

Economics

If the global economic crisis has underlined the extent to which the diamond industry is key to the prosperity of our producer countries, it has also highlighted the importance of recent efforts to leverage diamond revenues as a catalyst for building strong diversified post-mining economies in these countries.

The deployment of natural resources wealth as a platform for developing diversified economies in Africa requires firstly an effective model for the creation and distribution of natural resource wealth and secondly an effective model for translating this wealth into a robust economic, social and political capital base. The remarkable contribution of diamonds to development in countries like Botswana, Namibia and South Africa owes a great deal to the effectiveness of our partnership model in achieving the former. The year 2008, however, will be remembered across the Family of Companies for the progress made in supporting governments to achieve the latter through beneficiation programmes.

De Beers support for government-led economic diversification efforts in producer countries has focused until recently on local procurement and enterprise development initiatives. Beneficiation by contrast aims to leverage the current pipeline position of producer countries by facilitating the development and promotion of local downstream diamond sorting, cutting and polishing industries that, it is hoped, will endure well beyond the life of existing mines.

While the short-term success of these initiatives will inevitably be impacted by the current economic downturn, the long-term supply and demand fundamentals of the diamond industry bode well for the success of this process.

Highlights

- ◆ De Beers paid US\$6.2 billion (2007: US\$6.2 billion) to stakeholders around the world
- ◆ Payments to partners, joint ventures and suppliers amounted to US\$4.8 billion (2007: US\$4.9 billion). About US\$3.2 billion of this was paid for diamonds and services in Africa (2007: US\$3.6 billion)
- ◆ Payments to employees in Africa amounted to US\$269 million (2007: US\$332 million)
- ◆ De Beers paid US\$1.4 billion in taxes and royalties to governments; 87.9% of this (US\$1.2 billion) was paid to governments in Africa
- ◆ A total of US\$1.1 billion was allocated to preferential procurement in southern Africa and Canada (2007: US\$1.0 billion)
- ◆ More than US\$1.1 billion in rough diamonds was supplied to Sightholders for manufacture in southern Africa (2007: US\$1.0 billion)

US\$1.2 billion
Amount paid in taxes and royalties to governments in southern Africa

“

Gareth Penny, De Beers Managing Director

“For the African diamond producing countries, beneficiation is not optional, not a passing whim motivated by political correctness, but an imperative, an absolutely essential and critical part of their macroeconomic policy designed to uplift their economies to provide education, jobs and healthcare for their people, and to make poverty history.”



Cutting and polishing at the Steinmetz Diamonds facility in Gaborone, Botswana

Issues relevant and material to our stakeholders that are addressed in this chapter

Impact of the global economic downturn	p18
Governance, revenues and taxes	p19
The private sector role in African development	p19
Diversification	p23
Beneficiation	p24
Government partnerships	p26
Local employment and skills development	p28
Planning for closure	p31

Contribution to economies

Revenues from diamonds and other natural resources play a key role in enabling the governments of South Africa, Botswana and Namibia to meet their national development goals. The attainment of these goals improves the lives of citizens through economic growth, poverty reduction and job creation. Mining also contributes to the development of local skills, as well as value-adding business activities that maximise the returns from natural resources.

The current economic slowdown raises a number of challenges for both De Beers and our producer partners. We are working closely with our government partners to implement innovative and country-specific strategies to mitigate the very real economic and human impacts of a longer-term reduction in supply. We are confident of our medium- and long-term ability to build on the already substantial contributions we have collectively made to development in southern Africa.

GDP and export earnings

Diamond mining is the largest single industry in Botswana contributing around 30% of GDP and 80% of export earnings. The country contributes around 25% of global rough diamond production by value. Diamond mining is also the largest single industry in Namibia, where it consistently contributes around 8% of GDP and 40% of foreign exchange earnings. Future production in Namibia is expected to fall, however, due to a decline in land-based operations. Namibia has traditionally accounted for about 6% of the world's production by value.

In South Africa, the diamond industry plays a relatively modest role. Nonetheless, it contributes about 1% of GDP and employs around 14,500 people. This has significant impacts on the economy in terms of export earnings, revenues and employment. South Africa accounts for almost 10% of the world's rough diamond production by value. In Canada, the opening of our Snap Lake and Victor mines in July 2008 contributed to a significant expansion of the country's diamond mining industry. Canada accounts for about 15% of the world's rough diamond production by value.

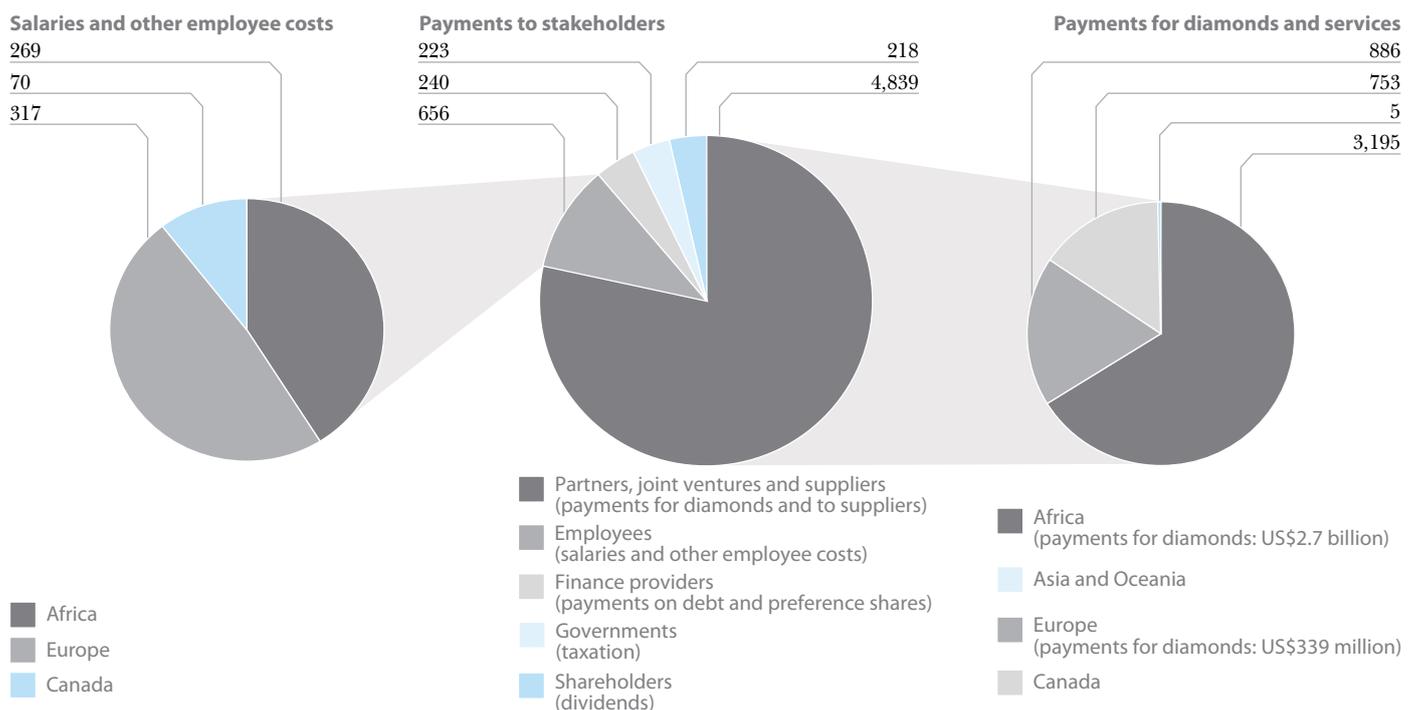
Payments to stakeholders

In 2008, De Beers paid US\$6.2 billion (2007: US\$6.2 billion) to governments, suppliers, employees, shareholders and other finance providers (Figure 2-1). A total of US\$3.7 billion (60%) of this was paid to stakeholders in Africa (2007: 70.7%). Current economics suggest that the value of payments to stakeholders in 2009 will be reduced. Nonetheless, the long-term nature of our presence in southern Africa and Canada means our wider economic contribution in these regions is assured.

Find out more

	www.gov.bw
	www.gov.za
	www.grnnet.gov.na
	www.kimberleyprocess.com
	Operating and Financial Review (p7)

Figure 2-1: Payments to stakeholders, 2008 (US\$ millions)¹



¹ Payments relate to De Beers sa. This includes majority owned and managed companies and excludes Debswana and Namdeb

Taxes and revenues

In 2008, the Family of Companies paid a total of US\$1.4 billion (2007: US\$1.4 billion) in taxes and royalties to governments. A total of 87.9% (US\$1.2 billion) of these payments were made to governments in Africa (2007: US\$1.4 billion). Further indirect tax benefits are generated through payments made by our shareholders, suppliers, contractors, Sightholders and business partners in the diamond value chain.

Botswana and Namibia

Debswana and Namdeb are the largest taxpayers in Botswana and Namibia. Their contributions to government revenues help ensure macro-economic stability and underwrite government capacity to deliver on long-term development programmes. The diamond revenues accruing to the Government of the Republic of Botswana (GRB) include dividend income from its 15% shareholding in De Beers.

Reductions in production in response to demand will inevitably impact on the revenues we pay our host governments. Contributions for 2009 will be lower than for 2008. This lower production is also likely to result in a reduction in the value of dividends paid out by Debswana and Namdeb to the GRB and the Government of the Republic of Namibia (GRN).

The vital role diamond revenues play in the public finances of each country means that any reduction will have consequences on the funding of health, education and other essential public services. Nevertheless the historical revenues generated and managed by our producer partners have meant that they are well positioned to weather the economic downturn relative to other resource-rich countries in Africa. The GRB estimates that it has currency reserves equivalent to roughly 28 months of goods and services. This will help ensure the continuity of key government programmes in spite of reduced diamond revenues.

We are working with our government partners to mitigate the very real impacts that production cuts will have on the citizens of each country. We are also working together to ensure the continued economic sustainability of our mining and sorting operations, as well as the cutting and polishing operations of our local Sightholders. This will ensure Botswana and Namibia are well placed to capture increased medium- to long-term revenues during the economic recovery.

Canada and South Africa

Our contributions to public revenues are relatively less significant in Canada and South Africa than in Botswana and Namibia. The impact of any reduction in revenues during 2009 on public finances and services is likely to be much smaller in these countries, due to our more modest role in the wider Canadian and South African economies.

“

Michael E Porter, Harvard University,
Klaus Schwab, World Economic Forum,
Global Competitiveness Report 2008-2009

“The [Botswana] government has succeeded in using its wealth from key natural resources to invest in factors that have set it on a more sustainable growth trajectory. Among the country’s strengths are its reliable and legitimate institutions, ranking a high 21st worldwide for the efficiency of government spending, 22nd for public trust of politicians, and 26th for judicial independence. Botswana is rated as the country with the lowest corruption in Africa (22nd out of 134 countries). Over past years, the transparency and accountability of public institutions have contributed to a stable macroeconomic environment, and this is one key area of improvement: the government has been running a healthy budget surplus, which is allowing it to reduce debt levels, and inflation has come down from its peak in 2006 as well.”

Find out more



www.weforum.org

Case study

Namdeb uncovers hidden treasure

In April 2008 Namdeb geologists uncovered what may be the oldest sub-Saharan shipwreck ever discovered. All mining operations were halted, and the site secured, when the geologists found copper ingots and the remains of three bronze cannons. Dr Dieter Noli, an archaeologist and expert in the Sperrgebiet, was brought in to review the situation. It is thought that the shipwreck could date back to the late 1400s or early 1500s, making it a discovery of global significance.

The discovery was made inside Namdeb’s Mining Area 1, which is only accessible with permits issued jointly by the Ministry of Mines and Energy and the government’s Protected Resources Unit. This ensured that the wreck remained secure.

After securing the appropriate permit from the National Heritage Council of Namibia, and with the support of Dr Bruno Werzw of the Southern Africa Institute of Maritime Archaeological Research, the site was excavated and the hidden treasure salvaged safely. Objects yielded by the site include six bronze cannons, several tons of copper, more than 50 elephant tusks, pewter tableware, navigational instruments, weapons and thousands of Spanish and Portuguese gold coins.

If the find proves to be a contemporary of the ships sailed by the likes of Diaz, Da Gama and Columbus, it would be of immense national and international interest, and Namibia’s most important archaeological find of the century.

Investment in people and infrastructure

The Family of Companies makes substantial investments in people, businesses and infrastructure wherever it operates. These investments help ensure the short-term operational success of our mines and provide a foundation for the longer-term success of our business and industry in host countries. Our investments take a number of forms including direct equity ownership and the indirect empowerment of host country citizens through preferential procurement (p21), enterprise development (p29) and social investment (p77).

Equity ownership²

All of our mining companies in Africa are part-owned either by governments or empowerment partners. These equity partnerships and the shared sense of vision and responsibility are at the heart of our business model and success in Africa. The continued strength of our joint venture partnerships will be an important asset as every country in the world struggles to weather the global economic crisis.

Botswana

Debswana is a 50/50 joint venture between De Beers and the GRB. It is the world's largest diamond producer by value. The substantial revenues generated by Debswana's mining operations have been instrumental in the transformation of Botswana from an agricultural-based economy in the 1960s to one that consistently displays one of the world's highest economic growth rates. It is also the largest producer of rough diamonds within the Family of Companies. In addition to its holding in Debswana, the GRB also owns a 15% stake in De Beers.

² In December 2008, De Beers announced the sale of its 75% equity stake in Williamson Diamonds Limited

Namibia

Namdeb is a 50/50 joint partnership between De Beers and the GRN. Revenues generated by Namdeb have played a central role in the development of Namibia's social and physical infrastructure since its establishment in 1994. It is also one of the largest employers in the country. Namdeb is increasingly focusing on marine operations in order to maintain production and revenues as land-based production declines.

South Africa

In South Africa, Mining Charter regulations require 26% Historically Disadvantaged South African (HDSA) ownership of all extractive companies by 2014 in order to bring about the effective transformation of the mining sector. DBCM is already 26% owned by Ponahalo Holdings, a Black Economic Empowerment (BEE) company. Ponahalo is 90% owned by HDSAs and 50% owned by DBCM employees and pensioners, with at least 27% overall participation by women.

DBCM has also been active in the divestment of operations to consortia with BEE credentials. In 2008, the Petra Diamonds Cullinan Consortium took control of the Cullinan mine following its sale by DBCM. The consortium is 26% owned by BEE partners including Thembinkosi Mining Investments (Pty) Ltd (14%) and a broad-based Petra employee share trust (12%) (p31).

In 2008, DBCM continued to seek ways to further transform the South African economy and to increase the role played by HDSAs and companies with BEE credentials throughout the diamond value chain. This includes working towards meeting internal BEE targets on management, employment equity, skills development, procurement and social investment. Progress towards these targets is presented throughout this report.

Direct employment

At the end of 2008, the Family of Companies employed over 17,000 permanent and non-permanent personnel worldwide (Figure 2-2 and Figure 2-3). Almost 16,000 (92.3%) of these employees were based at our mines, exploration entities and offices in Africa. The Family of Companies also employed about 6,500 contractors, mainly at its mining operations. In 2008, our employee salaries and other costs including social security, health care and pension contributions, amounted to US\$656 million (2007: US\$644 million). This excludes the employee salaries and other costs paid by our Debswana and Namdeb joint ventures, which are the largest private sector employers in Botswana and Namibia respectively.

While adjusting production to meet lower demand will impact on employment levels across our operations, we are making every effort to minimise job losses by deploying innovative alternatives including redeployments, production holidays and shorter working weeks. We also remain confident of our long-term role in creating local employment.

Figure 2-2: Total workforce at year end by region (permanent)⁴

	Africa	Asia	Europe	Canada	Total
2006	17,604	89	691	260	18,644
2007	17,021	42	566	656	18,285
2008	14,131	21	538 ³	857	15,547

Figure 2-3: Total workforce at year end by region (non-permanent)⁴

	Africa	Asia	Europe	Canada	Total
2006	1,635	0	2	55	1,692
2007	2,274	6	8	42	2,330
2008	1,605	8	12	50	1,675

³ A number of employees at our operations in Europe declined to offer ethnic definitions of themselves, meaning their data has been presented separately from our standard templates. This means we are unable to accurately categorise such employees into permanent and non-permanent categories. As the large majority are likely to be permanent employees, we have classified them as such

⁴ Figures include employees from our joint ventures. They do not include contractors or employees at Diamdel, De Beers Diamond Jewellers or Element 6

Find out more

	www.debeersgroup.com
	www.debswana.com
	www.dme.gov.za
	www.namdeb.com
	www.petradiamonds.com

Preferential procurement

Preferential procurement plays an important role in our strategy of driving economic development in host countries. It promotes diversification and also offsets historical economic inequalities. In 2008, about US\$1.1 billion was allocated to preferential procurement in southern Africa and Canada (2007: US\$1.0 billion).

Debswana

Debswana aims to stimulate local economic diversification by encouraging foreign direct investment, joint ventures with suppliers, Small and Medium Enterprise (SME) development and increasing its expenditure with companies owned by the citizens of Botswana. This forms an important part of our wider strategy of supporting the development of secondary industries and associated opportunities generated not only by our mining activities, but also by local sorting, valuing, cutting and polishing (p23-27).

Procurement spend from citizen-owned and local companies increased from P1.8 billion (US\$293 million) in 2007 to P3.1 billion (US\$478 million) in 2008 (Figure 2-4). About 24.9% (P778 million or US\$119 million) of this was spent with citizen owned suppliers. The significant increase in Debswana spend is partly due to the introduction of a new software platform, the outputs of which will be reviewed during 2009 to ensure consistency of reporting with the past.

Namdeb

The Namdeb BEE Policy provides guidance on how the company can contribute to Namibian transformational requirements and the Vision 2030 National Development Plan. The Namdeb Preferential Procurement Policy gives specific guidance on the identification and prioritisation of historically disadvantaged local suppliers. In 2008, Namdeb spent N\$72.7 million (US\$9.2 million) with Historically Disadvantaged Namibian (HDN) owned, empowered and influenced businesses (2007: US\$7.8 million). This expenditure is likely to increase as the national framework is progressively implemented.

De Beers Consolidated Mines

In 2008, total procurement from HDSA-owned, empowered and influenced companies was R2.1 billion (US\$271 million). This represents 63% (2007: 61%) of DBCM's total discretionary spend of R3.4 billion (US\$439 million). DBCM aims to spend 40% of its procurement costs with HDSA-owned and empowered suppliers. This target was met early in 2008 after it spent R1.8 billion (US\$232 million) with HDSA-owned and empowered suppliers, accounting for 51.7% of total discretionary spend (2007: 37.8%).

De Beers Canada

The Snap Lake and Victor operations aim to include Aboriginal and local businesses in contracting and procurement. In 2008, De Beers Canada procurement spend with Aboriginal suppliers was C\$235 million (US\$218 million). This reduction compared to 2007 (C\$291 million, US\$269 million) is mainly due to the completion of mine construction activity.

Case study

Procurement from Aboriginal groups in Canada

Our efforts to support Aboriginal suppliers reflect our belief in the capacity of diamonds to drive local economic development. Targeted procurement with Aboriginal communities helps create employment opportunities, promotes economic growth and builds a pool of Aboriginal suppliers to assist in the operation of our mines.

In 2007 De Beers Canada spent C\$290.5 million (US\$268.5 million) on Aboriginal procurement. Of this 67.2% was spent at Snap Lake, and 32.8% at Victor. In 2008 De Beers Canada spent C\$235.3 million (US\$217.5 million), with Snap Lake accounting for 56.5% and Victor 43.5%. Examples of recent supply contracts for the Victor mine include:

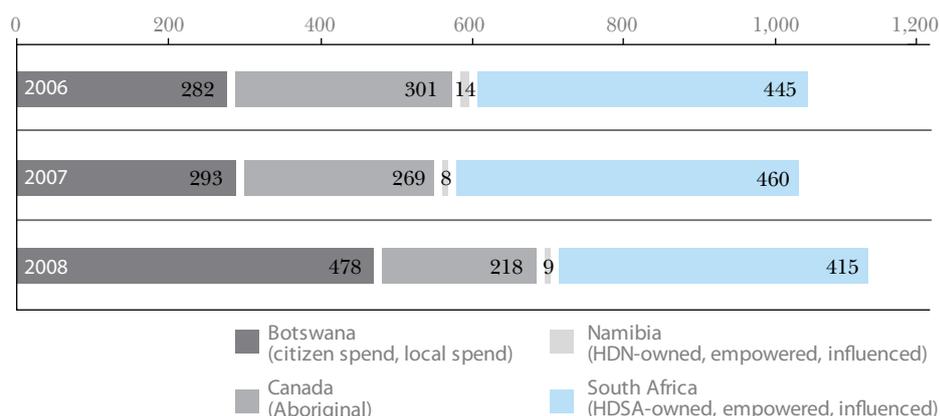
- C\$33.6 million (US\$31.1 million) for site development, road maintenance and contractor management from North American Enterprises Ltd., an Attawapiskat company.
- C\$14.7 million (US\$13.6 million) for air transport services from Air Creebec Inc., a Cree-owned local airline that provides routine, charter and emergency services.
- C\$12.1 million (US\$11.2 million) for welding and other mechanical services from CMS Mechanical – Timmins Division, an Attawapiskat-operated company.

Find out more



www.aircreebec.ca

Figure 2-4: Preferential procurement spend (US\$ millions)



Capital investment

Our capital investments are focused primarily on exploration, the maintenance of existing operations and, where appropriate, expansion programmes at existing mines. Of the US\$403 million of capital investment in 2008, 32.5% (US\$131 million) was made in Africa and 49.9% (US\$201 million) was invested in Canada at our Snap Lake and Victor mines (Figure 2-5). With capital intensive projects such as our Canadian mines having come on-line and with current expansion and exploration programmes having been moderated in the wake of the global economic slowdown, we anticipate capital expenditure in 2009 to be significantly lower than in 2008.

Exploration and major projects

Although the Family of Companies is facing short-term challenges, strategic investment in exploration is vital to the long-term health of the business. Exploration in Africa is in its most advanced stages at our Endiama-De Beers (ENDEB) joint venture in Angola. The advanced exploration project at Gahcho Kué in the Northwest Territories of Canada is ongoing.

Our AK06 joint venture project in the Orapa region of Botswana is being developed by the Boteti Exploration Company, a joint venture partnership between De Beers, African Diamonds plc and Wati Ventures. Although the mining licence was issued for the mine in October 2008, development has been hampered by worsening global economic conditions and the challenge of raising project funding in the current environment. It also faces concerns regarding the availability of a sustainable and cost effective supply of power in the short- to medium-term.

Mining

Diamond mines are often located in remote and inaccessible areas, necessitating the development of new infrastructure. The provision of such infrastructure can benefit local communities and host countries by providing better access to key utilities including education and healthcare.

Three major mining projects were opened in 2008. Our Voorspoed mine was officially opened in November 2008 and is expected to be operational for the next 12-16 years. Both the Snap Lake and Victor mines were officially opened in Canada in July 2008. Together, they are expected to account for around 10% of our revenue and produce 2.5 million carats a year. Production at all operations started in 2008.

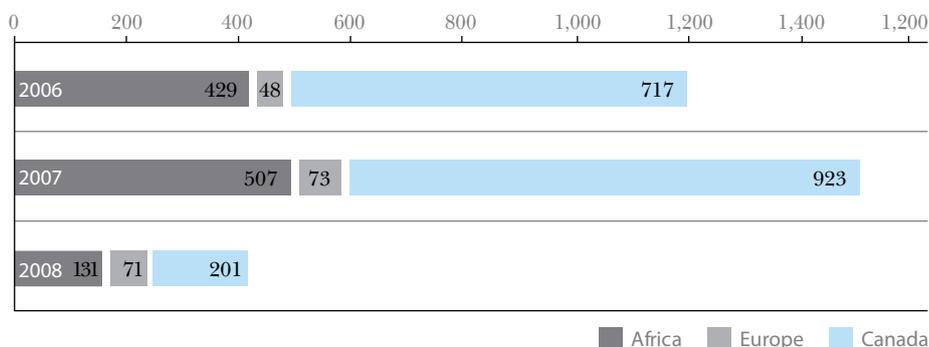
In South Africa, infrastructure provision is often included in our Social and Labour Plans (SLPs) in the form of corporate social investment projects in and around our South African operations (p72). Infrastructure provided under SLPs is focused on improving the socio-economic circumstances of the communities in which we work and are otherwise unconnected to our operational needs.

Find out more



www.afdiamonds.com

Figure 2-5: Capital investment (US\$ millions)



Sustained contributions through diversification

The Family of Companies works with producer country governments as they manage today's diamond revenues intelligently and responsibly to secure a robust and broad-based economic future. This means support not only for economic diversification, but also for good governance to help ensure the equitable investment and distribution of diamond revenues. This responsible investment of diamond revenues by producing country governments is the key to ensuring countries maximise the benefits of diamond resources during the finite life of each mine. Our primary role in this process is to optimise diamond revenues. We do this by developing new deposits, operating efficient mines and diamond distribution systems and driving demand. Through our involvement in large-scale beneficiation projects (p24), diligent closure planning (p31), procurement of local goods and services (p21), direct support for enterprise development (p29) and through technology transfer projects we also assist in economic diversification.

Beneficiation

Beneficiation is the process by which De Beers, through its sales and distribution arm the Diamond Trading Company (DTC), and working closely with government partners, promotes, develops and implements value-adding diamond-related economic activities in producing countries. These activities include the sorting, valuing, cutting and polishing of rough diamonds, as well as local skills development in all aspects of the downstream supply chain to retail. Driving beneficiation is a core part of the sustainability of our business. It offers shared benefits to the Family of Companies, our partner governments and the communities in which we operate. These include local skills development, increased employment, enhanced revenues, diversification and the fostering of a more conducive business environment, thereby helping to optimise the economic returns from diamond resources.

Our investment in beneficiation is long-term. If the diamond producing countries in which we operate are to compete with lower cost cutting and polishing centres such as India and China, they must identify sustainable, competitive opportunities. They would be characterised by the appropriate combination of strong governance, world class skills and facilities, and the maintenance of a favourable and responsible business environment. De Beers is working closely with producer partner countries and Sightholders to ensure that they meet this challenge.

Our contribution to beneficiation is delivered primarily through DTC Botswana (DTCB), Namibia DTC (NDTC) and DTC South Africa (p24) and their respective local Sightholder arrangements in southern Africa, as well as through sales from "DTC International" to Canadian Sightholders.

Case study

Marketing DebTech technology

The role of the De Beers Technical Division (DebTech) is to deliver advanced mining-related technology. This helps sustain De Beers competitive advantage in diamond exploration, mining and ore treatment. The DebTech research and development function manages the entire technology pipeline, from requirement analysis and concept generation, to final design. It tailors products to the operational requirements of De Beers.

DebTech is also active in pursuing commercial opportunities for the sale and distribution of its developed technologies in the wider market – including those related to mining automation, marine mining, diamond sorting and security. These technologies are instrumental in helping De Beers and the wider diamond industry mine deposits responsibly and sustainably. In particular, they help in the recovery of as many diamonds as possible, prevent their theft and minimise damage during the recovery process.

DebTech's role has also resulted in the development and commercialisation of important spin-off technologies. These include the Lodox medical X-ray unit, which is already available to medical practitioners worldwide. This unit was developed from the Scannex body scanner, used by De Beers to deter diamond theft from its operations, and was further evolved by a separate company called Lodox. Its low X-ray dose offers significant advantages in terms of protecting patients from over-exposure to radiation.

Find out more



www.lodox.com



Boipelo Mothoemang in Gaborone, Botswana

Beneficiation in southern Africa

Ensuring diamond producing countries benefit from more of the downstream diamond value chain

What is beneficiation?

Beneficiation is the term used to describe diamond-related downstream activities that add value to locally-mined rough diamonds. It includes:

- Sorting and valuing rough diamonds
- Cutting and polishing rough diamonds
- The manufacture of diamond jewellery

The process of beneficiation, as well as associated capacity-building, is central to our wider strategy of converting natural resources into shared national wealth. It forms part of our contribution to the national development goals of the countries in which we operate.

How does it work?

Beneficiation in southern Africa is driven through three locally established distributors of De Beers rough diamond output: DTC Botswana (DTCB), Namibia DTC (NDTC), and DTC South Africa. In addition, beneficiation is further supported in South Africa through our assistance to the State Diamond Trader. Each of these entities promotes local wealth creation and skills development by:

- Establishing their own local sorting and valuing operations
- Making assortments of rough diamonds available to local Sightholders
- Providing marketing support and expertise to local Sightholders

What is the objective?

The beneficiation process aims to further the strategic interests of both De Beers and its government partners by extracting maximum long-term value from our producer countries' diamond assets. It does this by maintaining and developing local employment opportunities and by developing local skills and capabilities including sorting, valuing, cutting, polishing and jewellery manufacturing. It also acts as a catalyst for further domestic investment from international business.

The long-term aim is to achieve true sustainability within the southern African diamond processing sector.



DTC Botswana

Established: May 2006

Ownership: 50% joint venture with the Government of the Republic of Botswana

Purpose: DTCB makes economically cuttable assortments of diamonds available for sale in Botswana for local cutting, polishing and manufacturing

Activities: Our objective is to supply US\$550 million worth of rough diamonds (equivalent to 3% of GDP) via this channel by the end of 2010. By the end of 2008, more than 3,000 jobs had been created through this process in Botswana.



NDTC

Namibia Diamond Trading Company

Established: January 2007

Ownership: 50% joint venture with the Government of the Republic of Namibia

Purpose: To make diamonds available for sale in Namibia for local manufacturing and to sort and value Namdeb's diamond production as well as encouraging marketing practices

Activities: All of Namdeb's production is sorted and valued at NDTC. Prior to aggregation, 10% by value of this production is directly made available for sale to NDTC Sightholders (NDTC only sells to Sightholders who commit to local cutting and polishing). In addition to this direct supply, our objective is to sell a further US\$230 million of aggregated diamond supply through NDTC by 2010, meaning total sales equivalent to around 5% of GDP.



A DE BEERS GROUP COMPANY

Established: DTC Valuations in South Africa was established in 1974. In 2007 it was renamed DTC South Africa

Ownership: 100% De Beers owned

Purpose: To sort and distribute rough diamonds locally, and to encourage the development of local cutting, polishing and jewellery manufacturing skills

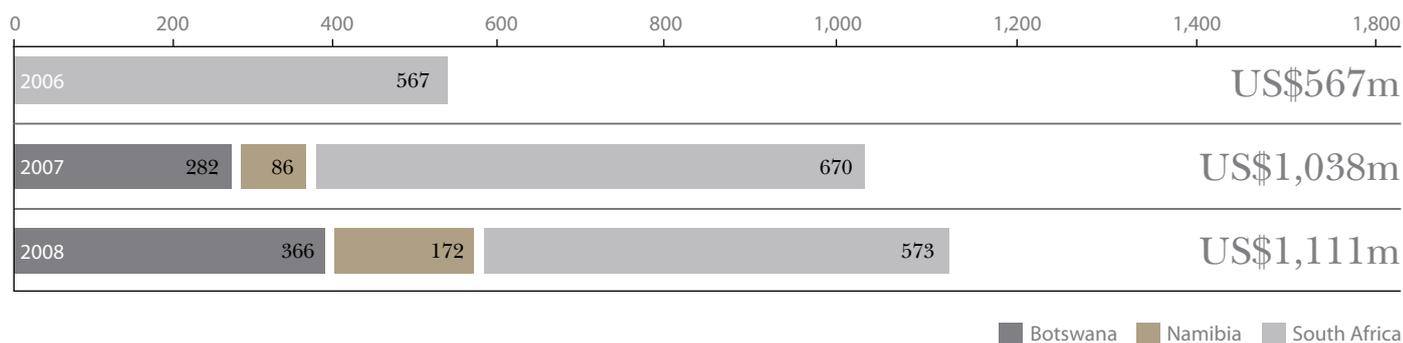
Activities: About 50% of De Beers total production by value in South Africa is sold to the local cutting industry via DTC South Africa and the State Diamond Trader. In 2008, these sales of rough diamonds to South African Sightholders and their BEE partners amounted to US\$573 million (2007: US\$670 million).

“

Sheila Khama, De Beers Botswana CEO

“In Botswana, diamonds are not a luxury, they are bread on the table.”

Figure 2-6: Rough diamond sales to Sightholders in southern Africa (US\$ millions)



US\$1.1bn

Value of diamonds supplied for
manufacture in Africa in 2008



DTC Botswana

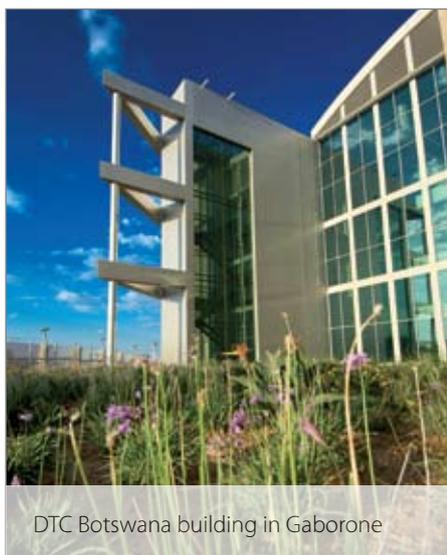
In May 2006, the GRB and De Beers signed three agreements covering the renewal of the mining licences for the Debswana mines for a further 25 years; the sale of Debswana's production to the DTC for another five years; and the establishment of the DTCB joint venture (p24). DTCB's role is to sort and value Debswana's production and to make aggregated rough diamond assortments available for sale in Botswana for local manufacturing. Our objective is to supply US\$550 million worth of rough diamonds for domestic manufacturing in Botswana (equivalent to 3% of GDP) by the end of 2010. By the end of 2008 more than 3,000 jobs had been created through this process.

Strategy

DTCB is a 50/50 joint venture between De Beers and the GRB, similar to but independent from Debswana. It works actively to support the sustainability of a local cutting and polishing industry and the GRB's new economic development strategy. This includes the development of local cutting and polishing capabilities, the promotion of secondary investment by diamantaires and the facilitation of sales to local Sightholders. The strategy also includes the promotion of jewellery manufacture and wider ancillary services such as insurance and banking. DTCB is at the heart of the developing diamond activity in Gaborone and as a consequence plays an important role in the global diamond industry.

Sales

In 2008, diamonds sold through DTCB, sourced from the DTC's global aggregated mix, were made available locally to clients in Botswana for the first time. DTCB was responsible for setting supply eligibility criteria and assessing applicants against those criteria. These comprised mandatory "business hygienics" requirements, such as the ability to demonstrate financial standing and reliability, general business reputation and full compliance with the De Beers Best Practice Principles, and a relative assessment of "business performance" criteria, such as local job creation and rough diamond utilisation in Botswana. The eligibility criteria were largely to ensure successful applicants are in a position to make a positive and long-term contribution to the establishment of a quality-driven, responsible and competitive local cutting and polishing industry.



DTC Botswana building in Gaborone

Applications for supply were made directly to DTCB for client (Sightholder) status and 16 international companies have been awarded three-year supply contracts from 2008. There has been significant progress since then, with 15 of these local Sightholders fully operational during 2008 and one in the process of becoming operational. This has significantly added to local employment and skills transfer, with over 3,000 jobs having been created. The current economic situation is likely to slow progress, however, and DTCB is working closely with its Sightholders in order to maintain the momentum of beneficiation despite difficult market conditions.

“

His Excellency Mr. Festus G. Mogae,
Former President of Botswana

“One of the steps Government has taken to establish Botswana as a diamond trading centre was to agree with De Beers to set up a Diamond Trading Company in Gaborone. By the time I left office sixteen (16) diamond cutting and polishing companies had been granted licenses and about 2,000 people were employed.”

Marketing

DTCB works with clients on marketing initiatives to stimulate local and regional consumption of diamonds and to maintain the integrity of gems as a magnificent and unique product of nature. It is hoped that, through such support, a small and sustainable retail market can be developed in Botswana, focusing on local consumers and tourists.

In 2008, DTCB participated in the Shining Light Awards, inviting local diamond jewellery designers to put forward entries for the event. This was the first time Botswana took part in the prestigious awards, which are intended to help develop skills in jewellery design, spark interest in diamond jewellery within Botswana and showcase designers and jewellery at an international level.

Case study

Local supply agreements in Canada

De Beers Canada has extended the beneficiation model to Canada through the agreement of local supply contracts with the Government of the Northwest Territories and the Government of Ontario. These arrangements ensure a proportion of rough diamond production is made available for local processing and help drive the growth of secondary industries. In July 2008, De Beers Canada and the Government of Ontario signed an agreement that sees 10% of Victor mine production by value being made available to cutting and polishing operations in Ontario. This builds on similar local supply agreements to make available 10% of production by value from our Snap Lake mine in the Northwest Territories as well as the proposed Gahcho Kué project.

Namibia DTC

NDTC, a 50/50 joint venture between the GRN and De Beers, was established in 2007. It aims to create long-term benefit from diamonds through the development of downstream diamond processing and marketing capabilities. The establishment of NDTC also supports the GRN's Vision 2030 National Development Plan.

NDTC's Sightholder selection criteria are designed to select only those companies that deliver on the shared beneficiation goals of the GRN and De Beers, based on an assessment of job creation, rough diamond utilisation in Namibia, local equity holdings and national marketing and branding. There are currently 11 Sightholders operating in Namibia, compounding the positive impact of our local beneficiation efforts.



Namibia: 2007 Article IV Consultation – Staff Report, February 2008, IMF

“Fostering employment growth in the non-mining sectors to reduce unemployment remains a key priority of the Namibian authorities, who view economic diversification from the mineral sector to non-mineral manufacturing, tourism and other services as a significant step in reducing high unemployment. In this regard, they are committed to continue to create a conducive environment and putting in place measures to increase competitiveness, through improved skills and labour productivity. The government efforts of diversification have started bearing fruits as reflected by a growing number of diamond cutting and polishing companies established over the past 3 years.”

A catalyst for wider growth

Up to US\$230 million worth of aggregated diamond supply, and 10% by value of the unaggregated Namdeb production, will be made available locally in Namibia by 2010. This represents almost 5% of Namibia's GDP. The formation of NDTC also acts as a catalyst for wider growth opportunities amongst companies that help support the cutting and polishing industry in Namibia. This includes businesses in the local banking, security and IT sectors. The growth of the downstream diamond sector is also expected to help attract other foreign businesses. NDTC's commitment to beneficiation is also about job creation and skills transfer.

Marketing

NDTC is working to drive consumer demand for diamonds and create a sustainable market for Namibia's diamonds. This includes collaboration with Namibian Sightholders to support local marketing initiatives and create a specific Namibian brand focused on local consumers and tourists. NDTC joined DTCB in the 2008 Shining Light Awards in order to promote local jewellery skills and showcase Namibian jewellery and design.

Find out more

	www.debeersgroup.com
	www.imf.org
	www.shininglightawards.co.za

Multi-Stakeholder Forum

Q How is the global economic crisis affecting the beneficiation partnership between De Beers and the GRB?

A **The current economic downturn has only confirmed the importance of the close partnership between the Family of Companies and the GRB. Our shared interest in a sustainable diamond industry in Botswana, coupled with an enduring relationship now in its fifth decade, has enabled us to meet the challenges associated with periods of reduced demand and revenues.**

Our current focus in Botswana is to support the existing Sightholders that remain critical to our beneficiation activities. A healthy Sightholder community is needed to ensure the viability of the local rough diamond market, the growth of the secondary industry and entrepreneurship.

We conduct regular meetings with the GRB to discuss the potential impact of the global economic situation on mines, diamond sales and energy use. These meetings enable us to develop collaborative mitigation strategies that reduce negative impacts. This kind of relationship offers real advantages to both parties, as it encourages more informed and constructive decision-making about how we collectively respond to the economic crisis.

DTC South Africa

DTC South Africa is helping in the continued development of an integrated domestic diamond industry in South Africa. It does so through local sorting and the distribution of rough diamonds to its Sightholders. Other activities include local skills development and marketing.

In South Africa, the new Diamond Export Levy Act imposes a 5% levy on diamond exports. This is with the aim of using revenues generated by the tax to promote beneficiation activities in South Africa. DBCM has an exemption from the levy as it makes at least 40% of its sales by value available domestically.



Sorting and distribution

In 2008, DTC South Africa sorted and valued 11.9 million carats of diamonds (2007: 14.7 million). South Africa supplied 19 Sightholders for the 2005-2008 contract period and these businesses provide valuable diamond industry employment opportunities. At the start of the contract period, 12 (63%) of these Sightholders had BEE partners. By July 2008, all of the Sightholders had BEE partners in place, in line with new licence requirements.

Skills development

DTC South Africa is helping to develop local cutting and polishing skills. Since its establishment in 1999, about 450 students have graduated from the Harry Oppenheimer Diamond Training School in Johannesburg.

Marketing

Skills development is also promoted through the Shining Light Awards, which were established in 1996 in order to showcase South African design talent. Botswana and Namibia participated in the awards for the first time in 2008. The awards bring together local Sightholders, sponsors, manufacturers and designers to create innovative jewellery. Competitors receive guidance from world experts in diamond jewellery who assist in turning their designs into stunning works of beauty. The winning collection is launched to the public through both domestic and international road shows. DTC South Africa provides five bursaries to educational establishments in South Africa for each biennial competition.

Marketing in South Africa is conducted by Forevermark, a separate business unit within the DTC. It is focused on promoting the Forevermark diamond brand, driving consumer demand for diamond jewellery and maintaining consumer confidence in diamonds (p45).

Find out more

	www.diamond.co.za
	www.dme.gov.za
	www.forevermark.com
	Report to Society 2007 (p38)

Case study

The Namibia Institute of Mining and Technology

The Namibia Institute of Mining and Technology (NIMT) is an autonomous technical institution subsidised by the GRN. Its main campus is in Arandis, central Namibia. NIMT trains boilermakers, electricians, fitters, diesel mechanics and other artisans for the Namibian mining and engineering industry. The institution recently established a satellite campus in the northern town of Tsumeb to meet the growing demand for skilled technicians and increase national mining expertise. Tsumeb is a historically significant mining town.

The inauguration ceremony of the Tsumeb campus was officiated by De Beers Chairman Nicky Oppenheimer and Minister of Mines and Energy Erki Nghimintina in November 2007. During the inauguration, Nicky Oppenheimer announced the creation of the De Beers Namibia Fund. The Fund will act as the main vehicle for De Beers social investment activities in Namibia. NIMT was the first beneficiary of the Fund, which provided N\$2.1 million (US\$265,000) to enable the acquisition of buildings for the Tsumeb campus. In its first year, the Tsumeb campus enrolled 64 students. This number is expected to grow to 214 students by 2009. De Beers funding is intended to support the growth of skilled Namibians entering the local and regional mining industry. This in turn helps promote the sustainability of the Namibian mining sector.

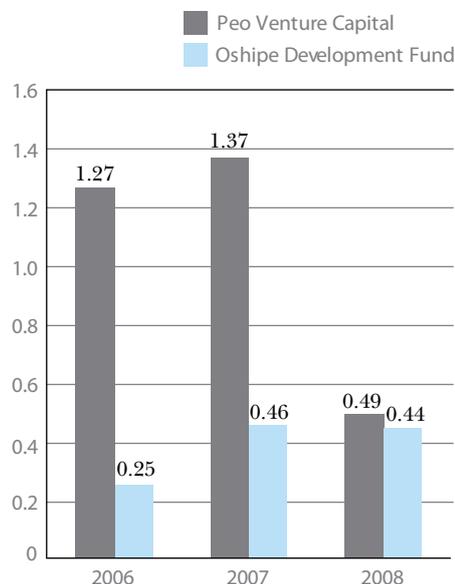
Enterprise development

The Family of Companies operates investment funds in Botswana, Namibia and South Africa. These funds support enterprise development, employment, economic diversification and alternative livelihoods that last post-mining. In addition to investing capital, the funds provide the companies they invest in with advice and mentoring. This includes skills development relating to project and personnel management, finance techniques and business procedures. The provision of skills development is vital to avoid the high failure rate typically associated with small businesses.

Peo Venture Capital

Peo ("seed") is a 50/50 joint venture between Debswana and De Beers Botswana. Since its inception, Peo has assisted in the establishment of 59 businesses and has invested a total of P36.1 million (US\$5.5 million). It has created employment for 1,305 Batswana. About 87% of businesses in the Peo portfolio are profitable. Peo is managed by De Beers Botswana with guidance and support from the Debswana supply chain function. These links help Peo to ensure alignment with the Debswana Citizen Economic Empowerment policy and local procurement guidelines.

Figure 2-7: Investment in enterprise development (US\$ millions)



Okawe Vegetables produces fresh vegetables in Oranjemund, Namibia

In 2008, Peo invested P3.2 million (US\$491,000) in the expansion of three supported companies: Crittal-Hope, Mamasi and Carnation. Crittal-Hope is a window and door frame manufacturing project that Peo has supported from an early stage. Peo's further injection of investment in 2008 was to help the company respond to the high demand for its products. Mamasi is a project to provide accommodation for tourists, as well as related attractions. Peo's funding for Mamasi in 2008 was to help the company increase the number of vehicles and boats available for game and boat drives while the Carnation investment was to assist the company to execute the second phase of the Lumwana mining town construction project in Zambia. The Peo annual investment level was significantly lower in 2008 in comparison to other years. This was because the company reviewed its investment strategy at the close of the year, following depletion of the initial P40 million (US\$6.1 million) capital injection made in 1997.

Peo built upon plans to increase its visibility by holding its first Peo Day in August 2008. The theme for this year was "Outsourcing as a Driver of Business Opportunities". The event also helped Peo ensure the close alignment of its activities with national policy.

Oshipe Development Fund

Oshipe is a wholly owned subsidiary of Namdeb. Its mission is to promote and facilitate sustainable business development and the growth of SMEs. Preference is given to SMEs owned partly or wholly by previously disadvantaged Namibians. Since its inception in 2005, Oshipe has made 14 investments worth a total of N\$8.5 million (US\$1.1 million) in 11 projects in Namibia. Oshipe provides financial assistance either through loans, or a 26-49% equity investment coupled with a loan. Where an equity investment has been made, Oshipe is represented on the Board of that company for the duration of that investment.

During 2008, Oshipe reoriented its strategy to make investments only in the Karas Region of Namibia, with particular focus on the towns of Oranjemund and Lüderitz, where Namdeb has a mining presence. This included the establishment of a satellite Oshipe office in Oranjemund to facilitate and monitor business opportunities in the wider region. This strategy shift aims to better align Oshipe activities with the Namdeb closure plan, the securing of economic stability in Oranjemund and the promotion of wider regional growth. In 2008, Oshipe invested N\$3.5 million (US\$442,000) in five projects.

De Beers Matlafalang

De Beers Matlafalang (DB Matlafalang) was launched in September 2003 as DBCM's enterprise development vehicle. It facilitates the creation, promotion and expansion of sustainable, HDSA-owned businesses in South Africa. DB Matlafalang primarily focuses on the development of large-scale partnerships with third party experts, financial institutions and other businesses. These partnerships aim to develop sustainable business opportunities in and around mining operations where there is a need for alternative livelihood projects.

In 2008, DB Matlafalang facilitated a joint venture worth R40 million for an on-shore Abalone project at Namaqualand mines. The project, which is operated in partnership with a leading seafood brand, was established as a BEE company and will be staffed mainly by local employees. DB Matlafalang and Conservation International co-funded conceptual and prefeasibility studies for "The Living Edge of Africa Project" (LEAP) that hopes to transform a diamond mining area with an uncertain future into a carbon neutral economic development zone (p74). The intention of LEAP is to create a high number of permanent jobs while generating renewable power, producing an abundance of food and fresh water and restoring globally important biodiversity. DB Matlafalang assisted the Namaqualand Restoration Initiative, under the auspices of the University of Cape Town, with the creation of a BEE SME that is assisting Namaqualand Mines with community plant restoration works. The SME employs 15 people (mainly women) from the local community.

Find out more



www.conservation.org



www.uct.ac.za



Report to Society 2007 (p85)



The Cullinan mine was sold to Petra Diamonds in July 2008

Case study

Sale of the Cullinan mine to Petra Diamonds and BEE partners

In July 2008, the Petra Diamonds Cullinan Consortium took control of the Cullinan mine following its sale by DBCM. The consortium is made up of Petra Diamonds Limited (37%), Al Rajhi Holdings W.L.L. (37%) and BEE partners (26%). The shares of the BEE partners have been funded by Petra and Al Rajhi and are to be repaid from future cash flow from the mine. The BEE partners include Thembinkosi Mining Investments (Pty) Ltd (14%) and a broad based Petra employee share trust (12%), underscoring Petra's belief in employee participation.

The sale forms part of DBCM's portfolio review process, which will allow it to concentrate on newly developed projects such as South African Sea Areas and the Voorspoed mine. Petra has an established track record for the effective management of more marginal deposits. Its specialised portfolio, skills and experience are expected to ensure the long-term profitability of the mine. Petra is also known for its social initiatives, as well as best practice environmental standards. The sale of Cullinan to Petra is expected to help secure a sound and sustainable future for this historic mine, with long-lasting benefits for the local community.



Gareth Penny, De Beers
Managing Director

"The sale of Cullinan mine is part of our ongoing drive to position De Beers for long-term growth by reviewing our portfolio of mining assets and focusing on those with the best strategic fit. As we build the De Beers of the future we are also creating new opportunities for other players in an increasingly diversified and competitive global diamond industry."

Find out more



www.alrajhiholding.com



www.petradiamonds.com

Planning for closure

All of our mining operations have partial or complete closure plans in place (p75, p85). Provisional plans are developed as part of the impact assessment process for all new operations and are progressively reviewed throughout the lifetime of the mine in cooperation with employees and stakeholders. We have also sought to carry out concurrent rehabilitation as we operate. This helps limit post-closure liability from the outset. Complete scope closure plans include measures to address socio-economic and environment issues such as labour transition, employee skills training, enterprise development, social investment and rehabilitation.

Mines nearing closure

Our Finsch, Namaqualand and Namdeb land-based operations have the most developed mine closure plans. The Oaks mine, which stopped production in July 2008, was subject to an accelerated closure plan using the Anglo American Mine Closure Toolbox (p85).

As a minimum, closure plans ensure legal compliance and the remediation of environmental impacts. They also aim to ensure positive contributions to the livelihoods of employees and communities post mining. The plans include measurable and time-bound performance targets developed and agreed with stakeholders in areas such as employee relations, socio-economic developments, rehabilitation or biodiversity. Regular reviews of the mine closure strategies are completed with employees and other stakeholders including government, unions, local communities and relevant civil society organisations.

Divestments

Where the Family of Companies makes divestments, a status report is jointly prepared with the purchaser. This report aims to identify potential liabilities in relation to a minimum set of closure planning requirements and relevant national legislation. This includes largely physical and environmental criteria. These liabilities are formally catalogued and benchmarked through an independent State of the Environment Report. The cost of addressing these liabilities is factored into the sale price of the operation.

In July 2008 the Petra Diamonds Cullinan Consortium took control of the Cullinan mine in South Africa. This followed agreement of a R332 million (US\$42.8 million) environmental rehabilitation guarantee in 2007, to ensure effective rehabilitation by the consortium post acquisition.

In December 2008, De Beers announced the sale of its 75% equity stake in Williamson Diamonds Limited, the operator of the Williamson mine in Tanzania, also to Petra Diamonds. The mine, which was operated as a joint venture between the Government of the United Republic of Tanzania and De Beers, was running at a loss primarily due to low ore grades. Petra was selected due to its reputation as a responsible and technically competent miner and its proven ability to reinvestigate loss-making operations.