Performance review

Gareth Penny
Managing Director, De Beers

> Few businesses or products were immune from the global recession, but 2009 served as a compelling reminder of the enduring value of diamonds. As consumers recalibrated their attitudes about discretionary purchases, they focused on fewer, but better things.

The 6 Point Recession Action Plan focused on:

1. Keep safety as top priority
2. Maximise demand opportunities
3. Produce in line with client demand
4. Drive cost reductions across the business
5. Enhance operating efficiencies
6. Focus on cash management

2009 can be best summed up with one word – extraordinary. It was a year of extraordinary challenges that necessitated extraordinary action, but in the end reminded us of the unique power of the extraordinary product we mine, market and sell.

Extraordinary times – market conditions

In line with most products in the luxury goods sector, the diamond industry was severely affected by the global recession. Reduced consumer demand, constricted liquidity and high levels of inventory in the pipeline combined to produce particularly challenging economic conditions for rough diamonds.

However, trading conditions, which were most acutely affected in the first quarter, began to moderate and improve in the second half. Consumer demand for diamond jewellery improved in the fourth quarter, with a slightly better than expected Christmas in the US and growing demand in India and China. At the same time, inventory levels that had built-up throughout the diamond pipeline began to contract as a result of greater pull-through at all levels.

Extraordinary action – operating review

2009 was a year of unprecedented challenges: the men and women of De Beers met them head-on with energy and resolve. As the magnitude of the economic crisis became apparent toward the end of 2008, De Beers instituted a pro-active 6 Point Recession Action Plan to address our commercial vulnerabilities and ensure the company was positioned for growth once recession gave way to recovery. These actions helped De Beers' clients to reduce inventory and debt levels.

In spite of exceptionally difficult trading conditions, which saw De Beers' sales decline from US$6.89 billion in 2008 to US$3.84 billion in 2009, De Beers exceeded its primary sales and cost targets, and remained cash positive for the year.

The 6 Point Recession Action Plan focused on:

1. Keep safety as top priority – De Beers' safety performance showed marked improvement in 2009, and the company is proud to report no fatalities on its operations. Lost Time Injuries (LTI) decreased to 40 in 2009 from 66 in 2008.

2. Maximise demand opportunities – due to the highly volatile levels of rough diamond demand, the Diamond Trading Company (DTC) employed a flexible approach to its sales. The diamond industry was affected most acutely in the first quarter, with both slow-moving inventories and, to a lesser degree, lower achievable values impacted. However, as the year progressed client demand improved, which allowed the company to increase its rough prices and sales volumes throughout the second half of the year. DTC sales for the year totalled US$3.23 billion, significantly below last year (2008: US$5.93 billion) but above our half year expectations. Forevermark™ continued to expand in China, Hong Kong, Japan and Macau and the brand is now available in 245 stores across Asia. The Everlon Diamond Knot Collection™, which is a De Beers-devised co-operative marketing campaign with DTC Sightholders and leading retailers, has made a strong contribution to improving Christmas diamond sales in the US.

3. Produce in line with client demand – at the beginning of 2009, and in response to, and in line with, reduced demand from DTC Sightholders, De Beers dramatically reduced production across its portfolio of mines, resulting in a significant reduction in carats produced compared to 2008. Sightholder demand increased gradually, beginning in the second quarter, and De Beers responded by increasing its production to 18 million carats in the second half of the year (2008: 24 million carats), an increase of 173 percent compared with the first half, resulting in a full year total of 24.6 million carats (49 percent below 2008).

4. Drive cost reductions across the business – across the Group, De Beers pro-actively tackled costs, achieving a US$0.9 billion reduction in production and operating costs, down 45% compared to 2008.

5. Enhance operating efficiencies – through a process of de-layering and de-centralisation of the business, De Beers recorded a 23% reduction of its global workforce.

6. Focus on cash management – De Beers' focus on cash management and capital expenditure – which was reduced by US$222 million compared with 2008 – enabled the company to remain cash positive in 2009, despite the exceptionally challenging trading conditions.

Given the effects of a weak US Dollar and the impact of the global recession on De Beers' pricing and production levels, De Beers has been required to make a non-cash impairment provision of US$700 million against its Canadian operations.

The crisis provided De Beers with an opportunity to improve its balance sheet and to ensure it was well positioned as the industry emerged from the downturn. De Beers commenced discussions with its international banking syndicate to renew its outstanding US$3 billion facility, of which US$1.5 billion becomes due in March 2010. International and South African financing term sheets were finalised in December, together with an agreement by the shareholders to invest US$1 billion in new equity by way of a rights offer, which will enable a reduction in overall debt levels. The detailed documentation of the new financing structure is expected to be in place before the end of March 2010.

Mining Area No.1 on the Namibian Coast

Extraordinary product – outlook

Few businesses or products were immune from the global recession, but 2009 served as a compelling reminder of the enduring value of diamonds. As consumers recalibrated their attitudes about discretionary purchases, they focused on fewer, but better things. Consumers want something that lasts, that carries an emotional resonance and delivers real value for money. The improved Christmas season, and continued strong growth in emerging markets, is evidence that diamonds continue to play an important role in people's lives.

The short-term is uncertain, and De Beers will be focused on incorporating the 6 Point Recession Action Plan into its normal way of working, with a strong focus on cost management at all levels of the business.

History shows that diamond demand and values recover strongly in most post-recessionary periods. In addition, the long-term supply / demand dynamics indicate that future demand growth for diamond jewellery in emerging markets is expected to outpace what is forecast to be lower levels of diamond supply for many years to come, providing a strong foundation for future profitability.

Gareth Penny
Managing Director
De Beers

Exploration review

Charles Skinner
Head of Group Exploration

Fact file
– Active in 5 countries
– 45 kimberlites discovered in 2009

Performance indicators

	09	08	+/–
LTIFR*	0.89	0.49	0.4
LTISR**	8.16	1.86	6.3
Exploration expenditure ($m)	44.8	94.6	-50.6%

* Lost time injury frequency rate
** Lost time injury severity rate

Diamond exploration in Angola

Introduction
In 2009, De Beers Exploration spent US$44.8 million (2008: US$94.6 million) on work programmes in Angola, India, Botswana, South Africa and Canada supported by technical and laboratory services from South Africa. Despite the significant reduction in budget, Exploration maintained a high discovery rate adding 45 kimberlites, up from the 37 discoveries in 2008.

In the past three years, Exploration has focused its activities on defined target areas in the world's most prospective countries. In 2009 the division took three kimberlites in Angola into the advanced work programme and continued to develop the critical in-house skills and capabilities required in the fields of drilling, DMS plant treatment and diamond recovery. These developments have ensured the rapid delivery of results and the advancement of projects from the early stage into deposit assessment.

Angola
Exploration activities in Angola are focused on two concessions of 3,000km^2 each: the Lunda NE concession, located in the Lunda North province, near the town of Lucapa, and the Dando Kwanza concession in the province of Bié in the highlands of Central Angola, east of the town of Andulo.

In the Lunda NE concession De Beers has discovered 108 kimberlites. The economic assessment of these discoveries has rapidly progressed with 60 sampled for microdiamonds and 33 bulk-sampled at depth through large-diameter drilling.

Results from the Lunda NE project are steadily being integrated with geological models and revenue information with a view to selecting priority pipes and clusters for more detailed drill bulk sampling. Three immediately adjacent pipes have been selected for priority work in an area where the average overburden is less than 40 metres. It is expected that additional pipes will be added to the evaluation portfolio as further results become available.

Whilst at an early development stage, the programme at Dando Kwanza has advanced rapidly. Exploration activities are now focused on an isolated cluster of some 42 kimberlites in the catchment area of the diamond-bearing Lubia River. In 2009, an on-site diamond recovery plant was commissioned and one kimberlite was bulk-sampled.

Canada
In 2009, Exploration activity focused on evaluating satellite kimberlite pipes around the Victor mine and, in addition, finding pipes in the Attawapiskat area. Two kimberlites were discovered in 2009 and evaluation work continued on the prioritised kimberlites in the Victor cluster. The objective of the work is to define further resources that could potentially contribute to the existing reserves of the Victor mine.

Botswana and South Africa
De Beers has a significant database of prospecting information collected over the past 50 years across South Africa and Botswana. This data was utilised in 2009 through technical reviews by our specialist teams. These reviews led to reconnaissance phase prospecting activities to target priority areas for the discovery of new kimberlites with particular focus on the areas surrounding the existing De Beers Consolidated Mines (DBCM) and Debswana mines.

India
In India, exploration activities focused on early stage reconnaissance and targeting work. Ground-holdings have been reduced by 50% in line with the strategy to focus on the most prospective high- priority target areas.

Other countries
Although the Democratic Republic of Congo (DRC) and Russia remain highly prospective regions, offices were scaled down and closed, respectively, in 2009 as a consequence of resource limitations.

De Beers Exploration in 2009

Ground holdings

	(ha²) 09	(ha²) 08	+/–
1 Canada	700	2,100	-66%
2 Angola	6,000	9,000	-33%
3 Botswana	3,300	10,000	-66%
4 South Africa	1,000	700	+43%
5 India	9,300	19,700	-53%

Environment, Community, Occupational Health and Safety

The combined Group Exploration lost time injury frequency rate (LTIFR) for 2009 was 0.89, compared to the 2008 LTIFR of 0.49. This is due to 7 lost time injuries being reported in 2009 compared to 5 in 2008. Exploration in India achieved more than one million lost time injury (LTI) free hours having registered zero LTIs since 2004. In Canada De Beers Exploration achieved four years without a LTI. Safety remains Group Exploration's main priority and the teams are committed to becoming more proactive in order to achieve the goal of 'zero harm'. The diamond recovery laboratories in South Africa achieved OHSAS18001 safety certification. The India operations, South Africa laboratories, technical support and field operations retained their ISO14001 environmental certification.

Outlook for 2010

De Beers remains committed to exploring for profitable diamond mines of the future to ensure the long-term sustainability of its business. Group Exploration has developed a long-term strategic business plan focused on the delivery of profitable new carat production from its highly prospective portfolio.

Debswana

2009 production statistics (000s)

	Tonnes treated	Carats recovered
1 Damtshaa	60	54
2 Jwaneng	6,606	9,039
3 Letlhakane	2,362	1,066
4 Orapa	8,817	7,575

50/50 joint venture with the Government of the Republic of Botswana

Established 1968

Blackie Marole
Managing Director, Debswana

Mining (open pit)	Production start
1 Damtshaa	2002
2 Jwaneng	1982
3 Letlhakane	1975
4 Orapa	1971

Performance indicators

	09	08	+/–
LTIFR*	0.09	0.22	-0.13
LTISR**	5.91	120.11	-114.2
Mining licence area (ha)***	48,787	37,714	+19%
Tonnes treated (000s)	17,845	41,012	-56%
Carats recovered (000s)	17,734	32,276	-46%

* Lost time injury frequency rate
** Lost time injury severity rate
*** Hectares

DEBSWANA

Operating highlights

Debswana's performance during 2009 was severely impacted by the global economic downturn. In response to falling consumer demand, the company imposed a production holiday across all its mining operations from the end of December 2008 to midway through April 2009. Damtshaa mine remained closed for the duration of the year.

Debswana produced 17.7 million carats from 17.8 million tonnes treated in 2009. These figures contrast with 2008 production levels of 32.3 million carats from 35 million tonnes treated.

Challenging market conditions in the first half of 2009 impacted directly on the company's profitability and revenues. The success of cost-cutting measures, in tandem with enhanced rough sales and improving market stability in the third and fourth quarters of 2009, partially mitigated the impact of a difficult first half of 2009.

Notwithstanding the incremental market improvement towards the end of the year, management continues to run the company with a keen focus on cash preservation, cost containment and an emphasis on flexibility in readiness for an upturn.

Continuity of power supply remains a key focus area in 2010 with Botswana's largest external supplier of power, Eskom, expected to reduce supply by 100Mw (29%) with effect from the beginning of the year. A number of initiatives are under way both at government and company level to address the issue; these include an increase in capacity at Botswana Power Corporation's power station and the expansion of Morupule coal mine, wholly owned by Debswana, to meet the anticipated increase in coal demand.

ECOHS overview

Debswana's safety performance for 2009 showed considerable improvement on the preceding year. There was a total of six lost time injuries with no fatalities incurred. Debswana's combined LTIFR was 0.09, compared to 0.22 in 2008, on an annual target of 0.12.

Jwaneng, Orapa and Letlhakane mines remain certified to the ISO 14001 environmental management standard and the OHSAS 18001 safety and occupational hygiene standard.

The HIV/AIDS Impact Management programme continued to grow steadily despite the many business challenges experienced in 2009.

Outlook for 2010

While signs of global economic recovery are encouraging, a significant level of uncertainty exists in respect of future sales volumes, selling prices and exchange rates. For this reason, safety, cost containment, cash preservation and upturn readiness will remain core to Debswana's response to the downturn.

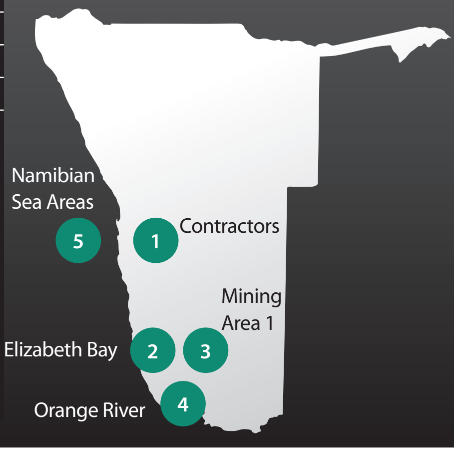
Find out more
www.debeersgroup.com
www.gov.bw
www.debswana.com
www.iso.org
www.ohsas.org

Namdeb

2009 production statistics (000s)

	Tonnes treated	Carats recovered
1 Contractors	N/A	15
2 Elizabeth Bay	574	143
3 Mining Area 1	1,722	151
4 Orange River	1,181	20
5 Namibian Sea Areas	N/A	600

50/50 joint venture with the Government of the Republic of Namibia
Established 1994



Inge Zaamwani-Kamwi
Managing Director, Namdeb

	Production start
Mining (open pit)	
1 Contractors	—
2 Elizabeth Bay	1990
3 Mining Area 1	1936
4 Orange River	1989
4 Namibian Sea Areas	1990

Performance indicators

	09	08	+/–
LTIFR*	0.27	0.20	0.07
LTISR**	6.62	5.59	1.03
Mining licence area (ha)***	15,790	795,184	-98%
Tonnes treated (000s)	3,477	16,922	-79.5%
Carats recovered (000s)	929	2,122	-57.1

* Lost time injury frequency rate
** Lost time injury severity rate
*** Hectares

NAMDEB
ON DIAMONDS WE BUILD

Operating highlights

While the economic downturn of 2009 presented Namdeb with numerous challenges, a swift and multi-faceted reaction by management positioned the company effectively to weather market turbulence.

Namdeb's response to the downturn was focused on reducing operating costs and reducing both land and sea production in alignment with reduced rough diamond demand from DTC Sightholders.

Through the implementation of production holidays on both land and sea operations, for four months and two months respectively, Namdeb significantly reduced overall operating costs by an estimated N$1.5 billion (compared with 2008 figures). As global demand for rough diamonds rose gradually in the second half of 2009, a planned additional three-month production holiday at marine operations was cancelled.

Production was limited by the realignment of employee shift patterns in most of the traditional land-based operations and, secondly, by scaling down marine mining. Namdeb relinquished the lease for the Ya Toivo mining vessel and also temporarily ceased operations on the Grand Banks which was due to return to port for a substantial capital upgrade.

In 2009, Namdeb produced 0.3 million carats (2008: 1.1 million carats) from land-based operations and 0.6 million carats (2008: 1.1 million carats) from sea-based operations.

ECOHS overview

Namdeb suffered 5 lost time injuries in 2009 compared with 8 in 2008. Owing to a reduction in the total number of shifts worked the company's LTIFR increased to 0.27 (2008: 0.20). There were no fatalities. By the end of the year Namdeb had recorded 7.5 million fatality free shifts. Vehicle accidents in 2009 were down 69% compared to 2008.

Namdeb continues to invest in the creation of a safe working environment for employees. Programmes such as the alcohol and drug abuse policy and fatigue management plan have proven highly successful. Namdeb will launch a new campaign in early 2010 with a view to sharpening further the company's focus on safety.

Namdeb remains ISO 14001 certified and was successfully audited against OHSAS during 2009.

Outlook for 2010

The strength of the Namibian dollar relative to the US dollar remains an ongoing challenge for the business as it enters 2010. While uncertainty remains as to the longevity of the recent rise in global rough diamond demand, improved sales and selling prices were encouraging at the close of 2009.

Namdeb will continue to increase focus on marine operations in 2010 as production yields from land- based operations fall over time. Notably the land-based production holiday in 2009 is believed to have increased the life of the mine's existing operations by three years.

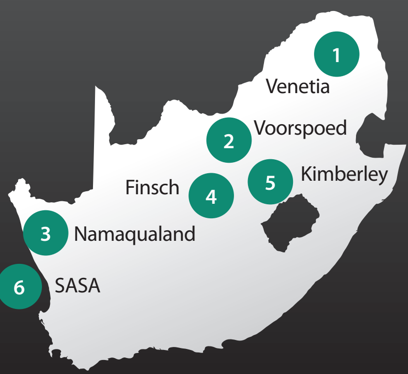
Find out more
www.debeersgroup.com
www.grnnet.gov.na
www.namdeb.com
www.ohsas.org
www.iso.org

De Beers Consolidated Mines

2009 production statistics (000s)

	Tonnes treated	Carats recovered
1 Venetia	2,836	2,204
2 Voorspoed	2,402	532
3 Namaqualand	138	71
4 Finsch	3,249	1,426
5 Kimberley	2,696	397
6 South African Sea Areas (SASA)	N/A	167

74/26 joint venture with Ponahalo Holdings
Established 1888



	Production start
Mining (open pit)	
1 Venetia	1992
2 Voorspoed	2008
3 Namaqualand	1928
Mining (underground)	
4 Finsch	1961
Mining (tailings resource treatment)	
5 Kimberley	1890
Mining (marine)	
6 SASA	2007

David Noko
Managing Director, DBCM

Performance indicators

	09	08	+/–
LTIFR*	0.25	0.16	0.09
LTISR**	5.15	129.46	-124.31
Mining licence area (ha)***	986,560	986,560	0%
Tonnes treated (000s)	11,321	21,832	-48%
Carats recovered (000s)	4,797	11,960	-60%

* Lost time injury frequency rate
** Lost time injury severity rate
*** Hectares

Operating highlights

In 2009, De Beers Consolidated Mines Ltd (DBCM) recovered 4.8 million carats from 11.3 million tonnes treated. The fall in production from 2008 levels, when 12.0 million carats were extracted from 21.8 million tonnes, was instigated as a direct response to a significant drop in DTC Sightholder demand for rough diamonds. Despite challenges faced in 2009, DBCM exceeded its target for carats recovered and tonnes treated by 5%.

With the onset of the global recession, and consequent need to reduce production and operating costs, DBCM implemented a structural review of the business. The review also sought to ensure absolute readiness for an eventual upturn in the market.

DBCM capitalised on its revised production schedule by reallocating underutilised resources to important projects such as eliminating a backlog in waste stripping at Venetia Mine. By late 2009, the waste backlog was reduced by 15.9 million tonnes (35% ahead of target) allowing the stripping completion date to be brought forward to early 2010. At the close of the year, Venetia mine had made a significant contribution of 2.2 million carats towards DBCM's total production.

In September 2009, Voorspoed Mine recovered a record monthly production of 94,000 carats. Total production for the year ended at 532,000 carats, up from 128,000 in 2008.

In 2009, we saw the successful conversion of all DBCM's old-order mining rights into new mining rights. In addition, heavy minerals prospecting rights were executed off the West Coast of South Africa.

Wage negotiations between DBCM management and the National Union of Mineworkers were successfully completed in the second half of the year.

ECOHS overview

The combined LTIFR for DBCM was 0.25 in 2009, compared to an LTIFR of 0.16 in 2008. DBCM suffered no fatalities in 2009. Notably, the Namaqualand mine completed the year without incurring a single lost time injury.

All DBCM mines are ISO 14001 and OHSAS 18001 certified.

Through the Disability Employment Equity Programme, Voorspoed Mine, together with the Ponahalo De Beers Disabled Persons' Trust, successfully integrated the first group of employees with disabilities into the mine.

Outlook for 2010

In 2010, DBCM will invest significant effort in rolling out its Continuous Business Improvement programme aimed at enabling efficiencies in all aspects of the business. The achievement of 'Zero Harm' and cash conservation at all operations is central to this strategy.

Find out more
www.debeersgroup.com
www.ohsas.org
www.iso.org

De Beers Canada

2009 production statistics (000s)

	Tonnes treated	Carats recovered
1 Snap Lake	354	444
2 Victor	2,112	696

100% owned

Established 1998

Jim Gowans
President & CEO, De Beers Canada

	Production start
Mining (underground)	
1 Snap Lake	2007
Mining (open pit)	
5 Victor	2008

Performance indicators

	09	08	+/–
LTIFR*	0.18	0.25	0.07
LTISR**	18	8.95	9.05
Mining licence area (ha)***	7,236	7,236	0
Tonnes treated (000s)	2,466	2,690	-7%
Carats recovered (000s)	1,140	1,640	-31%

* Lost time injury frequency rate
** Lost time injury severity rate
*** Hectares

Introduction

In 2009, De Beers Canada produced a total of 1.1 million carats from 2.5 million tonnes treated. Snap Lake recovered 443,543 carats at a recovered grade of 125 carats per hundred tonnes (CPHT). Victor mine recovered 696,484 carats at a grade of 33 CPHT.

The impact of the global economic downturn necessitated an organisational restructuring exercise at Snap Lake in which staff numbers, production levels and contractor usage was realigned with reduced rough diamond demand levels.

Snap Lake completed a six-week summer shutdown. However, following a rise in consumer demand for diamonds, the planned four-week winter shutdown scheduled for the Christmas period was cancelled.

In December 2009 a two-year ramp-up programme at Snap Lake was announced, with a view to the mine reaching a full annual production of 1.6 million carats by 2012. The project will create an additional 175 jobs by the end of 2010.

The first commercial production run from Victor mine made history in Ontario when diamonds were ceremonially installed into the Legislative Mace.

Owing to reduced client demand however, Victor mine completed a six-week production slowdown over the course of 2009 during which critical repair work was completed on the process plant with additional waste stripping conducted at the pit.

The Gahcho Kué Camp is currently on care and maintenance. Joint venture partners Mountain Province executed an amended and restated joint venture agreement, effective July 3, 2009. The new agreement provides for the full reimbursement of joint venture expenses in the ratio of 51% De Beers Canada to 49% Mountain Province. Project expenditures prior to 2009 were agreed at CAN$120 million, reduced from CAN$184 million, of which Mountain Province's share is 49%. The revised agreement also included the requirement that a Feasibility Study be undertaken. The Feasibility Study is being undertaken by JDS Energy and Mining and is expected to take one year to complete. Mountain Province is solely responsible for funding (CAN$10 million) on behalf of the joint venture.

Exploration continues to focus around the Victor mine with a view to extending the current life of the mine. Focus in 2009 was on the Delta pipe, one of 16 pipes in the Victor cluster, approximately 20km east of the Victor mine.

ECOHS overview

The combined LTIFR for De Beers Canada was 0.18 in 2009, compared to an LTIFR of 0.25 in 2008. Notably Snap Lake achieved 2,451,778 hours worked without an lost time injury (LTI) and Exploration celebrated 4 years without an LTI. De Beers Canada suffered no fatalities in 2009.

Impact Benefit Agreements were signed with the Kashechewan First Nation and Fort Albany First Nation for the Victor mine.

Outlook for 2010

In 2009 De Beers Canada took significant and successful strides to limit the impact of the global economic downturn. To do so required heightened levels of staff ingenuity and deeper relations with our First Nation, government and stakeholder partners.

Looking ahead, the company will redouble exploration efforts on known diamond-bearing kimberlites at the Victor mine and, in the mid-term, is likely to investigate opportunities to expand Snap Lake resources and reserves at depth.

Find out more

www.debeersgroup.com
www.debeerscanada.com
www.ohsas.org
www.iso.org

Diamond Trading Company

DTC
A DE BEERS GROUP COMPANY

Varda Shine
Managing Director, DTC

NDTC
Namibia Diamond Trading Company

DTC Botswana

$3.24bn

2009 sales (2008: $5.93bn)

Operating highlights

In 2009 the Diamond Trading Company (DTC) focused on the employment of a flexible business approach in response to volatile levels of demand for rough diamonds during the year. This agility enabled the DTC to continue making sales, albeit at a reduced level, throughout the economic downturn and to increase levels of supply steadily as demand for rough diamonds began to recover. The DTC closed the year with sales of US$3.24bn versus US$5.93bn in 2008.

DTC Botswana (DTCB), Namibia DTC (NDTC) and DTC South Africa (DTC SA) were all impacted by the economic downturn. In response they focused on operating as flexibly as possible, maintaining key relationships with clients and driving efficiencies throughout the DTC network. As a result, the impact of the downturn on cutting and polishing activities in these southern African countries was contained. By the end of 2009 all southern African Sightholder (client) factories were operational and overall employment numbers in the local cutting and polishing sector were back on the rise and approaching pre-downturn levels.

DTC Botswana, Gaborone

Two key beneficiation agreements were signed during the year. The first of these was for Shrenuj Botswana to become a DTCB Sightholder as the downturn threatened the viability of an existing cutting and polishing factory in Gaborone. The signing of this agreement enabled the factory to continue to manufacture diamonds to benefit the citizens and the economy of Botswana.

Further to the DTC's agreement in Canada with the Government of Ontario to make 10% of the Victor mine production, by value, available for sale to local Sightholders, the DTC signed a supply contract in the province with Crossworks Manufacturing Limited. Crossworks Manufacturing made its first purchase of rough diamonds in July 2009, for cutting and polishing in its Sudbury factory.

Throughout the economic challenges of 2009, the DTC network maintained its commitment to high standards of ethics in the business, social and environmental spheres, ensuring that the De Beers Best Practice Principles continued to be applied across all DTC operations and those of DTC Sightholders.

In the fourth quarter of 2009, the DTC partnered with several Sightholder companies which, in turn, worked with their retail partners in the US, to launch a marketing campaign focused on increasing consumer demand for diamond jewellery over the holiday purchasing season. The campaign, the 'Everlon Diamond Love Knot', centred on a theme of unbreakable bonds. Early feedback has been very encouraging with retailers reporting strong sales performance from the jewellery line.

Outlook

The focus for the DTC in 2010 will be on continuing to increase rough diamond sales in line with demand from Sightholders and identifying further efficiencies and cost savings in the business. The key challenge for 2010 is expected to relate to the uncertainty of global economic conditions and, in particular, the impact this will have on levels of industry liquidity and consumer demand for diamond jewellery in the key US market and, increasingly, the developing markets of India and China.

Diamdel

DIAMDEL™
A DE BEERS GROUP COMPANY

Neil Ventura
Managing Director, Diamdel

468

number of clients worldwide

Operating highlights

The Diamdel Group of companies forms the rough diamond subsidiary of De Beers focusing on sales to non-Sightholders. In 2009 Diamdel sales (including Hindustan Diamond Company) were at a substantially reduced level owing to the impact of the global recession on the diamond market. Demand in the non-Sightholder market deteriorated rapidly during the first half of the year and substantial downward pressure was exerted on rough diamond prices. In response, Diamdel focused on cash conservation and aligning rough purchases with reduced client demand. Diamdel also focused on ensuring enhanced affordability for customers by introducing measures such as reducing auction lot values.

During the second half of 2009, Diamdel witnessed a steady improvement in rough diamond demand and consequent sales.

Throughout 2009, Diamdel has continued to sell a full range of rough diamonds through direct sales and via its online auction channel. This approach has broadened the purchasing opportunities available to registered customers.

In 2009 Diamdel held 14 auctions incorporating the sale of 695 lots. A total of 83% of lots were sold at their first presentation. Auctions attracted bids from around the world with 88 different winners emerging. Participation built steadily over the course of the second half of the year to nearly double that experienced in the first half. Since its launch in January 2008 the online auction platform, an industry first, has attracted bids from 227 different companies of which 134 have been successful. Further development of our auction capability is planned for 2010.

Outlook for 2010

Whilst economic conditions remain challenging, the decisive action taken by Diamdel in response to the downturn in 2009 has positioned the company well to capitalise on what we anticipate will be an improving market in 2010.

Rough diamonds

De Beers Diamond Jewellers

Francois Delage
Chief Executive Officer,
De Beers Diamond Jewellers

40

stores worldwide

Operating highlights

De Beers Diamond Jewellers (DBDJ) is an independently managed retail joint venture with Moët Hennessy Louis Vuitton (LVMH). In 2009 DBDJ consolidated operations following a 50% increase in the size of its directly operated store network in 2008. No new stores were opened in 2009, although DBDJ assumed direct control of the Hong Kong operation from its former partner. The store network is now spread across the US (11), Europe (8), Middle East (4), East Asia (7) and Japan (10).

Like most luxury retailers DBDJ experienced a difficult year of trading in 2009 as the challenging economic environment strongly impacted consumer spending on luxury goods, and the watch and jewellery segment in particular.

Sales of high-end jewellery above US$0.5m continued to see a significant freeze through the first part of the year, showing signs of improvement from September onward. Bridal sales remained resilient throughout the period, increasing 30% on 2008. DBDJ launched a new collection "Enchanted Lotus" in the fourth quarter, with positive initial sales and response from the market. This collection extends the DBDJ entry price offer through a new range of classically inspired jewellery.

Outlook for 2010

The outlook for 2010, while still challenging, is expected to improve over the year. Actions to maximise cash and returns from our existing network and assets are an ongoing focus. Close attention to inventory and overall working capital levels will be continued during 2010. Following a full review of operations, DBDJ will implement a recession recovery plan focussed on further growing bridal and design collections, building on the positive momentum in the latter part of 2009. Multiple initiatives to further build the DBDJ brand and to raise its overall profile as the quintessential diamond jewellery brand are also planned.

Diamond Band from the De Beers Enchanted Lotus Collection

Element Six

Cyrus Jilla
Chief Executive Officer, Element Six

Operating highlights

Element Six (E6) is an industrial diamond supermaterials business, supplying diverse global markets such as oil and gas, mining, construction, automotive, aerospace, defence, electronics, semiconductor and general engineering.

E6 experienced a challenging trading environment throughout 2009 with total sales declining 34% on 2008.

The company's Oil and Gas Division faced a notable decline in sales as natural gas and crude oil prices fell, reducing drilling activity by more than 60% for part of the year. Following a change in leadership at the end of 2008 and a testing operating environment, 2009 was a year focused on restructuring, cash generation and strategic planning.

E6 responded swiftly to the global economic decline by cutting costs, including major plant restructuring, reducing capex by more than 80%, and tightly managing inventory and debtors to generate cash. This approach has driven a more competitive cost base, but also offers better business continuity to customers by ensuring crucial product lines can be manufactured across multiple sites. Restructuring is now complete and no further major changes are planned in 2010.

Following decisive action in response to the downturn, E6 Abrasives, the primary business in the Group, managed to generate a strong cash flow, reducing net debt by almost one third.

In 2009, E6 formulated a compelling new vision and five-year strategic plan. The approach restores focus on E6 as a diamond supermaterials supplier, reorients the business towards continuous product innovation and restates the importance of close customer partnership and service. This vision will support strong structural growth and deliver greater margins through diamond and diamond-like applications.

ECOHS overview

E6 improved its safety record significantly in 2009. The Group LTIFR at 0.11 is down from 0.44 in 2008 but is still considered unacceptably high. E6 is rolling out further group-wide safety programmes aimed at driving a zero-harm culture.

Outlook for 2010

In the second half of 2009, E6 saw demand slowly recover as customers exhausted their inventories and end-user activity increased.

Considerable uncertainty remains as we look to 2010. E6 aims to build on its vision and five-year strategic plan, making 2010 a year of consolidation, capability building and de-risking with a view towards greater long-term profitability and cash generation.