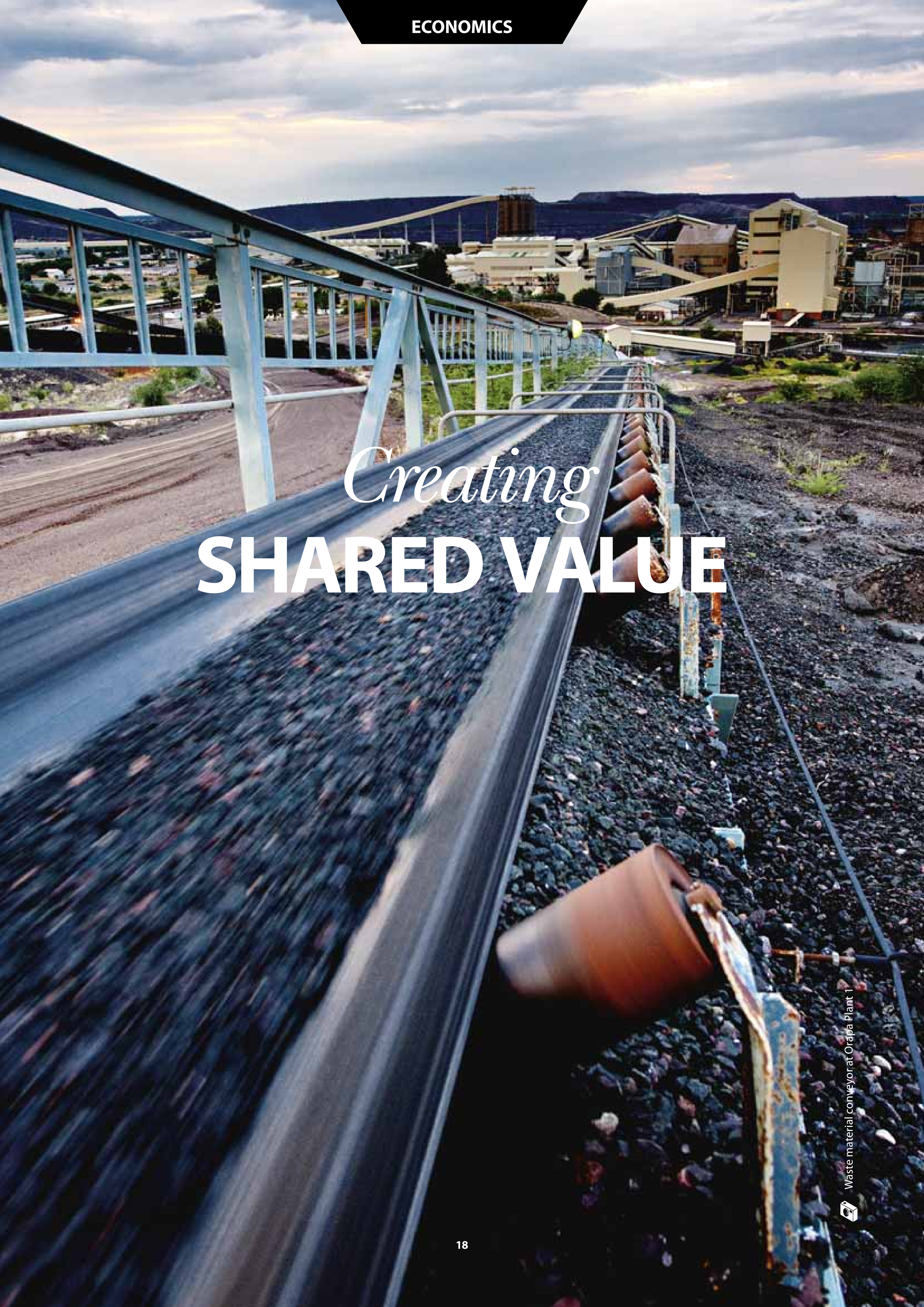
Creating SHARED VALUE



Waste material conveyor at Orapa Plant 1

DIAMONDS *have contributed* SIGNIFICANTLY TO THE DEVELOPMENT *of Botswana, Namibia and South Africa, but their* FINITE NATURE POSES A RISK *to long term* ECONOMIC DEVELOPMENT.

WITH DEMAND FOR DIAMONDS RISING AND EXISTING ASSETS PEAKING, the De Beers Family of Companies is increasingly focused on maximising both the life and value of its diamond resources. Doing so will help realise the full value of our diamond resources and help our producer partners build a stronger foundation for sustainable economic growth that will endure beyond the life of existing mines.

Economics

As diamonds are a finite resource, the sustainability of diamond mining is ultimately measured by its ability to catalyse economic and social development that endures beyond the life of a mine.

All too often the 'resource curse' has hindered the development of resource-rich nations. De Beers' approach to supporting development is to work in partnership with host governments to create shared value from diamonds. Our partnership approach extends to national and local communities in our producer countries. Working in this way maximises the economic value of our production, reduces our operating risk and helps support the creation of skills and capacities for a diversified post-mining economy.

We use various methods to support economic development in the countries where we operate. We source materials and services from local and indigenous suppliers. We support enterprise development through dedicated investment funds, and undertake traditional social investment projects (for example, supporting local infrastructure, education and health). In beneficiation, we work with host governments to ensure that more of the sustainable value-adding steps of diamond processing, beyond mining, take place within the producer country.

HIGHLIGHTS

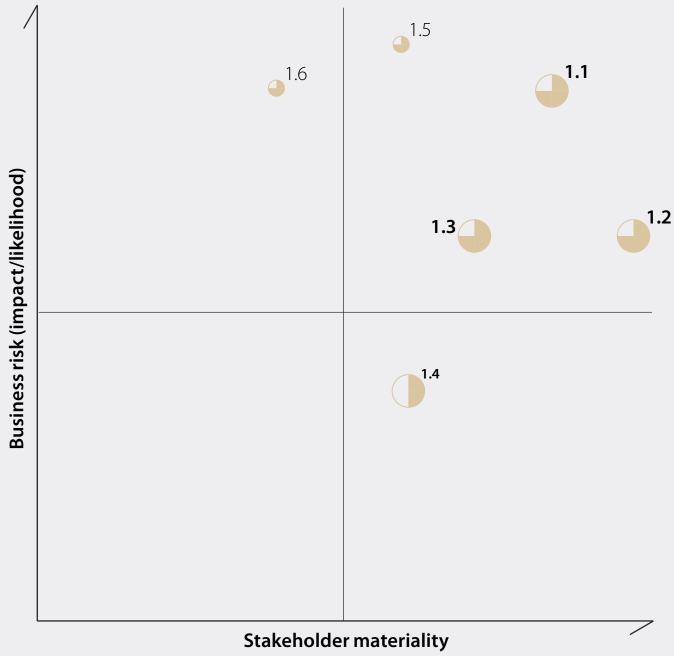
- With a 34% increase in overall production during 2010, the Family of Companies was able to increase payments to stakeholders around the world, including governments, suppliers, employees, shareholders and finance providers to US$5.0 billion (2009: US$3.4 billion) (p22)
- Payments to partners, joint ventures and suppliers amounted to US$4.1 billion (2009: US$2.6 billion). About US$2.9 billion of this was paid for diamonds and services in Africa (2009: US$1.9 billion). Payments to employees in Africa amounted to US$215 million (2009: US$204 million). De Beers paid US$1.2 billion in taxes and royalties to governments (2009: US$782 million). Of this, 93% (2009: 88%) was paid to governments in Africa (p25)
- A total of US$1.12 billion in rough diamonds was supplied to Sightholders for manufacture in southern Africa (2009: US$579 million) (p28)
- Approximately US$715 million was allocated to preferential procurement in southern Africa and Canada (2009: US$611 million) (p29)

"The long term public-private partnership between De Beers and the Botswana Government, in the form of Debswana, has stood the test of time. Debswana has played an important part in Botswana's emergence as a middle-income country, and the country's commendable achievements in economic growth, infrastructure development, education and health care are evident. The lessons relating to the benefits of cooperation continue to be applied by the Government in other fields."

Linah Mohohlo
Governor of the Central Bank of Botswana
and member of Debswana Board

Economics risks

In this chapter we report on Economics risks identified as most relevant to the De Beers Family of Companies and our stakeholders. We identify and categorise our sustainability risks through ongoing engagement with stakeholders and our internal management processes (see p11-17).



1.1 ***Maintaining value for producers****
Risk: Diamonds generate revenue for our producer partners for the life of our mining activities. Used productively, these revenues are a catalyst for sustainable development and longer term economic value creation. Ongoing economic uncertainty in global markets highlights the need for resources to be managed prudently. In producer countries the clear communication of De Beers' role in creating long term value from diamond revenues is essential to maintaining our reputation and licence to operate.

1.2 ***Governance and revenue transparency****
Risk: Strong governance and transparency underpin the reputation of diamonds, and ensure that diamonds help to drive local development. Weak governance systems undermine the maximisation of diamond resources and their equitable distribution. The significant role De Beers plays in host country economies means transparency is vital.

1.3 ***Success of beneficiation****
Risk: Ongoing economic uncertainty can significantly impact on the success of downstream diamond sorting, cutting and polishing, local procurement and enterprise development schemes in producer countries.

1.4 ***Driving local growth, diversification and capacity building****
Risk: Operations that are not managed to maximise their contribution to local growth and capacity building undermine the company's licence to operate and the diversification of the economy that will ensure long term economic stability and viable post-mining futures.

1.5 *Driving and maintaining demand*
Risk: As a key player within the diamond sector, the Family of Companies seeks to maintain consumer confidence and drive demand for diamonds in key markets around the world. This means ensuring consumers will continue to associate our diamonds with the highest standards of quality and integrity.

1.6 *Access to new reserves and sustainable relationships in new territories*
Risk: With no new major diamond discoveries in over a decade outside of Zimbabwe, and global demand predicted to outstrip supply, access to new reserves is crucial to the sustainability of the business. Likewise, our ability to build sustainable relationships with future business partners is critical to our security of supply.

KEY: Long term Medium term Short term

* Our management approach to the risks that are asterisked and marked in bold are reported on in this Report, and summarised in its counterpart Summary Review.

Maintaining value for producers

Risk: Diamonds generate revenue for our producer partners for the life of our mining activities. Used productively, these revenues are a catalyst for sustainable development and longer term economic value creation. Ongoing economic uncertainty in global markets highlights the need for resources to be managed prudently. In producer countries the clear communication of De Beers' role in creating long term value from diamond revenues is essential to maintaining our reputation and licence to operate.

Diamond revenues represent our single biggest economic impact, providing a catalyst for activity and investment in producer countries. They result in multiplier effects that maximise the economic value of the recovery and sale of diamonds, and support the development of infrastructure and capabilities that will continue to deliver value beyond the life of the resource.

A strong recovery in the market yielding greater payments to stakeholders

The strong recovery in the rough diamond market in 2010 saw an exceptional financial year for the Family of Companies (see p6-8), with an increase in total sales of rough diamonds of 53% (2010: US$5.9 billion, 2009: US$3.8 billion). With this improved financial performance, government revenues and other disbursements in our countries of operation increased.

In 2010, strong demand from DTC Sightholders saw the price for rough diamonds grow by 27% over the year, surpassing pre-recession highs of 2008. This growth was driven by increasing consumer demand for retail jewellery, particularly in the emerging economies of India and China.

In line with this growing demand, we increased total production levels by 34%, at the same time maintaining the lower cost base and leaner workforce we achieved in 2009 following the economic downturn.

In 2010, De Beers paid US$5.0 billion (2009: US$3.4 billion) to governments, suppliers, employees, shareholders and other finance providers (See Fig. 9). These disbursements represent 85% of our total sales of US$5.98 billion in 2010 (2009: 89%). A total of US$3.33 billion (67%) of this was paid to stakeholders in Africa (2009: 64.4%).

Our impact in producer countries in 2010

Our role in supporting economic development varies from country to country, depending on the nature of our operations and the scale of each country's economy (see Fig. 10, p23).

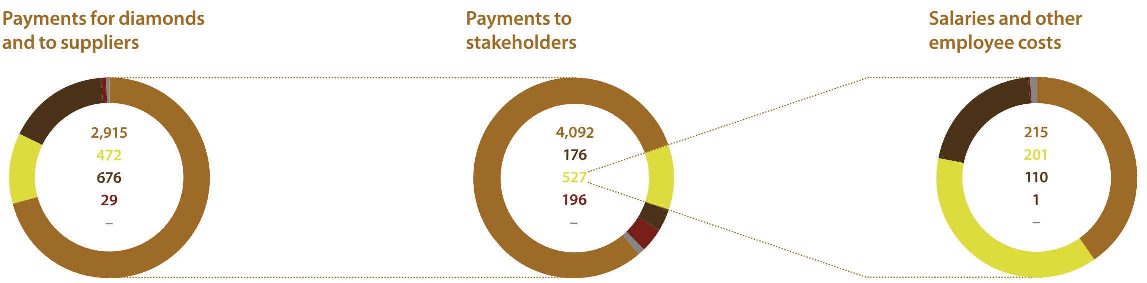
"...when you buy a diamond from De Beers, part of that money still today goes to help build and maintain roads and clean water systems in Botswana. You can drive anywhere in that country and you can see services that have been paid for by a legal framework, strong regulations, and a political consensus that the money from the earth and its riches should be spent on the people of Botswana."

Hillary Clinton
Secretary of State of the United States of America at a press conference in Abuja, Nigeria, 12 August 2009

Hillary Clinton, US Secretary of State

Fig. 9

Payments to stakeholders, 2010 (US$ million)



Payments for diamonds and to suppliers: Africa; Europe; North America; Asia/Australia; Middle East and Other

Payments to stakeholders: Partners, joint ventures and suppliers (payments for diamonds and to suppliers); Finance providers (payments on debt and preference shares); Employees (salaries and other employee costs); Governments (taxation); Dividend payments to minorities

Salaries and other employee costs: Africa; Europe; North America; Asia/Australia; Middle East and Other

Botswana

Diamond mining is the single largest industry in Botswana. Revenues from the industry transformed Botswana from one of Africa's poorest countries, when it achieved independence in 1966, to one of Africa's richest per capita by the 1990s and a widely admired example of progressive African development.

Over the last 10 years the diamond sector has contributed about 30% of total Gross Domestic Product (GDP) and 80% of total export earnings. It is also the primary source of government revenue. Botswana is the world's largest diamond producer by value, producing 21% of global output.

A joint venture between De Beers and the Government of the Republic of Botswana (GRB), Debswana is the largest producer of rough diamonds in the Family of Companies, as well as Botswana's largest taxpayer. The GRB also receives dividend income from its 15% shareholding in De Beers sa. Roughly four dollars out of every five generated by Debswana is accrued as government revenues for the benefit of the people of Botswana.

Our activities in 2010

In 2010, we began work on Cut-8, the US$3 billion extension to Debswana's Jwaneng Mine. The extension will provide access to approximately 100 million carats of mainly high quality diamonds, which could be worth in excess of US$15 billion over the life of the mine. Cut-8 will also extend the life of Jwaneng to at least 2025, and is expected to create approximately 1,400 new employment opportunities.

In 2010, Debswana mined 22.2 million carats (2009: 17.7 million carats) at its open pit operations.

Namibia

Diamond mining is a major industry in Namibia, contributing around 8% of GDP and 40% of export earnings over the past decade. Approximately 6% of the world's rough diamonds by value are mined in Namibia.

Our operations in Namibia are run by Namdeb, a 50/50 joint venture between De Beers and the Government of the Republic of Namibia (GRN). It is the country's largest taxpayer, and one of the largest private sector employers. Since its establishment in 1994, Namdeb has generated vital revenues that have been central to the Government's development efforts.

Diamond mining by the Family of Companies takes two forms in Namibia: land-based and marine. Marine mining is conducted by De Beers Marine Namibia, which is owned by De Beers and the GRN.

Our activities in 2010

In 2010, Namdeb's land-based operations liberated 0.5 million carats (2009: 0.3 million carats). De Beers Marine Namibia liberated 1.0 million carats over the same period (2009: 0.6 million carats).

Land-based diamond mining operations in Namibia are seeing a long term decline in output due to the relative maturity of operations there. As a result, our marine mining operations will account for an increasing proportion of production and revenues into the future.

Under the current operating model, Namdeb's land-based operations are due to cease by 2014, raising the prospect of potential closure. In 2010, Namdeb's management developed a proposal for extending the life of mine through mining the inner sea shelf. With the appropriate fiscal environment, this plan – called 'Vision 2050' – would enable a US$1 billion investment to potentially extend Namdeb's land-based operations to 2050.

www.debeersgroup.com
www.debswana.com
www.namdeb.com
www.debeerscanada.com

Canada and South Africa

Compared to Botswana and Namibia, the diamond sector plays a more modest role in the South African and Canadian economies. South Africa produces approximately 10% of the world's rough diamonds by value (representing about 1% of GDP).

Although Canada accounts for about 14% of global rough diamonds by value, the sector plays a relatively minor national economic role due to the scale and diversified nature of the economy.

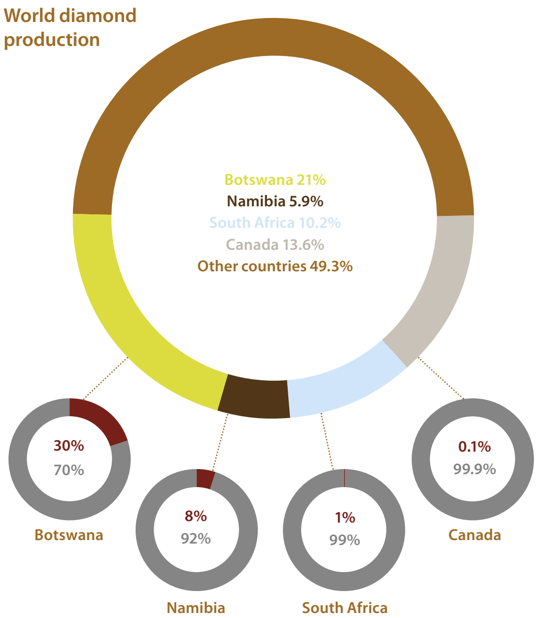
Our activities in 2010

In 2010 our South African mining operation, De Beers Consolidated Mines (DBCM), mined 7.6 million carats (2009: 4.8 million carats). De Beers Canada mined 1.8 million carats from its two mines, Victor and Snap Lake (2009: 1.1 million carats).

In South Africa, we have sold or are selling a number of mining assets. De Beers is specialised to optimise production from new, or mid-life mines. We seek to extend the value and life of these assets, towards the end of their lives, by selling them to operators specialised in generating value and therefore diamond revenues from late-life mines. In 2010, a sale for Jagersfontein Mine was agreed and completed with the Superkolong Consortium, a broad based Black Economic Empowerment (BEE) holding company.

Fig. 10

The role of diamond production in our countries of operation



Approximate proportion of GDP that comes from diamond production
Approximate proportion of GDP that comes from other sources

Data note 3: World diamond production data is based on volume (carat) production and economic information available in the public domain. Non-De Beers carat production data is from publicly available sources only; production values for 'artisanal and illicit' are De Beers estimates, using in-house expertise and knowledge, and these figures are checked against Kimberley Process figures (when available). 2010 estimates for diamond value per carat, made by De Beers, have been applied to the volume (carat) production data to establish the annual production values in nominal USD.

Approximate proportion of GDP from diamond production data has been calculated from publicly available economic data provided by international financial institutions and respective governments, in-house world diamond production calculations (as above), and De Beers Group distributions to local governments and companies.

Case study:

Sale of Jagersfontein Mine

In 2010, almost 40 years after mining activities ceased, DBCM sold the Jagersfontein Mine in Free State province, South Africa. The sale consisted of the Jagersfontein Tailings Mineral Resource (Jagersfontein TMR) and the land the mine is situated on.

From the beginning of the process in March 2010, one of the most important aspects of the sale was to deliver sustainable benefit to the Jagersfontein community. DBCM felt that two critical elements were needed to achieve this:

- Technical and financial skills to successfully create value from the mine tailings; and
- Participation by the Jagersfontein community, not only with employment opportunities and community initiatives, but also through equity ownership of the mine.

The selection criteria for the consortium included:

- Operations – a track record of treating mine tailings in a way that balances value creation with job creation over the life of the mine;
- Environmental – a track record that would ensure the mine site was left in an acceptable condition at end of life;
- Finance – not only for the purchase but also capital expenditure for development and environmental rehabilitation expenses; and
- Community – the consortium had to include a community entity that represented the Jagersfontein community, had trustees appointed by the community, and a suitable governance structure in place to maintain itself.

In October 2010, Jagersfontein was sold to Superkolong Consortium, a broad based Black Economic Empowerment (BEE) holding company that has a number of mining operations. As part of the deal, Superkolong agreed to:

- Technical competence criteria;
- Providing adequate funding to develop the new processing operation;
- BEE equity participation;
- Local employment creation; and
- Significant community-based initiatives.

The Jagersfontein community will also benefit from the establishment of Jagersfontein Community Trust, that will hold 10 percent equity ownership in the new holding company and will receive R20 million (approximately US$3 million) funding to run community projects.

Jagersfontein Mine

Governance and revenue transparency

Risk: Strong governance and transparency underpin the reputation of diamonds, and ensure that diamonds help to drive local development. Weak governance systems undermine the maximisation of diamond resources and their equitable distribution. The significant role De Beers plays in host country economies means transparency is vital.

Through good governance and revenue transparency, our partner governments have been effective in translating the value realised by our mining operations into lasting benefit at both a local and national level.

In doing so they have created a relatively stable and predictable long term operating environment. This has, in turn, enabled our mining and downstream businesses to focus on the challenge of generating maximum value from existing diamond resources.

The clear correlation between good governance, local benefit and operational stability not only underwrites De Beers' approach to partnership, but also informs our direct engagement with relevant public policy issues.

Increasing resource revenues in 2010

In 2010, increasing market confidence led to increased rough diamond sales across the Family of Companies. Our focus on capturing maximum value from every carat we produce also helped drive greater revenues and profit. Increased sales correlate directly to increased revenues for producer countries.

Our investment strategy aims to secure future supply and revenues through capital investments in superior mining assets. We have commenced the Cut-8 extension to Jwaneng Mine (see p23), and are investing in potential future capital projects at Venetia Mine in South Africa and Gahcho Kué in Canada.

Payments to governments

In 2010, the Family of Companies paid US$1.2 billion in taxes and royalties to governments (2009: US$782 million). Of these royalty and tax payments, 93% (US$1.1 billion) were made to governments in Africa (2009: US$688 million). Further indirect tax benefits are generated through payments made by our shareholders, suppliers, contractors, Sightholders and business partners in the diamond value chain.

Extractive Industries Transparency Initiative

De Beers has been a supporter of the Extractive Industries Transparency Initiative (EITI) since it launched in 2003. The EITI supports improved governance in resource-rich countries or those countries predominantly reliant on natural resources.

According to Transparency International, almost all of the countries we operate in demonstrate high levels of transparency, scoring a rating above five in the annual Corruption Perceptions Index. De Beers implements and monitors robust anti-corruption measures across all operations, taking into account the specific risks that are prevalent in countries which score low.

www.eiti.org
www.transparency.org.uk

Stakeholder question:

How does De Beers contribute to public policy development?

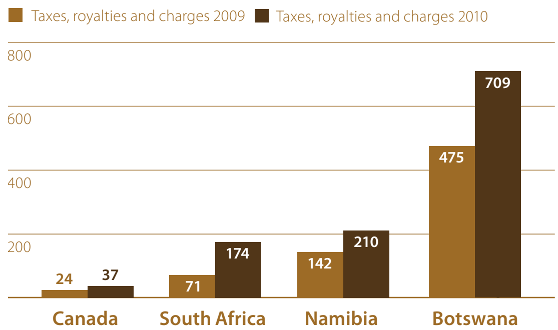
Through our risk-management approach (p16-17) we identify and prioritise public policy issues that are most material to our operations and our stakeholders. Public policy engagement is one part of our stakeholder engagement approach (p14-15). Our approach is multi-faceted, with continuous engagement at multiple levels of the business on a range of issues.

Business and industry bodies, and corporate citizenship initiatives such as the UN Global Compact, provide formal channels through which we engage in public policy discussions. On specific issues we may form partnerships with NGOs to influence the policy debate or public discussion.

We prioritise issues that could impact on the diamond industry, and focus our efforts on offering our technical and other expertise to inform policy development. Given our experience, we feel well placed to contribute to discussions on how responsible business can catalyse economic growth in developing economies, particularly in sub-Saharan Africa.

Fig. 11

Revenue contributions to host governments, 2009 and 2010 (US$ million)



Gahcho Kué exploration site

Success of beneficiation

Risk: Ongoing economic uncertainty can significantly impact on the success of downstream diamond sorting, cutting and polishing, local procurement and enterprise development schemes in producer countries.

Sustainable development through diversification
By their nature, mineral resources are finite. Developing sustainable economies has to involve planning and supporting the development of a broad based, diverse economy that will prosper beyond the finite wealth created by natural resources. For the diamond industry, one way to support this diverse economy is through the process of beneficiation.

How beneficiation works
Following extraction, a diamond passes through a number of processes before it is sold at a retail level. These include sorting, valuing, cutting, polishing and jewellery setting.

Traditionally, very few of these value-adding activities took place in diamond producing countries. Instead, diamonds were exported to established international trading and manufacturing centres such as Antwerp, Mumbai, Tel Aviv and New York for further processing.

Beneficiation is the process by which the Family of Companies works with government partners to ensure that, beyond mining, other value-adding activities take place in our producer countries in southern Africa and in Canada. In so doing, greater economic value is created 'at source', maximising the value derived from diamonds for local economies.

The role of beneficiation in our strategy
Beneficiation is central to our long term economic sustainability strategy and is a key part of our overall value proposition to host countries.

The Diamond Trading Company (DTC), (our rough diamond sales and distribution arm), and our government partners work together to establish successful beneficiation strategies that promote and develop diamond-related activities in producer countries.

Sustainable beneficiation is dependent on several factors (including robust governance, world-class skills and facilities, and the maintenance of a favourable and responsible business environment) and aims to maximise economic returns from diamond resources through:

- National capacity building;
- Increased employment;
- Enhanced revenues;
- Economic diversification;
- Fostering a favourable business environment; and
- Attracting additional economic activity in a sustainable manner.


A


B

A *DTC Botswana headquarters, opened in 2008, Gaborone*
B *Cutting and polishing facility, established by SAFDICO, Gaborone*

Supporting beneficiation

At Group level, De Beers supports beneficiation by offering an agreed proportion of the diamonds we mine for sale to Sightholders (the diamantaire clients of the Family of Companies) within our producer countries for the purposes of cutting and polishing within that country.

Our business units also engage in beneficiation activities at a local level. In 2010, the Diamond Trading Company Botswana (DTCB) donated 300,000 Pula (US$44,000) to the Oodi School of Applied Arts and Technology in Gaborone. The donation will pay for jewellery design and manufacturing equipment for students who will learn creative jewellery design techniques. By enabling skills and knowledge development through this donation, DTC is supporting the diversification of the economy in years to come.

www.diamondintelligence.com

Beneficiation post-recession

In 2009, the global economic crisis severely reduced consumer demand for diamond jewellery, leading to lower levels of diamond manufacturing activity and reducing revenues from diamond processing and manufacturing. In 2010, several factors aided the recovery of beneficiation activity in De Beers' producer countries.

Improved market confidence

The start of the economic recovery in 2010 improved confidence among Sightholders for holding larger diamond inventories at various stages of the supply chain. This has increased the opportunities for diamond manufacturers, including those in our diamond producing countries. Emerging markets, most notably India and China, saw increased consumer demand for diamond jewellery as their economies expanded.

Producer country improvements

Beyond the stimulus generated by improving demand for polished diamonds, beneficiation activity was also helped by operational improvements in De Beers' diamond producing countries in 2010. Improvements in skills, productivity and infrastructure delivered increased competitiveness with the more established diamond manufacturing centres in India and China.

Ongoing challenges

Significant challenges to beneficiation remain. Diamond manufacturing operations depend heavily on continued demand for polished diamonds. The relatively slow rate of economic recovery in the US – the world's largest market for diamond jewellery – and the likelihood of continued economic volatility therefore both represent significant risks.

www.dtc.com

Our beneficiation activities in 2010

Our sales through beneficiation activities, as well as the employment levels in the domestic diamond cutting and polishing industries, recovered strongly in 2010. In Southern Africa, DTC Botswana (DTCB), Namibia DTC (NDTC) and DTC South Africa all saw significantly increased sales levels during the year (see Fig. 12, p28). In Canada, diamonds worth US$60 million (2009: US$15.5 million) were supplied for local manufacture.

In spite of this, the lingering effects of the economic downturn in 2010 unfortunately led to the formal closure of operations for one Sightholder in Canada and one in southern Africa.

Overall winner of the DTC Shining Light Awards in South Africa, designed by Hunadi Tlomatsana and sponsored by Chow Tai Fook

Case study:

Shining Light Awards

Launched in 1996 in South Africa, the Shining Light Awards is one of the DTC's longest running and most successful beneficiation projects. The objective of the Awards is to strengthen the southern African jewellery industry by helping to develop the technical and design skills of southern African designers, and raising global understanding and appreciation of southern African jewellery design.

The benefits of the Shining Light Awards include:

- Finding and encouraging hidden talent in southern Africa;
- Creating opportunities for southern African designers through our design workshops;
- Offering our Sightholders the opportunity to support talent development by sponsoring designers' materials and manufacturing;
- Extending designers' skills by involving them in the manufacturing process, either with jewellery manufacturers locally, or internationally in large cutting and polishing countries like India; and
- Creating international PR opportunities for designers and their Sightholder sponsors.

Forevermark is also a partner of the Shining Light Awards. It contributes judges from Japan, China and the USA, helping to expose international designers to southern African jewellery design.

In 2010, we received 1,255 entries, making a total of over 7,000 entries since the Awards began in 1996. The 2010 Shining Light Awards collection consists of 30 jewellery pieces – 10 designs each from South African, Namibian, and Botswanan designers. The collection is being showcased through the *Forevermark* retail network in Beijing, Hong Kong, Japan and Singapore.

www.shininglightsawards.com

Case study:

DTC Botswana

Incorporated: May 2006. Prior to incorporation, sorting and valuations were undertaken by the Botswana Diamond Valuing Company (BDVC).

Ownership: 50% joint venture with the Government of the Republic of Botswana (GRB).

Purpose: To sort and value Debswana's production, and make economically cuttable assortments of diamonds available for sale in Botswana for domestic cutting, polishing and manufacturing.

Activities: Our objective was to supply US$550 million worth of rough diamonds via this channel by the end of 2010. Although this figure was not met, the US$482 million sales achieved in 2010 (compared with the US$193 million in 2009) represents a significant achievement given the lingering effects of the economic downturn. Discussions around the Debswana sales agreement commenced at the end of 2010.

Local Sightholders: 16

www.dtcbotswana.com

Case study:

Namibia DTC

Incorporated: January 2007. Prior to incorporation, sorting and valuations were conducted by DTC Valuations Namibia.

Ownership: 50% joint venture with the Government of the Republic of Namibia (GRN).

Purpose: To make diamonds available for sale in Namibia for domestic 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. A total of 10% by value of unaggregated Namdeb production is directly made available for sale to NDTC Sightholders together with a proportion of aggregated DTC International mix. In 2010, the total supply through NDTC (including both aggregated and unaggregated supply) amounted to US$225 million, up from US$122 million in 2009.

Local Sightholders: 10

www.dtc.com

Case study:

DTC South Africa

Established: DTC Valuations in South Africa was established in 1974. In 2007, it was relaunched as DTC South Africa.

Ownership: 100% De Beers controlled.

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

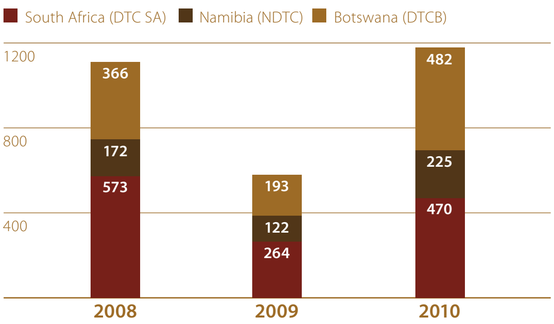
Activities: In 2010, sales of rough diamonds amounted to US$470 million (2009: US$264 million).

Local Sightholders: 13

www.dtc.com
www.statediamondtrader.gov.za

Fig. 12

Rough diamond sales in southern Africa, 2008-2010 (US$ million)



Case study:

Beneficiation in Canada

In Canada, beneficiation is managed directly by the DTC, which currently supplies rough diamonds for manufacture, and provides marketing support to two Sightholders.

Ontario, Canada

Our beneficiation activities in Ontario, Canada, began in February 2009 when locally-based Crossworks Manufacturing Ltd was awarded Sightholder status by the DTC. This followed the signing of a beneficiation agreement between De Beers Canada and the Government of Ontario in 2008.

Under the 2008 agreement, 10% of production by value from the Victor mine is offered for manufacture within the province. Crossworks is currently the only Sightholder in Ontario.

Northwest Territories, Canada

For our Snap Lake Mine, a similar agreement has been in place with the government of the Northwest Territories since 2007. Until the start of 2010 there were two Sightholders in the Northwest Territories. Unfortunately, the ongoing impact of the global downturn led to one of these operations formally closing.

Although Crossworks is now our only Sightholder operating in the Northwest Territories, there have been several expressions of interest from companies considering diamond manufacturing in the territory.

Maintaining momentum
Following the extreme economic challenges of the last two years, the gradual recovery in the global economy and in the diamond industry in particular enabled beneficiation activity to begin growing again in 2010. Employment numbers in diamond processing and jewellery manufacture are nearing pre-crisis levels, and currently total more than 4,000 permanent cutting and polishing jobs in southern Africa.

Following the restricted availability of finance in 2009, diamantaires have been able to access the necessary funding for their activities throughout 2010. The future also looks promising.

The post-downturn environment
In spite of the closure of two Sightholders during 2010, employment numbers in beneficiation activities increased by 22% during the year. This trend was replicated in diamond manufacturing centres around the world, although employment numbers have not yet fully returned to pre-downturn levels.

In 2010, some important developments in diamond producing countries were made in terms of skills, infrastructure and publicity. In February, a US$6 million secure transfer facility for diamonds was completed at the Sir Seretse Khama International Airport in Botswana. This high security facility is extremely important for the efficient import and export of diamonds.

In Namibia, representatives of the Government Diamond Office underwent a programme of training at the NDTC Diamond Academy to improve their diamond skills and thus the operation of the import/export function which is integral to the success of beneficiation.

In Ontario, Canada, DTC Sightholder Crossworks Manufacturing partnered with the jewellery retail firm Birks & Mayors Inc. to generate positive PR for Ontario's beneficiation sector when, at the Toronto International Film Festival, leading Canadian actress Allie McDonald wore a diamond necklace containing 75 carats of rough diamonds from the Victor mine. The jewellery piece was designed and produced by Crossworks.

www.corporates.abnamro.com
www.gia.edu

Future developments affecting beneficiation
Our diamond producing country government partners continue to consider their beneficiation strategies now that the nascent local industries have had time to develop and have experienced an extreme pressure test in the form of the global economic downturn. We will continue to work with our partners to provide sustainable support to these evolving strategies and build on the positive developments thus far.

www.dtc.com

In spite of the closure of two Sightholders during 2010, employment numbers in beneficiation activities increased by 22% during the year.

Driving local growth, diversification and capacity building

Risk: Operations that are not managed to maximise their contribution to local growth and capacity building undermine the company's licence to operate and the diversification of the economy that will ensure long term economic stability and viable post-mining futures.

De Beers works in partnership with producer countries to secure a robust and broad based economic future. In addition to beneficiation we aim to support the development of local economies where we operate through:

- Direct employment and employment of local contractors;
- Preferential procurement from local and disadvantaged groups; and
- Enterprise development and social investment.

These activities present a compelling value proposition to governments in the face of a decreasing supply of diamonds nationally and globally. The sustainability of our operations is therefore not only measured by revenues, but by the contributions of our operations such as generating employment and developing infrastructure that extend beyond the life of mine.

Employment and empowerment
The Family of Companies makes a major economic contribution to our producer countries through the direct employment of local people and the utilisation of local contractors. This includes direct payments in the form of wages and other benefits, as well as a long term contribution through the development of local skills and capacity.

At the end of 2010, the Family of Companies (with the exception of E6 and DBDJ) employed 13,477 permanent and non-permanent personnel worldwide (2009: 13,320). Almost 12,000 (88.9%) of these employees were based in Africa.

Employee salaries and other costs, including social security, health care and pension contributions, grew to US$527 million in 2010, from US$456 million in 2009.

Preferential procurement
Preferential procurement, including from indigenous or historically disadvantaged groups, continues to play a key role in our approach to economic development and economic diversification in host countries.

Table 1: Preferential procurement spend, 2008-2010 (US$ million)

Country	Preferential procurement group	2008	2009	2010
Botswana	Citizen-owned and local companies	US$478 million	US$328 million	US$348 million
Canada	First Nations suppliers	US$218 million	US$86 million	US$94 million
Namibia	Historically Disadvantaged Namibian owned, empowered and influenced businesses	US$9 million	US$14 million*	US$3 million
South Africa	Historically Disadvantaged South African owned, empowered and influenced companies	US$271 million	US$182 million	US$272 million

Data note 4: 2009 procurement figure for Namibia* includes procurement spend by De Beers Marine Namibia, which is not included in other years.

Case study:

De Beers Zimele Hub, Kimberley

In 2009, De Beers established the Enterprise Development Hub in Kimberley, South Africa. The objectives of the Hub are to:

- Develop and nurture commercially viable and economically sustainable businesses;
- Bring about sustainable Black Economic Empowerment through the creation of SMEs; and
- Capacity building and funding SMEs with extensive support, mentoring and guidance.

In 2010, the Kimberley Hub won the best 'turn-around' award for their efforts in increasing the recovery rate and number of successful deals creating small and medium sized enterprises.

Khehla's Radiator Repairs, a De Beers Zimele beneficiary, Kimberley

In 2010, approximately US$715 million was allocated to preferential procurement in southern Africa and Canada (2009: US$611 million). This reflects a significant reduction in overall preferential procurement spend from the pre-downturn levels of 2008.

Enterprise development

We operate investment funds to promote enterprise development in Botswana, Namibia and South Africa, through Peo Venture Capital, Namdeb Foundation, and the De Beers Fund/De Beers Zimele, respectively. These contribute to projects and organisations that aim to support employment, economic diversification and the creation of alternative post-mining livelihoods. They also provide valuable professional advice and mentoring.

Peo Venture Capital

Peo ('seed') is a 50/50 joint venture between Debswana and De Beers Holdings Botswana. It is managed by De Beers Holdings Botswana with guidance from the Debswana supply chain function.

Since it launched in 1997, Peo has helped to establish 60 businesses and invested a total of US$5.2 million (US$4 million in loans and US$1.2 million in equity), creating employment for over 1,300 in Botswana. Having halted all new investments in 2009, Peo divested from two companies in 2010, and reduced the amount under investment to P4.0 million (US$589,000) from P6.0 million (US$884,000) at the end of 2009. In line with this reduction in assets under management, the number of staff employed by Peo was reduced from five to three. During the year, Peo focused on developing a new business model for consideration by the directors and shareholders in 2011.

Namdeb Foundation

In 2010, the Oshipe Development Fund was reconstituted as part of the Namdeb Foundation, along with the Namdeb Social Fund. Formerly a wholly-owned subsidiary of Namdeb, Oshipe promoted the development and growth of small and medium-sized enterprises (SMEs), with preference given to SMEs partly or wholly-owned by Historically Disadvantaged Namibians or those that operate close to our mines.

Last year, the Namdeb Foundation's portfolio consisted of 10 SMEs, of which nine are active and one is in liquidation. In 2011 the funding model was reviewed with the aim of reducing such losses. These SMEs operate in the manufacturing, service and mining sectors of the Namibian economy and experienced growth in the areas of turnover, market coverage and penetration, and employment coverage. SME development continues under the Foundation with a focus on entrepreneurship development as part of a suite of services.

De Beers Zimele

De Beers Zimele is an investment fund that helps to develop Black Economic Empowerment and fight poverty through the creation of sustainable SMEs in South Africa. It provides loan funding, business skills transfer, mentoring and support.

De Beers Zimele focuses on assisting mining communities and impoverished labour-sending areas. Its target is to create 25,000 employment opportunities (both preserved and new jobs) and 1,500 companies in seven years (2008–2015).

In 2010, DBCM invested a total of US$0.5 million in De Beers Zimele which is funding 45 projects in Kimberley (up from six projects in 2009, when the project was established).

Expansion

We are planning a significant expansion of the De Beers Zimele portfolio. A new Hub started operating at Voorspoed in December 2010 and we have a target to create new Hubs in Namaqualand, Venetia, and Element 6 in the first quarter of 2011. Each hub will aim to support at least 30 SMEs per annum.

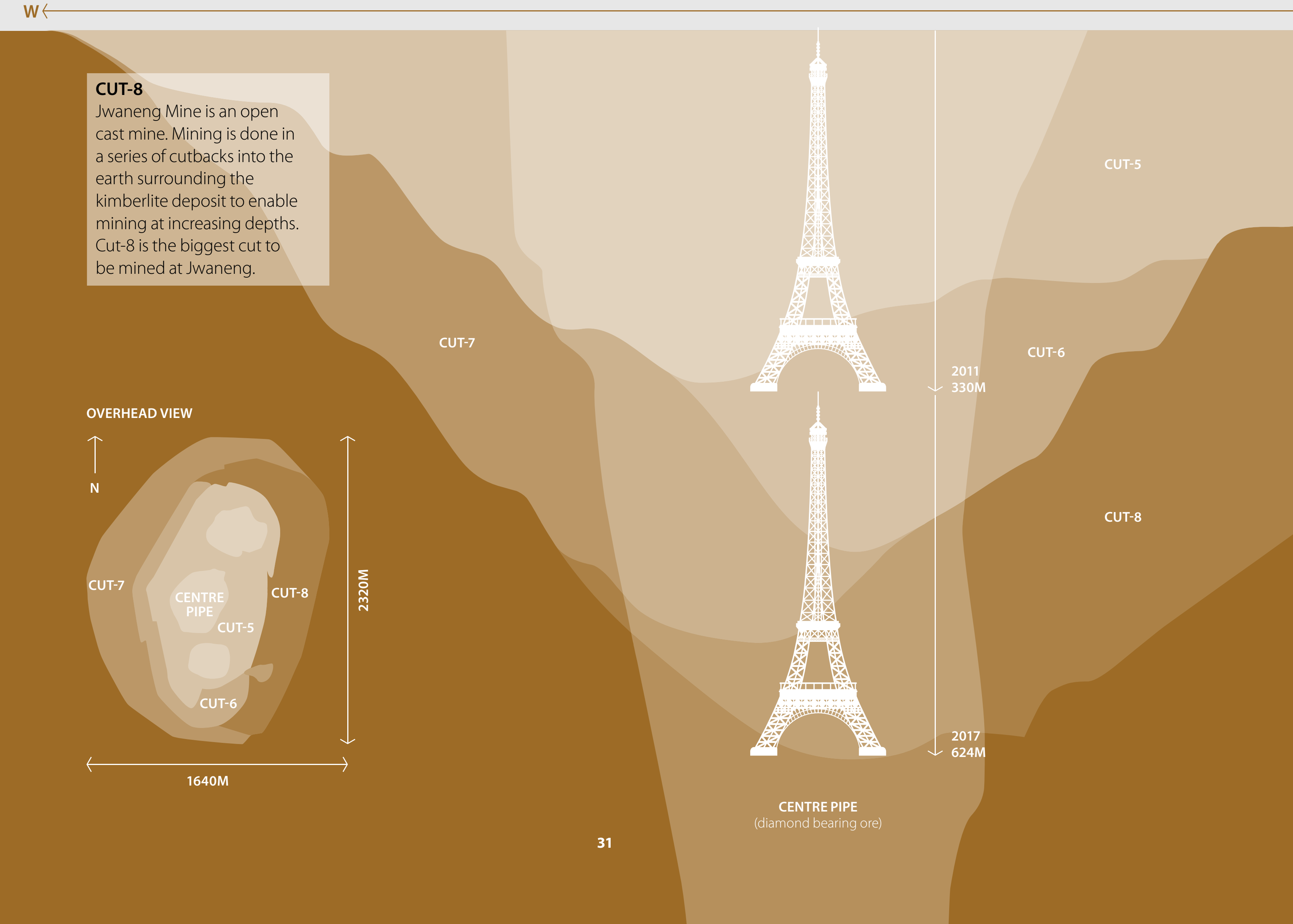
Jwaneng Cut-8

The Cut-8 extension to Debswana's Jwaneng Mine represents an historic landmark in the 41-year partnership between De Beers and the people of Botswana. Diamond mining has played a fundamental role in transforming Botswana to the successful middle-income nation it is today. Diamonds currently contribute around one-third of GDP, and over 80% of foreign earnings. Roughly four out of every five dollars generated by the partnership contributes to government revenues.

Jwaneng is the most valuable of Debswana's mines, contributing 60-70% of Debswana's total earnings. The Cut-8 project will extend the life of the mine to at least 2025. As well as contributing value to the economy it will bring local benefits to the Jwaneng community in the form of jobs, increased business for local and citizen-owned enterprises, and investment in social infrastructure such as housing, schools and hospitals.

Cut-8 will transform Jwaneng into a 'super-pit' – one of the largest open cast mines in the world. It is a huge and technically challenging undertaking. It demonstrates both Debswana's commitment to maximising the life of Jwaneng, and Botswana's ongoing leadership, in turning natural resources into shared national wealth.

CROSS SECTION OF THE JWANENG MINE, BOTSWANA



86% citizens

Jwaneng Mine employs over 2,500 people in normal operations. An additional 1,400 jobs were created by Cut-8 in 2010, 86% of which have gone to Botswana citizens. In addition to providing direct employment, Cut-8 will enable the growth of new businesses and create opportunities for local suppliers through preferential procurement. To date, 51% of contracts awarded in relation to Cut-8 have been to citizen-owned or Botswana-based companies.


A


B

"This, indeed, is a momentous occasion that will go down in the annals of history as one of the major milestones in the continuing development of our country."

HE President Khama,
speaking at the launch of the Cut-8 project, December 2010.

2,000 people

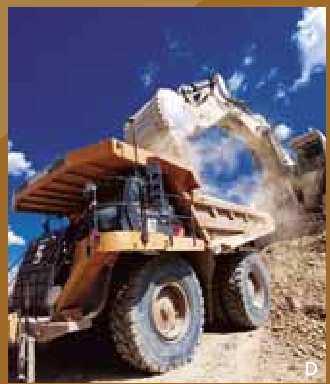
Cut-8 is expected to bring an influx of 2,000 additional people to Jwaneng town and the surrounding villages. To help support a thriving local community Debswana continues to engage in extensive community consultation, and to invest in the upgrade and development of local infrastructure and facilities. The Cut-8 Legacy Project, which encourages contractor companies to fund social investment projects, has already seen several local schools benefit from new classrooms, computers and other equipment. In addition, Debswana is funding a BWP2.2 million (US$324,000) project to extend the pharmacy and out-patient department of the Jwaneng Mine Hospital, built by local contractor, Majoboge Construction. The new facilities will allow better control of health care issues, patient flow, and infection control.


C

US$3 billion in, US$15 billion out

Debswana will invest an estimated US$3 billion in the project over a fifteen-year period. This represents the single largest private investment in the history of Botswana. It includes all project stages – feasibility, design, implementation, and mining operations – as well as the cost of plant and equipment.

In enabling Cut-8 to continue production at current levels, the project will liberate diamonds worth an estimated US$15 billion.


D

700 million tonnes

The scale of the mining operation for Cut-8 catapults Jwaneng to 'super-pit' status. Currently, Jwaneng is mining to a depth of 330 metres. This will increase to 624 metres by 2017. As mining happens at increasing depths it gets more technically challenging, more costly, and requires the removal of ever-greater quantities of waste to reach the kimberlite deposit. Cut-8 will see the removal of three times the amount of waste that is currently being moved, to continue to access the same volume of ore. In total almost 700 million tonnes of waste earth will be moved.

Operating a mine of this size in a cost-effective and efficient way requires a different kind of operating culture and a new set of skills. To meet these challenges, Debswana is investing heavily in cutting edge technology and in the skills and expertise of its people.

A *Employees at Jwaneng Mine.*
B *Pharmacist at Jwaneng Hospital.*
C *Aerial view of Jwaneng Mine.*
D *Waste material being transported.*