

The remarkable contribution that diamonds make to development in countries like Botswana, South Africa and Namibia owes a great deal to the effectiveness of the partnerships we have forged with producer governments and empowerment partners.

In 2008, payments to partners, joint ventures and suppliers amounted to US\$4.8 billion (2007: US\$4.9 billion). About US\$2.7 billion of this was paid for diamonds in Africa (2007: US\$3.2 billion). Similarly De Beers paid US\$1.4 billion in taxes and royalties to governments; 87.9% of this was paid in Africa.

We anticipate that in 2009 diamond revenues accrued to our producer partners will decline relative to 2008 levels as we reduce production in line with global demand. De Beers will continue to monitor demand for rough diamonds from our clients closely and will work quickly to adjust future production levels – up or down – accordingly. Wherever production holidays are taken we will focus on maintenance and housekeeping to ensure the readiness of our mines to ramp up production as and when economic conditions improve.

Historically, De Beers support for government-led economic diversification in producer countries has focused on local procurement and enterprise development initiatives. In 2008, the company allocated US\$1.1 billion to preferential procurement in southern Africa and Canada (2007: US\$1 billion). In 2008, our objective to promote diamonds as a source of development was also enacted through our beneficiation strategy.

Our contribution to beneficiation has been formalised through the establishment of DTCB, Namibia DTC (NDTC) as well as through sales by DTC "International" to Canadian Sightholders and DTC South Africa (DTC SA) to the South African downstream industry. In 2008, sales from DTCB and NDTC amounted to US\$367 million and US\$172 million respectively. DTC SA (a subsidiary of De Beers Group Services) achieved sales of US\$574 million. While the beneficiation programme will undoubtedly be impacted by the economic downturn, we are working closely with our joint-venture partners and downstream entities with the aim of ensuring the programme's ability to weather the economic downturn.

### Ethics

We are committed to meeting the highest ethical standards and aim to meet or exceed all applicable statutory requirements and international standards on issues ranging from conflict diamonds to anti-corruption. We are also active participants in initiatives such as the Kimberley Process, the World Economic Forum's Partnership Against Corruption Initiative and the Extractive Industries Transparency Initiative. Collectively these initiatives assure the provenance of our diamonds and widespread confidence that the revenues generated by our business are responsibly distributed within producer countries.

Our approach to formalising our ethical commitments is made visible, in part, by the inclusion of the De Beers Best Practice Principles (BPPs) in our diamond supply chain. The BPPs play a key role in protecting against unacceptable business, social and environmental practices that might otherwise undermine consumer confidence in diamonds. Building on the success of the BPP programme De Beers has been working with the Responsible Jewellery Council to develop an industry-wide mining and supply chain standard which will be launched in 2009.

### Employees

Some of the actions being taken to position the company to reflect global demand for diamonds have unfortunately affected staffing levels, particularly in southern Africa. De Beers has endeavoured to minimise job losses wherever possible through innovative solutions like production holidays, voluntary severance schemes, shift reductions, part-time and flexible working, etc. Where involuntary retrenchments have been unavoidable, De Beers has fulfilled its commitments to employees with respect to severance packages, the continuity of vital anti-retroviral treatment programmes and has offered outplacement and retraining assistance.

### Communities

Successful partnerships are based on principles of mutual benefit and reciprocity. In our engagements with local communities the framework for these principles is defined in terms of our social licence to operate.

In 2008, we launched our newly developed Social Impact Assessment Guidelines. The Guidelines are designed to bring much needed rigour to the process of securing this social licence to operate at our new operations. As the first tool of its kind, the Guidelines set a benchmark for good practice and effective risk mitigation in the mining industry.

The Family of Companies disbursed US\$13.6 million through social investment initiatives in 2008 (2007: US\$19m). Further initiatives valued at US\$13.2 million were instigated in South Africa to meet our legal requirements as presented in our Social and Labour Plans (SLPs). The scale of our social investment donations is likely to fall in 2009 in line with operational scale and profitability, but will be supplemented by ongoing SLP requirements.

### Environment

The environment discipline across the Family of Companies has matured considerably over the last two years. Its remit now extends beyond the traditional focus area of land rehabilitation to matters such as biodiversity management, water management and climate change. This reflects our conviction that proper environmental management is vital to the long-term prosperity of our producer countries and our belief that business must engage proactively with global issues such as climate change that define our age.

Biodiversity is arguably our most material environmental issue due to our significant landholdings in biodiversity-rich areas, as well as the scale and nature of our rehabilitation liabilities. More than 185,000 hectares (ha) of our owned and managed property is set aside as nature reserves. This contrasts with the 36,620 ha licence areas disturbed by mining activities.

Ensuring that we are able to meet the long-term challenges of energy security and climate change is a priority for the Family of Companies. In 2008, we focused our efforts on ensuring our reporting is aligned with the parameters of the Greenhouse Gas Protocol, the setting of energy targets, the implementation of energy efficiency measures and the stringent assessment of energy requirements for capital projects.

### Sustainability

Diamonds are a common bond between the millions of people who give, receive or depend on them for their livelihoods. We are acutely aware of the obligations this responsibility imposes on us as the world's leading diamond company. Following a profitable 2008, in 2009 De Beers will focus on running a sustainable business at a lower level of sales. This will help ensure the long-term prosperity of our business as well as the continued important contribution that diamonds make to the lives of our diverse stakeholders.



**Gareth Penny**  
Managing Director  
De Beers

### Find out more

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