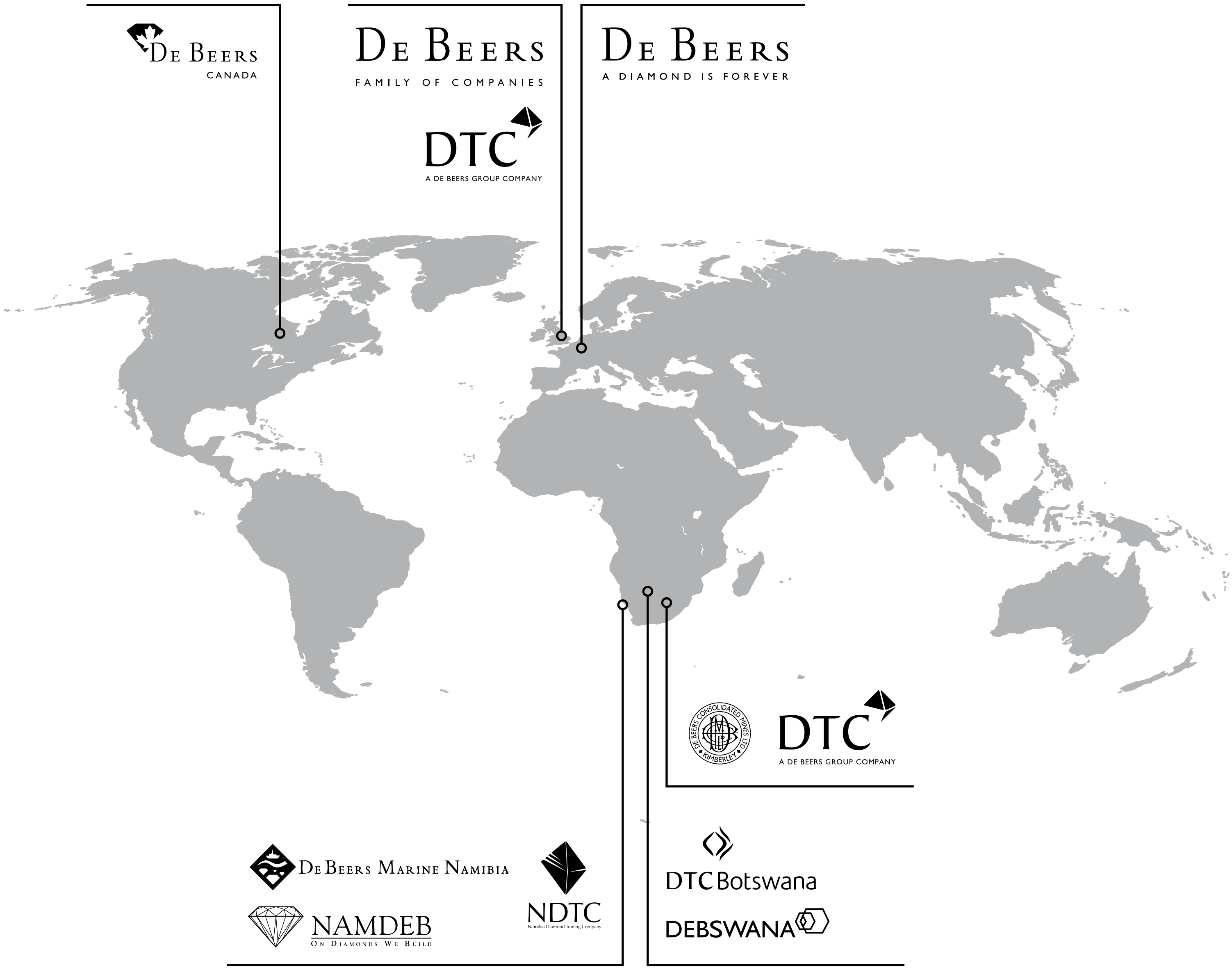
De Beers

FAMILY OF COMPANIES

Report to Society 2009

Living up to diamonds

De Beers was established in 1888 and is the world's leading diamond company with unrivalled expertise in the exploration, mining and marketing of diamonds. From its mining operations across Botswana, Canada, Namibia and South Africa, De Beers produces and markets approximately 40% of the world's supply of rough diamonds.



Coverage

Use of "our" or "we" in this report relates to the Family of Companies. Further information on De Beers, the Family of Companies and scope of this report is included in the Operating and Financial Review 2009.

We believe this report together with the Operating and Financial Review 2009 and its supporting online resources represent an A+ application of the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines. It also forms part of our Communication on Progress to the United Nations Global Compact. A summary of our compliance with the GRI and the 10 principles of the United Nations Global Compact is presented online.

Find out more

www.debeersgroup.com

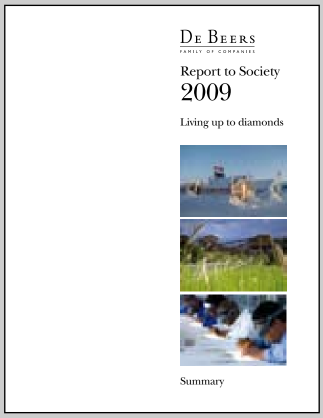
Contents

Further resources
For further information on the De Beers Family of Companies and its sustainability performance, please see the online resources below:

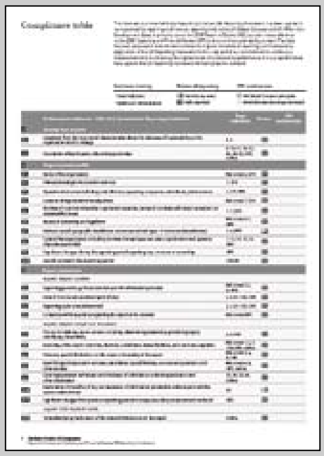
De Beers website

Operating and Financial Review 2009

Report to Society 2009 summary document



GRI compliance tables



Introduction from the Chairman

De Beers has long been an exponent of the positive role of business in driving Africa's development. This is a case we have made with some energy in previous editions of our annual Report to Society. However, the economic turmoil precipitated by the banking crisis in late 2008 has quite understandably raised some questions and concerns about the ability of the private sector to deliver sustained and meaningful growth in developing countries.

Nonetheless, our experience – and that of our producer partners – has reaffirmed our belief that responsibly operated businesses remain among the most effective agents of sustainable development in Africa.

Responding to the economic downturn
In late 2008, as the sub-prime crisis grew into a full-blown global economic crisis, we took a number of decisive steps to ensure the continued health of our business. A significant drop in consumer demand for diamonds in our established markets during the fourth quarter of 2008 fed back into an already highly leveraged and overstocked global industrial pipeline. In response we initiated a comprehensive recession action plan in the fourth quarter of 2008. This plan focused on ensuring that our production levels were properly aligned to rough diamond demand; managing our debt; conserving cash; reducing our operating costs and protecting diamond equity. In practice this involved initiating a series of temporary shutdowns across all of our mining operations, cutting all non-essential expenditure and restructuring a number of business units. These plans were already well underway by January 2009.

The sheer scale of the economic crisis was such that our many stakeholders clearly understood the potential consequences of not taking robust action to ensure the long-term health of the business. As a result they not only accepted the necessity of the steps we took but in some cases facilitated their implementation. Trade unions, our government partners, our contractors and our mining communities demonstrated considerable foresight as they worked with us to implement solutions to exceptional problems in extraordinary times. The cooperation of our stakeholders in taking these steps was a powerful reminder of the extent to which the health of our core business is so vital to the sustainability of the communities and countries in which we operate.

Most regrettable, from a Family of Companies perspective, has been the human cost of the restructuring and delayering programme. Over the course of 2009 we said farewell to many friends and colleagues as we reduced our workforce by 23% to a total of about 13,320. In undertaking the restructuring exercise we took particular care to ensure that we followed a proper consultative process and that those impacted were properly compensated, given appropriate support and were provided with opportunities to retrain where necessary.

Since Botswana has generated on average 40% of its GDP and 70% of its foreign exchange earnings year-on-year over the past decade from diamonds mined and sold in partnership with De Beers, there was some speculation that the economic crisis could undermine the benefits accrued through years of positive economic growth. This did not happen. Decades of prudent fiscal management by the Government of the Republic of Botswana (GRB) meant the country had sufficient foreign currency reserves at the onset of the downturn to ensure no significant disruption in the delivery of key government programmes despite a 4.6% drop in real GDP for the four quarters through to September 2009 and a 10.9% budget deficit after years of budget surpluses. Botswana's ability to cope with the short-term impacts of the economic crisis meant that it was able to take a sufficiently long-term view in evaluating what action was required. As a result the GRB was unequivocal in its support for efforts to reduce production in line with demand over the course of 2009.

Botswana's ability to absorb the considerable drop in short-term diamond revenues in the first half of 2009 reaffirmed our confidence in the positive role business can play in assisting governments to build economies robust enough to withstand and recover from powerful exogenous shocks.

While considerably less dependent on diamond revenues to balance their budgets than Botswana, our partners and regulators in other producer countries showed no less foresight in dealing with the crisis. In Namibia, for example, our government partner agreed to a suspension in royalties and dividend payments from Namdeb to ensure that the company remained cash positive. In both Canada and South Africa, local and national authorities offered no impediment to the effective implementation of our recession action plan.

Sustainability
While we focused primarily on ensuring the Family of Companies' ability to weather the economic crisis in 2009, we nevertheless did so without compromising on our social and environmental commitments. With limited funds to spend on new activities, we maintained a strong focus on the basics throughout 2009. We pushed ahead with our drive for zero harm in respect of health and safety issues; ensured the continuity of our many environmental programmes; maintained the rigour of our Best Practice Principles assurance programme; honoured our social investment obligations and worked hard to maintain honest and effective relationships with our neighbouring communities.

We are particularly proud of the fact that in 2009 there were no fatalities at any Family of Companies operations; a clear demonstration of the success of our programmes focusing on driving accountability for safety throughout the business.

Our focus on ensuring the continuity of our social and environmental sustainability programmes over the past year reflects our continued belief that the strength of our business depends on our ability to anticipate, manage and mitigate long-term risks. It was against the background of the drive for a new global climate change deal (COP15) and the clear risk that climate change poses both to our operations and our communities that we brought our collective focus to bear on the question of climate change and resource security in 2009.

Our sustainability journey

2006
- Principles launched
- Sale of 26% of DBCM to Black Economic Empowerment company Ponahalo
- Development of Energy and Climate Vision and Strategy

2007
- Incorporation of DTC Botswana and Namibia DTC in partnership with each respective government
- Development and implementation of Environment, Community, Occupational Hygiene, Health and Safety policies
- Corruption Perception Survey implemented across the Family of Companies

2008
- DTC Botswana begins operations
- Victor and Snap Lake mines in Canada brought into production
- Launch of new Social Impact Assessment Guidelines
- Social and Labour Plans initiated in South Africa
- Implementation of Biodiversity Overlap Assessments and Action Plans

Energy security and water usage are both significant long-term risks for our business. They also provide windows of opportunity. They are risks to the extent that if we don't manage them effectively they may well undermine the viability of our operations, particularly those in water-stressed areas and those dependent on seasonal ice-roads for logistic support. They are opportunities because there are clear synergies between running a better and more effective business and taking steps to both mitigate climate change – through reducing our fossil-fuel dependency – and to adapt to its impact – through finding more water- and energy-efficient ways of liberating diamonds from kimberlite. Over and above working to find readily implementable solutions to climate change related problems, we are also paying close attention to some more creative approaches to the challenge. One such approach is the viability of using kimberlite tailings – which react with heat and water to lock atmospheric carbon into carbonates – as a tool for carbon capture.

Over the past five years our work to reduce our water footprint at our operations in arid and semi-arid areas, and likewise our efforts to reduce our dependence on centralised energy sources, have paid real dividends. As much as our progress in this area has been pleasing, we have no illusions as to the size of the potential challenge and opportunity here, especially given the anticipated longevity of some of our mining assets.

Defining a "new normal"

In our Operating and Financial Review 2009, I invoked the adage "never waste a good crisis" in reference to how the last year has provided us with an opportunity to rethink aspects of our commercial strategy and reorganise elements of the business accordingly. It bears repeating here to the extent that the restructuring exercise we undertook in 2009 has provided us with the opportunity to hardwire sustainability into our "new normal" and exploit the clear synergies that exist between running a sustainable and responsible business, and a profitable one. Thus, while the "new normal" may well represent a significant departure from past practices in some areas of our business, it will in no way diminish our oft-repeated commitment to "live up to diamonds".

As we map out a new strategic vision for the Family of Companies in the wake of the economic turmoil of the past 18 months, it will be a priority for us to report on our progress in this regard in next year's Report to Society.

Nicky Oppenheimer
Chairman
De Beers

Performance overview from the CEO

There have been few years in the long history of our company that could be compared to 2009. The rapid economic decline and consequent fall in global demand for rough diamonds required decisive action that would not have been accomplished were it not for the collective resilience and ingenuity of our stakeholders.

Our shared actions were underpinned by a belief in the unique attributes and values that are ascribed to diamonds. That foundation remains a constant guide as we look to shape the future.

As the magnitude of the economic crisis became apparent towards the end of 2008, De Beers instituted a proactive 6 Point Recession Action Plan to address commercial vulnerabilities and ensure the company was positioned for growth once recession gave way to recovery. This plan was central to the sustainability of our business.

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

Our Report to Society 2009 takes a detailed and candid look at how this plan impacted our sustainability performance. It examines the principal risks faced by the business and our partners, articulates our position on a range of issues and incorporates key stakeholder opinions on our performance in "living up to diamonds".

Most importantly, this report articulates the clear synergies that exist between being commercially minded and doing the right thing. Acting responsibly will always be in our best interest.

This report complies with the Global Reporting Initiative Sustainability Reporting Guidelines and fulfils our reporting commitments to the United Nations (UN) Global Compact to which our company's Principles are aligned.

Safety

De Beers safety performance showed a marked improvement in 2009 compared to 2008. I am proud to report that there were no fatalities at our operations. Our Lost Time Injuries decreased from 66 in 2008 to 40, although our frequency rate increased, given fewer hours worked. Overall our safety record clearly demonstrates a positive shift in both performance and culture. As we look to 2010, the organisation's senior leadership will continue to champion and drive our zero harm goal across the organisation.

Economics and development

At the beginning of 2009, production across our portfolio of mines was dramatically reduced in response to, and in line with, a fall in demand from Diamond Trading Company Sightholders. Demand increased gradually from the second quarter, allowing us to raise production to 18 million carats in the second half of the year (2008: 24 million carats), an increase of 173% compared with the first half. We closed 2009 with a full year total of 24.6 million carats produced (49% below 2008).

In spite of exceptionally difficult trading conditions, which saw sales decline from US$6.89 billion in 2008 to US$3.84 billion in 2009, we reduced our cost base by US$0.9 billion and remained cash positive for the year. The decline in sales had a profound impact on the short-term prosperity of our producer partners and their ability to utilise diamond revenues as a catalyst for sustainable development.

In 2009, De Beers paid US$3.4 billion (2008: US$6.2 billion) to governments, suppliers, employees, shareholders and other finance providers. These disbursements represent 88.5% of our total sales. A total of US$2.2 billion (64.4%) of this was paid to stakeholders in Africa (2008: 60%).

After a successful 2008, beneficiation initiatives in producer countries faced a series of difficult challenges in 2009. Lower consumer demand for diamond jewellery, a substantial inventory overhang in the diamond value chain, and restricted access to bank financing in the cutting centres represented just some of the commercial challenges experienced by Sightholder operations in producer countries.

Rough diamond sales in southern Africa consequently declined from US$366 million to US$193 million in Botswana, from US$172 million to US$122 million in Namibia and from US$573 million to US$264 million in South Africa.

Had beneficiation proven less robust, the recession could have seriously affected what is a central pillar to the long-term strategy of both the Family of Companies and our government partners.

Ethics

Our commitment to meeting the highest ethical standards remained undiminished during the economic downturn in 2009. Our robust assurance systems and our commitment to transparency are critical to ensuring continued stakeholder confidence in our business and, as such, play a key role in upholding "diamond equity". Equally, our commitment to the continued success of key initiatives such as the Kimberley Process, the Extractive Industries Transparency Initiative and our own Best Practice Principles remains as strong as ever.

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Number of workplace fatalities

US$3.4 billion

Total stakeholder spend, with 64.4% paid in Africa

US$29.3 million

Total community social investment, including contractually mandated initiatives and in-kind contributions

44%

Reduction in water consumption (16.1 million m^3), largely due to reduced production

In 2009, we signed the CEO Letter on UN Convention against Corruption and subsequently began the process of communicating our new Anti-Corruption Policy across the Family of Companies. Over the course of 2010, we will roll out a comprehensive Anti-Corruption Programme to ensure that this policy is effectively translated into practice.

Employees

During 2009, we had to take a number of difficult steps to weather the impact of the global recession and to ensure we were well positioned for eventual economic recovery. One such step involved delayering and decentralising a number of business units, a process that resulted in a 23% reduction of our total workforce over the course of the year. Early and proactive employee and union engagement played a critical part in managing this difficult process.

While the majority of the staff retrenchments made in 2009 will be permanent, two key projects are likely to present exciting career opportunities in the short- to medium-term. In Botswana, the Jwaneng "Cut-8" mine expansion project is expected to employ in excess of 1,000 mine workers over its project lifecycle. In Canada, the ramp-up of our Snap Lake mine is expected to create 175 new positions by the time it reaches full production in 2012.

Communities

Effective engagement is essential if we are to maintain constructive and stable relationships with local communities and other stakeholders. Such relationships are vital if we are to generate lasting socio-economic benefits at a community level and ensure our continued social licence to operate.

In 2009, we introduced a broad measurement of corporate social investment to more accurately reflect our social impact on the societies in which we operate. In addition to our philanthropic spend, it includes a range of community benefits that have hitherto not been recorded, such as social investment that is required under applicable legislation or contractual agreements. Under this measure, De Beers spent a total of US$29.3 million on community social investment in 2009. A total of 67.1% of this spend (US$19.7 million) was concentrated in Botswana, primarily as a result of Debswana's ongoing provision of education (US$9.5 million) and health services (US$8.9 million) that are available to the public. It represents 9.2% of pre-tax profits of US$318 million and is significantly in excess of the international benchmark of 1%.

Environment

As efforts to reach a global consensus on dealing with climate change gathered momentum in 2009, we focused internally on building a better understanding of the potential impacts of climate change on our business with a view to developing effective long-term mitigation and adaptation strategies.

In October 2009, I attended the UN Business Leaders Summit on Climate Change. The gathering formed part of the United Nations-led effort to secure business backing for an effective climate change agreement at the 15th Annual Climate Change Conference of the Parties in Copenhagen.

Discussions at the Summit examined the potential convergence of climate change mitigation and adaption with meeting commercial goals and, as such, resonated strongly with the approach we are taking at De Beers.

We are, for example, investigating a range of renewable energy solutions that will not only ensure greater energy security at our operations, but will also reduce long-term operating costs and potentially assist in building a framework for a sustainable post-mining economy in areas like Namaqualand. We are also investigating similar opportunities with respect to reducing water usage at our operations in semi-arid areas and in developing long-term adaptation strategies in partnership with mining communities.

Sustainability

The last year was an exceptionally difficult one for the diamond industry. That we were able to take the steps we did to ensure the health of the business during 2009, without undermining our shared commitment to sustainability, should be a source of pride for everyone in the De Beers Family of Companies. As we look forward to capitalising on the opportunities of economic recovery we will continue to focus on finding synergies between operating sustainably, meeting the expectations of our stakeholders and excelling against our commercial goals. In doing so, we intend to exemplify our commitment to "live up to diamonds".

Gareth Penny
CEO
De Beers

1 Approach

De Beers has three shareholders: Anglo American (45%), Central Holdings (40% – representing the Oppenheimer family) and the Government of the Republic of Botswana (15%). De Beers sa is the holding company of the De Beers group or "Family of Companies".

The Family of Companies is involved across the breadth of the diamond value chain. This includes exploring for new deposits on three continents and mining in Botswana, Canada, Namibia and South Africa. It sorts and sells rough diamonds to independent clients known as "Sightholders" from its operations in Botswana, Namibia, South Africa and the United Kingdom. These clients cut and polish diamonds prior to the manufacture of jewellery. The Family of Companies produces about 40% of world rough diamond production by value.

This is the fifth annual sustainability report produced by the Family of Companies. It includes performance data for those businesses that De Beers either owns or has significant influence over and that have significant economic, social and environmental impacts. It also includes narrative content on management approaches for independently managed companies such as De Beers Diamond Jewellers (DBDJ) and Element Six. This report focuses on our management of key risks – both to the business and to our stakeholders.

Our Principles

Three guiding Principles define the way we do business. They cover the same economic, ethical, employee, community and environmental issues included in this report. These guiding Principles are supported by an extended set of specific Principles (p106) and are further supported by policies in each area with guidance and additional tools to inform decision-making, our ongoing engagement with stakeholders and assessments of how our business impacts society.

1. Sustainable development through partnership

The Family of Companies is committed to operating in accordance with national legislation and towards the goal of sustainable development. This means ensuring that we consider and take responsibility for the longer-term economic, social and environmental implications of the decisions we make today – not only for our own business but also for the broader societies in which we operate. We will work with our partners in government to ensure that diamonds, a finite resource, are transformed into economic wealth and improved quality of life and wellbeing for all those stakeholders touched by our business along the diamond pipeline.

2. Diamond dreams and development

We will work to address the poverty and socio-economic deprivation that affects many of the communities where we operate. We will work with governments to help realise their long-term visions and, through education, training and shared decision-making, to ensure the success of programmes that help build the capabilities of their citizens. In particular, we will partner with our stakeholders to address the priority of HIV and Aids. We will also work meticulously through the Kimberley Process, the industry's System of Warranties, and our Principles to ensure conflict diamonds are eliminated from world diamond flows.

3. Accountability and "living up to diamonds"

Our ethical conduct is governed by the De Beers Best Practice Principles (BPPs). The BPPs apply to the De Beers Family of Companies, all Diamond Trading Company (DTC) Sightholders and to certain third parties e.g. Sightholder sub-contractors. The BPPs require compliance with law in all areas, as well as further requirements on anti-corruption and anti-money laundering, health and safety, labour standards and environment. The BPPs are supported by a rigorous assurance programme that assesses compliance by all parties. Our Global Mining function coordinates self-assessment and internal assurance on BPP implementation for review by the ECOHS Committee. Compliance with the BPPs is third party verified each year by SGS (Société Générale de Surveillance) (p104).

Figure 1-1: SGS review and findings from the 2009 BPP cycle

	Improvement Opportunities	Minor Infringements	Major Infringements
De Beers Canada			
De Beers Consolidated Mines			
De Beers Forevermark			
De Beers sa			
Debswana			
Diamdel	1	3	1
De Beers Group Services: Exploration		1	
De Beers Group Services: Global Mining		1	
De Beers Group Services: General			
Namdeb			
De Beers UK Ltd			
Total	**1**	**5**	1

Our sustainability performance

0 Number of workplace fatalities (p56)	**US$29.3 million** Total community social investment, including contractually mandated initiatives and in-kind contributions (p72)	**44%** Reduction in water consumption (16.1 million m^3), largely due to reduced production (p86-87)
67.1% Proportion of corporate social investment spend allocated to Botswana (p72)	**US$3.4 billion** Total stakeholder spend, with 64.4% paid in Africa (p18)	**100%** Proportion of De Beers diamonds that are certified conflict free (p34)
100% Proportion of employees (and spouses or life partners) eligible for free Anti-Retroviral Treatment where it can be provided responsibly and sustainably (p61)	**950,000 tonnes** Reduction in carbon emissions (45%), largely due to reduced production (p91)	**US$782 million** Taxes and royalties paid to governments, with 88% paid in Africa (p20)

Highlights

- The Report to Society 2009 has been restructured to reflect our evolving risk-based approach to reporting. Formal reporting requirements that fall outside of this framework are presented online at www.debeersgroup.com
- Risks profiled in this report have been identified through stakeholder engagement, operational monitoring and expert review via the group-level Principles Management Committee and the Environment, Community, Occupational Hygiene, Health and Safety (ECOHS) programme (p11). This has been supplemented with local insight from site and business unit ECOHS functions
- Identifying and responding to the concerns of stakeholders remains one of our guiding Principles. In 2009, we carried out a series of local, national and international engagement activities with external stakeholders (p12)
- The Family of Companies and its Sightholders implemented the fifth cycle of the externally verified De Beers Best Practice Principles (BPPs) Assurance Programme. An independent statement on our compliance with the BPPs is provided on p104-105

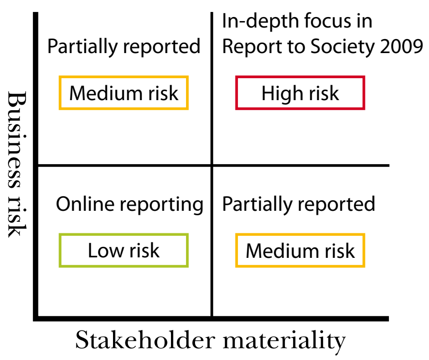
1.1 A risk-based approach to reporting

Our approach to sustainability reporting is to identify and prioritise those risks most relevant to the De Beers Family of Companies and our stakeholders. These risks are identified internally and formally reported to the Principles Management Committee twice a year. This Report to Society provides an in-depth account of our performance against those risks identified in 2009.

1.1.1 Risk matrices

Each of the following chapters includes a sustainability risk matrix. The purpose of the matrix is to articulate the short- and longer-term risks most material to the reputation and sustainability of the business (Figure 1-2). Business risk includes both the likelihood of a risk manifesting itself, as well as the impact that such a manifestation would have on our business (i.e. direct risk). Stakeholder materiality is based on the degree to which an issue is considered relevant and material by stakeholders, and the ability of such stakeholders to impact upon our business (i.e. indirect risk). In 2009, our risk analysis and stakeholder engagement processes identified 27 key sustainability risks. We have prioritised 13 key risks across all five sustainability areas for discussion in this report.

Figure 1-2: Our risk matrix approach to reporting



1.1.2 Prioritised Reputation and Sustainability Risks for 2009

Economics

- Maintaining value for producers
- Success of beneficiation

Ethics

- Kimberley Process and System of Warranties credibility
- Anti-corruption
- Maintaining pipeline and sector standards

Employees

- Management of the impacts of recession on our workforce
- Maintenance of health, safety and occupational hygiene standards
- HIV and Aids management

Communities

- Community relations and engagement
- Managing the impact of the recession on community social investment
- Social impact of closures, shutdowns or cutbacks

Environment

- Water and energy security in a changing climate
- Lifecycle planning

The United Nations Global Compact

De Beers is committed to supporting the United Nations (UN) Global Compact as part of our broader effort to make a lasting and sustainable contribution to the countries in which we operate.

The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with 10 principles in the areas of human rights, labour, environment and anti-corruption. The UN Global Compact has two objectives:

- To mainstream the 10 principles in business activities around the world
- To catalyse action in support of broader UN goals, including the Millennium Development Goals (MDGs)

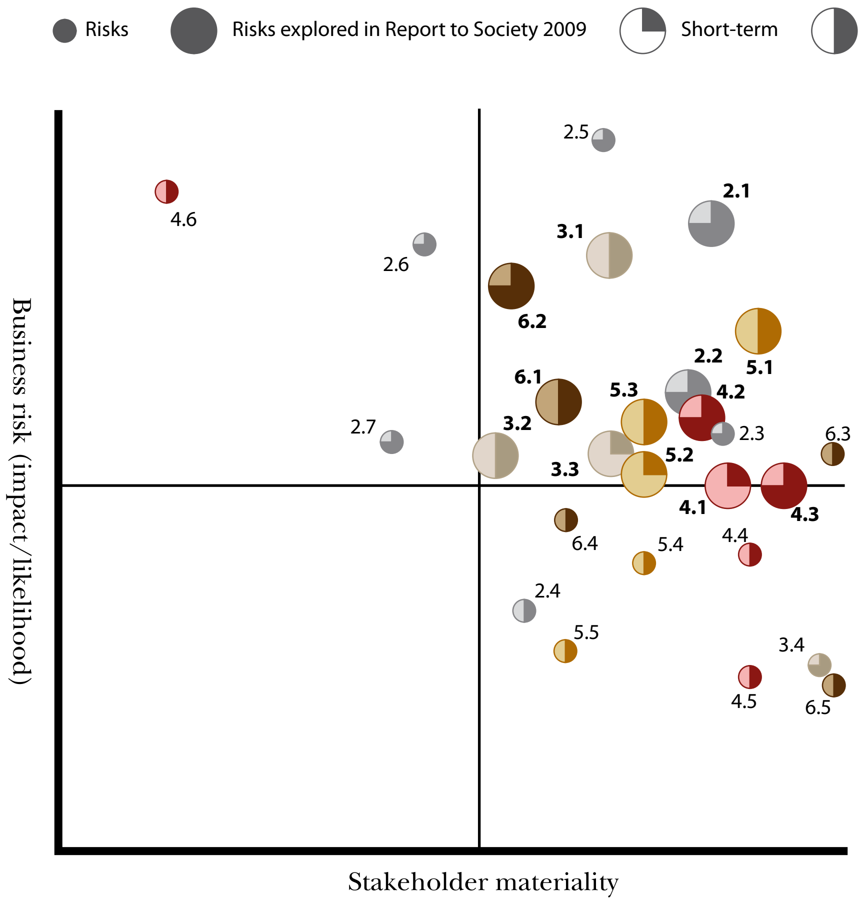
De Beers joined the UN Global Compact in 2005 and remains a committed and active member of the national and international Compact community. Our own Principles and assurance programmes are directly aligned with the sentiment of the 10 principles, as well as the Universal Declaration of Human Rights and the MDGs. We submitted our first "Communication on Progress" to the UN Global Compact in 2006. Our fourth Communication on Progress is submitted with this Report to Society 2009 and through the online compliance table.

In 2009, De Beers contributed an in-depth case study to the UN Global Compact's Human Rights Dilemmas Forum. This set out our approach towards the responsible management of potential human rights dilemmas when operating in countries with hyper-endemic levels of HIV and Aids. The Family of Companies also hosted one meeting of the United Kingdom network of the UN Global Compact and contributed its own expertise and experience to the network's work through, for example, presenting to the UN Global Compact Nordic network in Oslo on "The challenges of human rights and decent working conditions". In 2010, De Beers plans to continue its ongoing engagement with the United Kingdom network and the Human Rights Dilemmas Forum.

human-rights.unglobalcompact.org

Report to Society 2009 sustainability risk matrix[1]

The matrix below sets out the sustainability risks identified over the course of 2009. These are identified by reference to the risks posed to our business, as well as the degree to which issues are material to stakeholders.



Economic risks

2.1	**Maintaining value for producers**
2.2	**Success of beneficiation**
2.3	Resource revenue transparency
2.4	Driving local growth, diversification and capacity building
2.5	Driving and maintaining demand
2.6	Access to new reserves and sustainable relationships in new territories
2.7	Supply stability for DTC Sightholders

Ethics risks

3.1	**Kimberley Process and System of Warranties credibility**
3.2	**Anti-corruption**
3.3	**Maintaining pipeline and sector standards**
3.4	Competition laws

Employees risks

4.1	**Management of the impacts of recession on our workforce**
4.2	**Maintenance of health, safety and occupational hygiene standards**
4.3	**HIV and Aids management**
4.4	Diversity and inclusion
4.5	Compliance with international labour standards
4.6	Winning and retaining talent

Communities risks

5.1	**Community relations and engagement**
5.2	**Managing the impact of the recession on community social investment**
5.3	**Social impact of closures, shutdowns or cutbacks**
5.4	Managing land claims
5.5	Artisanal mining

Environment risks

6.1	**Water and energy security in a changing climate**
6.2	**Lifecycle planning**
6.3	Promotion and maintenance of biodiversity and ecosystems
6.4	Maintaining environmental standards
6.5	Respect for protected areas, biodiversity hotspots or World Heritage Sites

[1] Those risks not in bold are not discussed as separate sections in this report

1.2 Sustainability risk management

Our sustainability risk management framework includes four elements. These include the Principles Management Committee (a group focused management committee), the Environment, Community, Occupational Hygiene, Health and Safety (ECOHS) Committee (a group focused Board-level committee), local ECOHS functions (operating company and business unit-level) and stakeholder engagement. Each element informs the selection, prioritisation and management of our sustainability risks.

Figure 1-3: Overview of the Family of Companies sustainability risk management framework

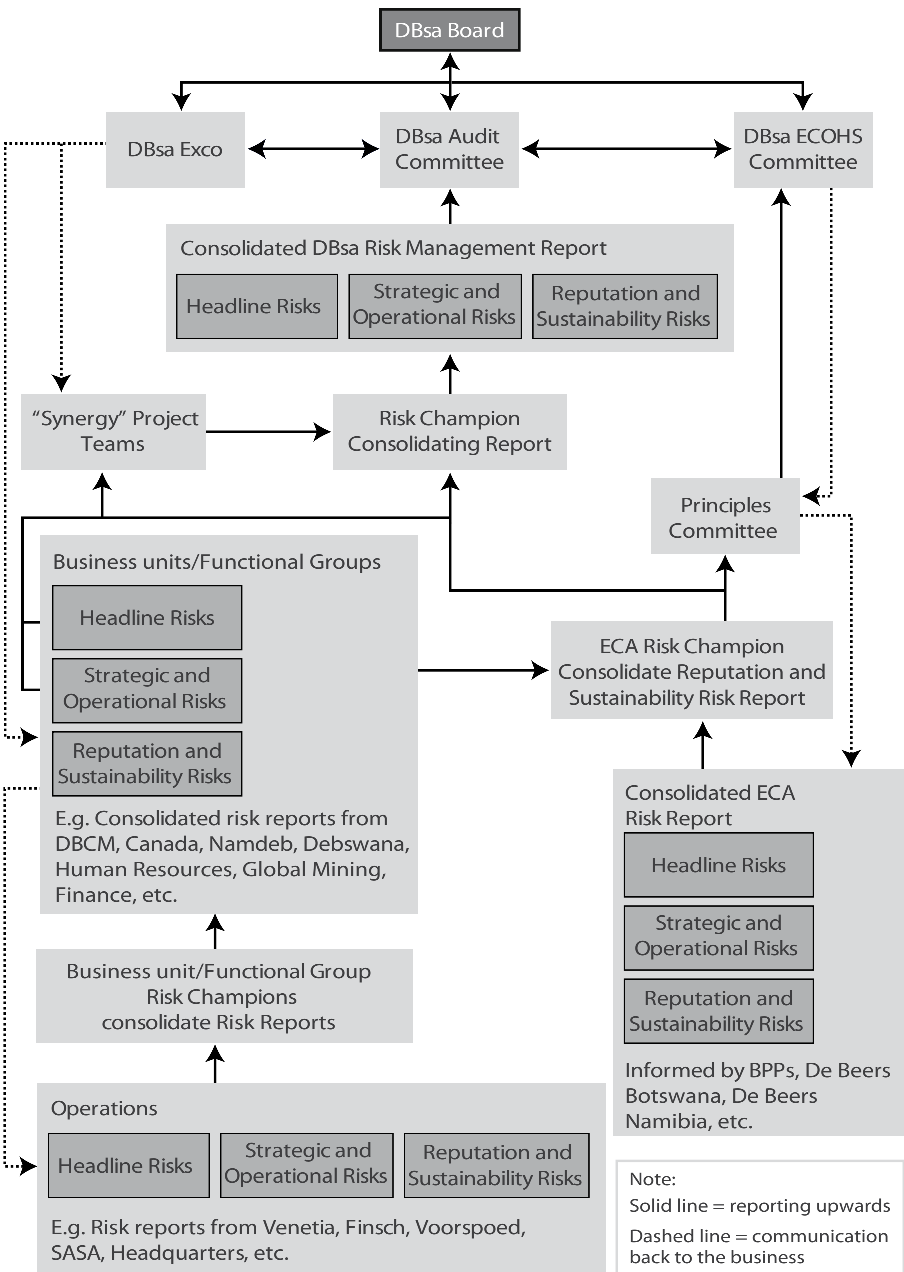


Figure 1-4: The risk review process

1. The Risk Log template is circulated to discipline heads by the Principles Management Committee's Risk Coordinator
2. The Risk Coordinator compiles the results from the returned Risk Log templates and selects the 10 most significant risks
3. The Principles Management Committee meets and amends/signs off the Risk Log, hears presentations from selected discipline heads on key risks, and agrees both an assurance strategy and corresponding budget
4. The Risk Coordinator then submits the Risk Log to the Group Finance function for incorporation into our overall Risk Management Report
5. External assurance providers are appointed, who submit their assurance reports to relevant discipline heads
6. Department heads and discipline principals put forward assurance recommendations and proposed mitigating actions to the Principles Management Committee

1.2.1 Principles Management Committee

The Principles Management Committee plays a central role in evaluating and acting upon short, medium and long-term risks to the sustainability and reputation of the De Beers Family of Companies. It is chaired by the Director of External and Corporate Affairs and is responsible for monitoring performance against our Principles, providing strategic direction and assurance against key risks and ultimately reporting publicly through our Report to Society. As such, its remit covers all sustainable development issues and reputational risks contained in this Report to Society.

1.2.2 Responsibilities

The Principles Management Committee's responsibilities include the provision of a forum for sharing knowledge about key Reputation and Sustainability Risks across all business units. It also compiles a global Risk Log for submission to the Executive Committee and the ECOHS Committee as part of the annual risk review process. The Principles Management Committee enhances the overall effectiveness of risk evaluation and management across the Family of Companies, ensures strategic understanding of risks between business units and promotes joined-up management of risks and corresponding opportunities. The Principles Management Committee is also responsible for obtaining assurance on material risk issues.

1.2.3 Risk review process

The Principles Management Committee completes two risk review cycles each year. It also ensures that corresponding guidance is sought from internal and external experts in order to enhance our management of identified risks. The sustainability risk management process is built on a systematic "bottom-up" reporting process through which individual risk reports are submitted by each of our operations. Submissions are made by local ECOHS functions and also regional External and Corporate Affairs offices (Figure 1-3).

1.2.4 The ECOHS programme

The ECOHS programme has three main functions:

- To provide the necessary technical skills, leadership and governance to align ECOHS performance with the group's core business strategy. This means delivering world class standards and talent
- To ensure the integration of ECOHS practices and accountability into core business processes at every stage of the diamond pipeline
- To provide assurance on our performance to the Boards of each family company and to the group ECOHS Committee

1.2.4.1 ECOHS Committee

Our ECOHS Board Committee provides strategic oversight of the ECOHS disciplines and their respective peer groups. It receives quarterly submissions from discipline Principals on management progress, Reputation and Sustainability Risks, and Strategic and Operating Risks. The ECOHS Committee also obtains assurance on our adherence to common ECOHS policies, guidelines and operational practices, as well as relevant standards and legislation (both local and international). It sends summaries of each of its meetings to the De Beers Board for review.

There were four ECOHS Committee meetings in 2009. Each of the meetings included reporting on major incidents, as well as performance updates from each of the Principals in their respective discipline areas.

1.2.4.2 Peer groups

Two types of peer groups operate within the Family of Companies:

- General peer groups made up of informal networks of internal experts who share knowledge and information on best practices, and who sometimes engage external participants
- Mission-driven peer groups in which each participant has a defined mandate from their business unit to make recommendations on policies and standards

The latter has proven important in embedding ECOHS policies within the Family of Companies and in driving related programmes of work. Notable achievements in 2009 include:

- A review of our environmental incident reporting system (p94)
- Development of Stress Management Guidelines and associated measurement tools (p54)
- Development of performance standards for illness-related absenteeism (p54)
- Coordinated implementation of H1N1 influenza action plans (p56)
- Development of evidence-based guidelines on the risk assessment and management of pregnant and post-partum workers (p56)

Figure 1-5: ECOHS peer groups in 2009

Environment
Communities
Health
Safety and occupational hygiene

1.3 Stakeholder engagement

Our stakeholders include groups that the company has a significant impact on, as well as those groups that can significantly impact our activities. These include our shareholders, producer governments, employees, local communities, civil society and intergovernmental organisations. The integration of stakeholders into our risk assessment and management processes helps us identify issues that are within our direct control and that are our clear responsibility to address, to identify issues that are external to the Family of Companies but which nonetheless fall within our sphere of influence, and to establish whether we are acting in line with stakeholder expectations i.e. "living up to diamonds".

1.3.1 Identification, mapping and guidance

Each operation identifies, prioritises and engages stakeholder groups that its activities have most impact on. This role is typically managed by regional External and Corporate Affairs offices, but also takes place through a number of diverse and more localised channels. Impacts and stakeholders are context dependent and differ depending on the issue, the stage of the project and the location. Our stakeholder engagement methodologies are under constant review at both group and operating level in order to ensure consistency of approach, to enable the identification of relevant and material issues, and to assess outcomes. The outcome of each engagement is logged and communicated through our risk reporting mechanism.

1.3.2 Key engagements in 2009

Our engagement with stakeholders falls into two types. The first is direct engagement, including surveys, roundtable discussions, dialogue at conferences and focus groups, one-to-one meetings, and "on the ground" engagement with local stakeholders at each operation. The second is indirect engagement, including independent multi-stakeholder dialogue and the use of external benchmarks and standards that represent societal expectations.

Due to the impact of the global recession on our business, our ability to carry out high profile stakeholder events in 2009 was relatively limited compared to 2008. Nonetheless, key group-level engagements included the following:

1.3.2.1 Managers Perception Survey

Each year we implement a Managers Perception Survey to learn more about how employees use our Report to Society and whether it covers the appropriate issues. Our 2009 survey was sent to over 100 employees, including those who contributed to the Report to Society 2008, as well as all senior leaders across the Family of Companies. Results from the survey indicate that our managers use the Report to Society mainly to assist in the writing of internal communications and to support engagement with colleagues on issues. Reporting elements considered most useful include performance data, information on how we adhere to best practice standards and insight from interviews with third parties.

1.3.2.2 Diamond Dialogues

The Diamond Dialogues are a series of roundtable discussions hosted by De Beers and facilitated by external subject experts. They bring stakeholders together for a frank discussion of topics relating to how responsible investment in natural resources can contribute to sustainable development in Africa. Two meetings were held in 2009, covering:

- Scope, implementation and performance of the Kimberley Process Certification Scheme
- Conflict, corruption and money laundering in the context of the global recession

Since their inception in 2007, the Diamond Dialogues have been attended by more than 60 civil society organisations, opinion formers and academics, shareholders and employees. In 2009, a total of 12 organisations took part, including: the Business and Human Rights Resource Centre, Global Witness, Human Rights Watch, the International Business Leaders Forum, International Alert, Transparency International and Transparency International (UK). Outputs from each dialogue are available online at the Business and Human Rights Resource Centre.

www.business-humanrights.org

1.3.2.3 Multi-Stakeholder Forum

During our annual Multi-Stakeholder Forum we invite external experts to comment on the degree to which our sustainability reporting satisfies stakeholder requirements, as well as the issues and themes we should address in our future sustainability reporting. It met for the third time in October. Participants included seven representatives from civil society and business, including the International Council on Mining & Metals, Fauna & Flora International, the United Kingdom network of the United Nations Global Compact and the Overseas Development Institute.

Discussions focused on:

- Relevant and material stakeholder issues, which included health and safety, our response to the global economic crisis, climate change and water, biodiversity, business ethics, the environmental impacts of marine mining, and government relations
- Our reporting performance, including the coverage, relevance, performance and usability to different stakeholder groups of the Report to Society 2008

As with our previous reports, participants in the forum elected to present a series of questions regarding relevant and material issues instead of a formal assurance statement. Our answers to some of these questions are presented throughout this report in the boxes marked as "Questions from stakeholders". In addition, participants in the forum raised a number of key recommendations with respect to our reporting performance.

1.3.2.4 Panel discussion

In October, De Beers hosted a panel discussion on recession, recovery and the African extractive sector. The discussion, attended by over 65 stakeholders, focused on the impact of the recession on African development, the political consequences of recession, the dynamics of recovery and future opportunities.

Panel members included:

- Dan Smith, International Alert
- Professor Tony Venables, Oxford Centre for the Analysis of Resource Rich Economies
- Razia Khan, Standard Chartered Bank
- Dr. James Suzman, De Beers
- Professor Alyson Warhurst, Maplecroft and Warwick Business School (moderator)

Participants in the December 2009 Diamond Dialogue on conflict, corruption and money laundering

Figure 1-6: Relevant and material issues (and key reporting recommendations) identified in 2009

Relevant and material issues identified in the 2009 Managers Perception Survey	Environment (general)	p84-99
	Energy efficiency	p89
	Employees (general)	p48-65
	Safety	p54-59
	Canada (general)	Throughout
	Maintaining consumer confidence through Forevermark	p37
Relevant and material issues identified in the 2009 Diamond Dialogues	Action to maintain the integrity of the Kimberley Process	p37
	The relationship between human rights and the Kimberley Process	p35
	Anti-corruption, anti-money laundering and organised crime	p38-43
	The promotion of ethical demand amongst consumers	p37, p46
	Maintenance of corporate ethical standards during recession	p32-47
Relevant and material issues identified in the 2009 Multi-Stakeholder Forum	Health, safety and fatalities	p54-59
	Marine mining and biodiversity	p94, p96-97
	Climate change, water and biodiversity	p86-91
	Climate change and community impacts	p77, p87
	Business ethics and anti-corruption	p38-43
	Conflict and natural resources	p34-37
	Management of recession impacts	p18-31, p50-53
	Ecosystems-based approaches to biodiversity	p96-97
	Human rights and labour standards	p65
	The Family of Companies development role	p66-83
	Government relations	p40
Key reporting recommendations from the 2009 Multi-Stakeholder Forum	Prioritisation of risks and explanation of process	p8-9, Throughout
	Increased contextualisation of risks	Throughout
	Longer time horizons and forward looking strategy	Throughout
	Relocation of formal reporting requirements online	Online
	Content more tailored to the specific situation of the Family of Companies	Throughout
	Increased focus on interrelationships between sustainability issues	Throughout
Relevant and material issues identified at the 2009 panel discussion	Prospects of "green shoots of recovery"	p25
	Positive impacts of African economic policy responses	p22-23
	Potential conflict risks due to reduced investment, employment and public revenues	p34-36
	Short-term economic impact of recession on Botswana	p22
	Improved ability of African economies to deal with recession compared to previous eras	p22
	The importance of strong governance in ensuring natural resources contribute to national development	p18-20, p22, p26-27
	The role of international initiatives in ensuring natural resources contribute to national development	p38, p43
	The social and economic impacts of climate change mitigation and adaptation	p77, p87
	The role of corporate partnerships with NGOs in development	p75-77
	The impact of recession on biodiversity management	p94, p96-97
	The management of climate change-related risks	p86-91

1.4 Objectives

De Beers aims to make a real and lasting contribution to the communities and countries in which it operates. This is reflected in our objectives, which apply across the sustainability spectrum.

Chapter	Objectives for 2009 and beyond	Location
Economics	To maintain consistent value for shareholders and producer partners	Africa Botswana Global
	To drive global demand for diamonds and to promote supply stability for Diamond Trading Company Sightholders	Far East Global United States
	To support government-led economic development, beneficiation, capacity building, diversification and activities that endure beyond the life of existing mines	Africa Global
	To access new reserves and build sustainable relationships in new territories	Global
Ethics	To maintain consumer confidence in our business and play a key role in upholding global diamond equity	Global
	To develop and embed ethical standards within our operations and throughout the diamond value chain	Global
Employees	To maintain the health and safety of our employees and contractors as a top priority	Africa Global
	To mitigate the impacts of recession on our employees and maintain a motivated, focused and lean workforce into the future	Global
	To engage proactively with priority concerns in producer countries, including management of the HIV and Aids pandemic, Black Economic Empowerment and Gender equality	Africa
Communities	To engage and create mutually benefical partnerships with local communities, to ensure clear communication of the impact of our activities and to promote active participation in the development of programmes to maximise local benefit	Botswana Canada Global South Africa
	To align our community investment activities with relevant national development programmes	Botswana Global
	To ensure the effective management and mitigation of the socio-economic impacts of mine closure	Namibia South Africa
Environment	To manage and mitigate the risks posed to our business and surrounding communities by climate change and water scarcity	Global
	To mitigate potential environmental impacts when planning, designing and implementing exploration, mining and related activities	Botswana Global

Our performance in 2009	Trend	Page
Payment of US$782 million in taxes and royalties to governments (2008: US$1.4 billion), with 88% of payments made in Africa	↘	p20
Confirmation of Debswana's Cut-8 expansion project, ensuring profitable production at Jwaneng mine until 2025	↗	p25
Payment of US$3.4 billion to governments, suppliers, employees, shareholders and other finance providers	↘	p18
Reduced capital expenditure by US$222 million compared to 2008	↘	p23
Carat production reduced by 49% to 24.6 million carats	↘	p23
Expansion of the Forevermark brand in China, Hong Kong and Macau	↗	p23
Rough diamond sales of US$3.84 billion (2008: US$6.89 billion)	↘	p18
Strong contribution of Everlon Diamond Knot Collection to Christmas sales in the United States	↗	p23
Supply of US$580 million in rough diamonds to Sightholders for manufacture in southern Africa (2008: US$1.1 billion)	↘	p29
Allocation of US$611 million to preferential procurement in southern Africa and Canada (2008: US$1.1 billion)	↘	p20
Expenditure of US$44.8 million on exploration in Angola, Botswana, Canada, India and South Africa (2008: US$94.6 million)	↘	p25
Worldwide compliance with the Kimberley Process and System of Warranties reviewed and confirmed by a third party	→	p37
Signature by Gareth Penny of the CEO Letter on UN Convention against Corruption	↗	p38
Launch of our new Anti-Corruption Programme	↗	p40
Nomination of over 600 employees to participate in online competition compliance training	→	p41
Implementation of "SMART" approach to Best Practice Principles (BPPs) across the Family of Companies and Sightholder operations	↗	p44
Reduction in total BPP infringements by Sightholders for the third consecutive year to 516 (2008: 1,338)	↗	p45
Certification of all mines, with the exception of Snap Lake and Victor in Canada, to the OHSAS 18001 standard	→	p54
Rise in Lost Time Injury Frequency Rate to 0.21 (2008: 0.19)	↘	p55
Reduction in Lost Time Injury Severity Rate to 6.52 (2008: 106.89)	↗	p55
Achievement of zero fatalities across the Family of Companies	↗	p56
Proactive and constructive consultation with partner governments, unions, employees and impacted stakeholders	↗	p50
Production holidays with basic pay instigated across the Family of Companies	↗	p51
Implementation of "intermediary" measures, including early retirement, voluntary and involuntary retrenchment, suspension of salary increases, voluntary special leave with partial pay, reduced shifts, redeployment and employment on reduced time	→	p51
Reduction in external discretionary spend on professional development to US$5.8 million (2008: US$9.3 million)	↘	p52
Provision of counselling to retrenched staff or staff subject to a high degree of employment uncertainty	↗	p52
Implementation of measures to help ex-employees reskill, find alternative employment, manage personal finances and explore alternative revenue generating activities	↗	p52
Provision of confidential HIV testing, access to Anti-Retroviral Treatment and wellbeing programmes to all affected staff and life partners	→	p60
Implementation of Social Impact Assessments at the Jwaneng mine Cut-8 project and Morupule colliery	↗	p69
Ratification and signature of an Impact Benefit Agreement with the Fort Albany and Kashechewan First Nations	↗	p70
Blocking of the Victor mine ice road for two weeks by individuals from the Attawapiskat First Nation	↘	p70
Deferment of the global roll-out of the Socio-Economic Assessment Toolbox (and equivalent tools) as a result of the economic downturn	↘	p69
Ongoing land claims in the Venetia Limpopo Nature Reserve, Hondeklip Bay area, Griqualand and Rooipoort	→	p71
Signature by the Diamond Trust of a five year, US$1.4 million agreement with the Letloa Trust to cover the cost of community projects in the Tsodilio Hills UNESCO World Heritage Site	↗	p77
Expenditure of US$29.3 million on community social investment (including contracturally mandated initiatives and in-kind benefits)	↗	p72
Ongoing discussions with the Government of the Republic of Namibia in relation to the proclamation of the town of Oranjemund	→	p71
Piloting of the De Beers Zimele enterprise development vehicle at Kimberley	↗	p71
Ongoing discussions with the Northern Cape Provincial Government in relation to the proclamation of the towns of Kleinzee and Koingnaas	→	p80
Further development of closure plans for our Finsch, Venetia and Voorspoed mines	→	p80
Reduction in water consumption of 44% to 21.1 million m^3 of new (potable and non-potable) water at our mining operations (2008: 37.2 million m^3) – largely due to reduced production	↗	p86
Reduction in energy consumption of 46.5% to 7.8 million GJ (2008: 14.58 million GJ) – largely due to reduced production	↗	p90
Reduction in total carbon emissions by 45% to 1.16 million tonnes (2008: 2.11 million tonnes) – largely due to reduced production	↗	p91
Completion of an Environmental and Social Impact Assessment for the Jwaneng Cut-8 project	↗	p93
Approval of an Environmental Impact Assessment for the Morupule colliery expansion project	↗	p93
Completion of country-level Biodiversity Overlap Assessments at all business units	↗	p96
Finalisation of six Environmental Standards with full compliance required by the end of 2010	↗	p86
No occurrence of any major environmental incidents	→	p94
Government sign-off of rehabilitation plans at Namdeb, focused on pollution, infrastructure, landscape and biodiversity	↗	p95

2 Economics

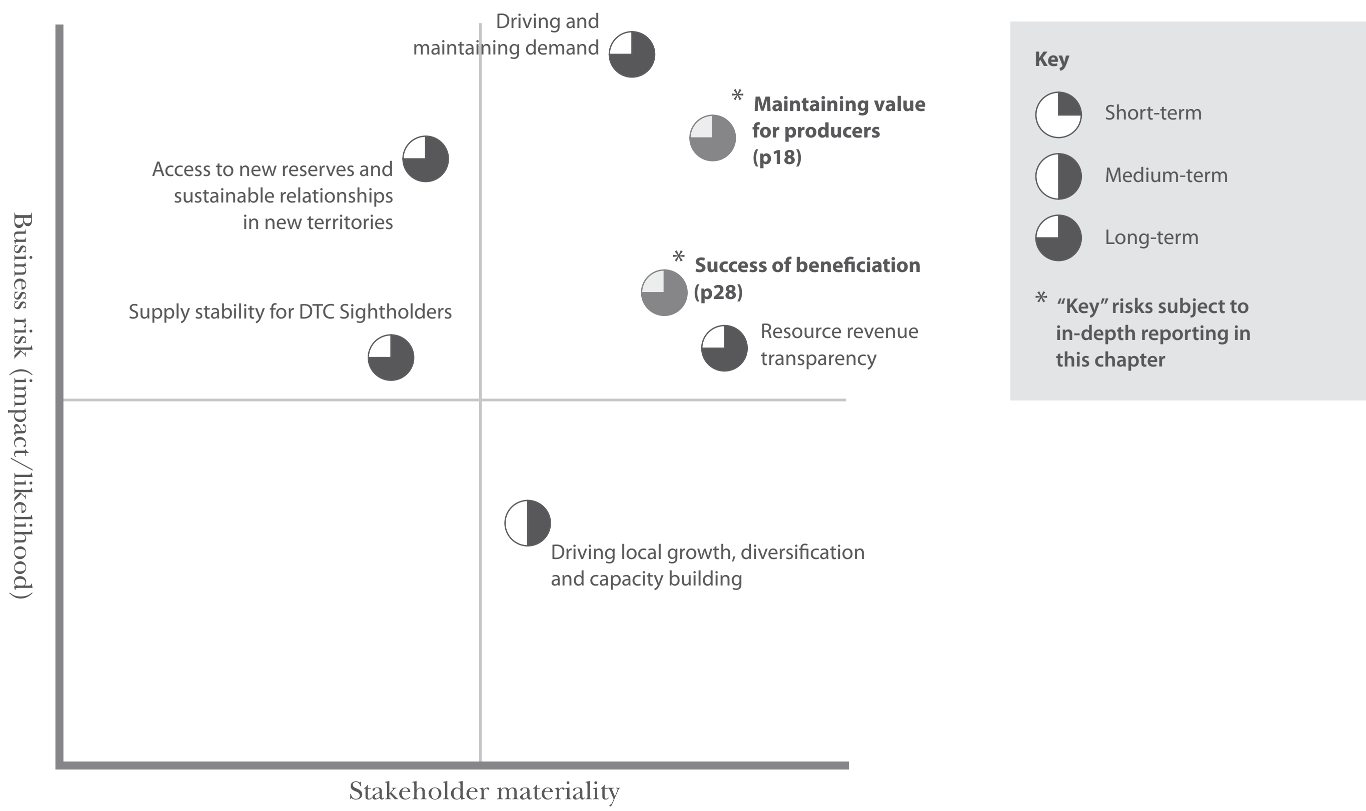
Diamonds have made a remarkable contribution to the development of Botswana, Namibia and South Africa. This success owes a great deal to the effectiveness of our approach to partnership, as well as the sound management and strategic foresight of our host governments.

In 2009, the Family of Companies reduced production across all operations from 48.1 million carats (2008) to 24.6 million carats as a result of diminished global demand for rough diamonds. This had a notable effect on the revenue accrued by our host governments from diamond sales, taxes, royalties and dividends.

The economic crisis has also highlighted the importance of recent efforts to leverage diamond revenues as a catalyst for building strong diversified post-mining economies. De Beers support for government-led economic diversification includes local procurement, enterprise development, social investment and local beneficiation. Beneficiation includes diamond sorting, cutting, polishing and all activities that will endure beyond the life of existing mines. With no major diamond discoveries in over a decade, and future global demand predicted to outstrip supply, beneficiation activities will remain a key part of our value proposition to governments.

While the prevailing economic climate has tested our ingenuity, we remain confident in the effectiveness of our business model, based on forging mutually beneficial partnerships, to transform natural resources into shared and lasting national wealth over the long-term. This confidence underwrites our continued commitment to work with producer governments to develop diamond resources and beneficiate them in each of our operating countries.

Key economic risks



Risks

* Maintaining value for producers (p18)

The global economic downturn had a profound impact on the short-term prosperity of our producer partners and their ability to utilise diamond revenues as a catalyst for sustainable development. This has highlighted the importance of coordinated management of diamond production and revenue generation.

* Success of beneficiation (p28)

Recession and a substantial reduction in diamond sales has had the potential to significantly impact on the ability of our operations and producer partners to develop and promote downstream diamond sorting, cutting and polishing, local procurement and enterprise development schemes.

Resource revenue transparency

The significant role that the Family of Companies plays in the economies of our host countries means transparency is vital. This underpins the reputation of diamonds, and also ensures that diamonds help drive local development and good governance.

Driving local growth, diversification and capacity building

Our ability to help economically empower local citizens and to build their capacity – for example through local employment, procurement and enterprise development – underpins our direct contribution to sustainable economic development. This broadens the local skills pool from which we can recruit and contract – as well as local markets in which to sell our products.

Driving and maintaining demand

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 are able to continue to associate our diamonds with the highest standards of quality, integrity and ethics – and that we continue to market the very best diamond products.

Access to new reserves and sustainable relationships in new territories

The economic crisis has impeded our ability to explore for and develop new mines globally. With no new major diamond discoveries in over a decade 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.

Supply stability for DTC Sightholders

Our Sightholder or client relationships – as well as the success of local beneficiation – are highly reliant on the Family of Companies being able to maintain a consistent supply of rough diamonds to our Sightholders. The significant reduction in production over the last year has demonstrated how this needs to be balanced against the long-term interests not only of the Family of Companies, but also of the countries in which we operate.

** Further information presented in this report*

Diamond sorters using "glove boxes" at the Venetia mine, South Africa

Highlights

- Despite a 49% reduction in overall production during 2009, the Family of Companies was still able to pay US$3.4 billion (2008: US$6.2 billion) to stakeholders around the world including partners, joint ventures, suppliers, employees and shareholders (p18)
- Payments to partners, joint ventures and suppliers amounted to US$2.6 billion (2008: US$4.8 billion) (p18). About US$1.9 billion of this was paid for diamonds and services in Africa (2008: US$3.2 billion). Payments to employees in Africa amounted to US$204 million (2008: US$269 million). De Beers paid US$782 million in taxes and royalties to governments, 88% of this (US$688 million) was paid to governments in Africa (p20)
- A total of US$611 million was allocated to preferential procurement in southern Africa and Canada (2008: US$1.1 billion) (p20)
- A total of US$580 million in rough diamonds was supplied to Sightholders for manufacture in southern Africa (2008: US$1.1 billion) (p29)

2.1 Maintaining value for producers

Risk: The global economic downturn had a profound impact on the short-term prosperity of our producer partners and their ability to utilise diamond revenues as a catalyst for sustainable development. This has highlighted the importance of coordinated management of diamond production and revenue generation.

2.1.1 A year of reduced output

In early 2009 demand for diamonds, as with other luxury products, was severely impacted by the global economic recession. Three key factors led to extraordinarily challenging trading conditions not only for the Family of Companies, but the diamond industry as a whole:

- A decline in consumer demand, particularly in the US
- Constricted liquidity in the world's major diamond cutting centres
- High inventory levels throughout the diamond pipeline

As a result, the Family of Companies saw its sales decline from US$6.89 billion in 2008 to US$3.84 billion in 2009. This decline undermined our short-term ability to generate diamond revenues and consequently impacted economic benefits accrued by our host countries.

The fall in consumer demand also occurred in a context in which our profitability was undermined by the relative weakness of the US dollar (in which all our diamonds are sold) in relation to the currencies of our host producer countries (where the majority of our operating costs are incurred).

www.debeersgroup.com

2.1.2 The role of diamond revenues in our producer countries

Revenues from diamonds and other natural resources play a key role in enabling our host governments to drive local economic development. In 2009, De Beers paid US$3.4 billion (2008: US$6.2 billion, 2007: US$6.2 billion) to governments, suppliers, employees, shareholders and other finance providers (Figure 2-1). These disbursements represent 88.5% of our total sales of US$3.84 billion in 2009. A total of US$2.2 billion (64.4%) of this was paid to stakeholders in Africa (2008: 60%, 2007: 71%).

2.1.2.1 Botswana

Diamond mining is the single largest industry in Botswana. Although figures are likely to have been affected by the recession, the diamond sector traditionally contributes about 30% of Gross Domestic Product (GDP) and 80% of export earnings. It is also the primary source of government revenue. Botswana is the world's largest diamond producer by value, producing 25% of global output. The effect of the recession on our production has presented particular risks to Botswana. This is due to the particularly prominent role diamonds play in the economy, as well as our joint venture with the Government of the Republic of Botswana (GRB) (Figure 2-2).

www.debeersgroup.com
www.debswana.com

2.1.2.2 Namibia

As in Botswana, diamond mining is a major national industry. Over the last decade it has contributed approximately 8% of GDP and 40% of foreign exchange earnings. In recent years diamond mining in Namibia has accounted for about 7% of the world's rough diamond production by value. The prominent role diamonds play in the economy, as well as our joint venture with the Government of the Republic of Namibia (GRN) (Figure 2-3) makes the country relatively vulnerable to the effects of reduced diamond demand.

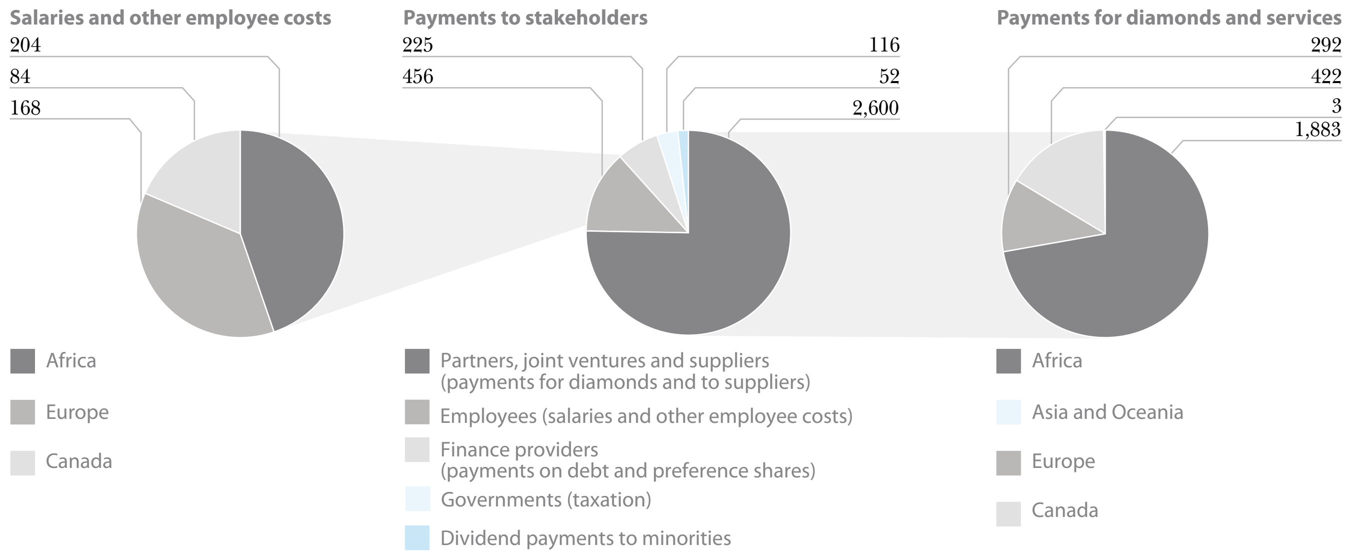
www.debeersgroup.com
www.npc.gov.na

2.1.2.3 Canada and South Africa

The diamond sector plays a more modest role in the South African and Canadian economies in comparison to Botswana and Namibia. Nonetheless, in South Africa it typically contributes about 1% of GDP and traditionally employs about 14,500 people. In 2008 (latest figures), South Africa accounted for 10% of the world's rough diamond production by value.

Although Canada accounts for about 18% of global rough diamond output by value, the diamond sector plays a relatively minor national economic role owing to the scale and diversified nature of the economy.

Figure 2-1: Payments to stakeholders, 2009 (US$ millions)



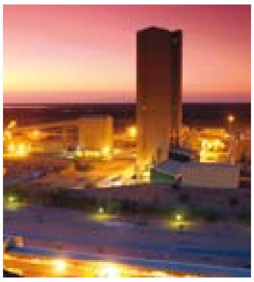


Figure 2-2: Debswana joint venture with the Government of the Republic of Botswana

Debswana is a 50/50 joint venture between De Beers and the GRB. It is also the largest producer of rough diamonds in the Family of Companies, as well as Botswana's largest taxpayer. In 2009, Debswana mined 17.7 million carats (32.3 million carats in 2008) at open pit operations across the country.

Revenues generated by Debswana have played an instrumental role in helping the GRB transform Botswana from an agriculturally reliant economy in the 1960s to a widely admired example of progressive African economic development (p26-27). In addition to taxes and royalties from Debswana, the GRB also receives dividend income from its 15% shareholding in De Beers sa (p22).

Given the significant reliance that Botswana places on diamond mining as a source of income, the Family of Companies and the GRB have followed their joint venture partnership model and worked closely to promote the development of a thriving sorting, cutting and polishing industry in the country (p28-31). This helps ensure a greater proportion of value-adding activity takes place locally and, furthermore, promotes economic diversification.

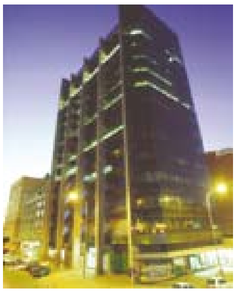


Figure 2-3: Namdeb joint venture with the Government of the Republic of Namibia

Namdeb is a 50/50 joint venture between De Beers and the GRN. It is the largest taxpayer in Namibia, and one of the country's largest private sector employers. Since its establishment in 1994, Namdeb has played an instrumental role in the country's development, generating 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. In 2009, Namdeb's land-based operations mined 0.3 million carats (2008: 1.1 million carats). Marine mining in Namibia is conducted by De Beers Marine Namibia (70% owned by De Beers, 30% owned by GRN), which mined 0.6 million carats in 2009 (1.1 million carats in 2008).

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.

"Since the mid 1960s it [Botswana] has moved on a path of good economic management and outstanding political governance. And as a consequence you have seen extraordinary improvements in living standards over the last 40 years in Botswana that really are an envy for much of the rest of the continent."

Barack Obama, President of the United States of America on the visit of the President of Botswana, Ian Khama, to the White House, 6 November 2009

Figure 2-4: Total DTC sales, 2009 (US$ millions)

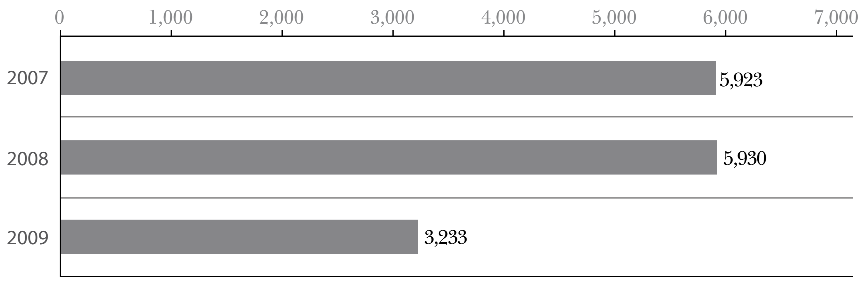
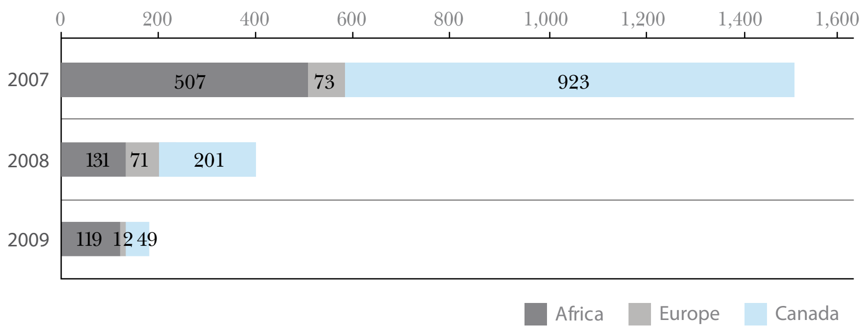


Figure 2-5: Capital investment, 2009 (US$ millions)[1]



[1] High levels of Canadian investment are primarily due to the construction of Victor and Snap Lake mines

2.1.3 Driving local growth, diversification and capacity building

The Family of Companies works with producer country governments as they manage today's diamond revenues effectively and responsibly to secure a robust and broad-based economic future. This means support for:

- Good governance to promote the equitable maximisation, investment and distribution of diamond resources
- Economic diversification to ensure long-term economic stability and viable post-mining futures

2.1.3.1 Revenue payments and transparency

The responsible deployment of diamond revenues by our government partners is the key to securing lasting benefits from finite national diamond resources. Our primary role in this process is to optimise diamond revenues. In 2009, our ability to generate revenues was severely impacted by a worldwide fall in consumer demand for polished diamonds and a consequent drop in Sightholder demand for our rough diamonds. This operating environment necessitated a swift and significant reduction in production from the Family of Companies.

In 2009, we paid a total of US$782 million (2008: US$1.4 billion, 2007: US$1.4 billion) in taxes and royalties to governments. A total of 88% (US$688 million) of these payments were made to governments in Africa (2008: US$1.2 billion, 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.

All of the countries we operate in demonstrate high levels of transparency (p42).

Figure 2-6: Revenue contributions to host governments, 2009 (US$ millions)

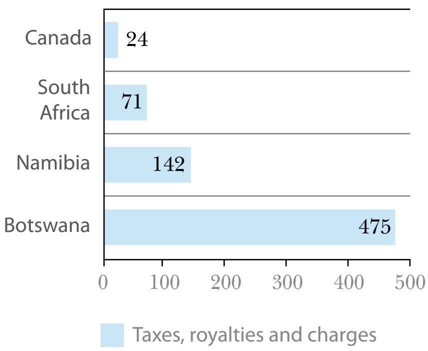


Figure 2-7: Total workforce at year end by region, 2009 (permanent)[2]

	2007	2008	2009
Africa	17,021	14,131	11,326
Asia	42	21	33
Europe	566	538	356[3]
Canada	656	857	769
Total	**18,285**	**15,547**	**12,484**

Figure 2-8: Total workforce at year end by region, 2009 (non-permanent)[2]

	2007	2008	2009
Africa	2,274	1,605	757
Asia	6	8	18
Europe	8	12	4
Canada	42	50	57
Total	**2,330**	**1,675**	**836**

2.1.3.2 Employment and empowerment

The Family of Companies makes a major economic contribution in 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.

During 2009, and in response to recessionary pressures, the Family of Companies significantly reduced its workforce (p50-53). At the end of 2009, the Family of Companies employed over 13,000 permanent and non-permanent personnel worldwide (2008: 17,000) (Figure 2-7 and Figure 2-8). About 12,000 (92.3%) of these employees were based at our exploration, mining and support functions in Africa.

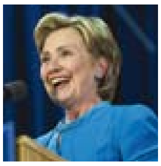
Owing to the scale of restructuring carried out across the group in 2009 employee salaries and other costs, including social security, healthcare and pension contributions, fell to US$456 million from US$656 million in 2008 (2007: US$644 million).

2.1.3.3 Preferential procurement

Preferential procurement, including from indigenous or historically disadvantaged groups, continues to play a key role in our strategy of driving equitable economic development and economic diversification in host countries. Nonetheless, significant reductions in overall procurement have inevitably been reflected in our preferential procurement spend. In 2009, approximately US$611 million was allocated to preferential procurement in southern Africa and Canada (2008: US$1.1 billion, 2007: US$1.0 billion).

[2] Figures include employees from our joint ventures. They do not include contractors or employees at Diamdel or De Beers Diamond Jewellers

[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



"…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 national 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

Figure 2-9: Preferential procurement spend, 2009 (US$ millions)

Country	Preferential procurement group	2007	2008	2009
Botswana	Citizen-owned and local companies	US$293 million	US$478 million	US$328 million
Canada	First Nations suppliers	US$269 million	US$218 million	US$86 million
Namibia	Historically Disadvantaged Namibian (HDN) owned, empowered and influenced businesses	US$8 million	US$9 million	US$14 million[4]
South Africa	Historically Disadvantaged South African (HDSA) owned, empowered and influenced companies	US$328 million	US$271 million	US$182 million

[4] Please note figure includes procurement spend by De Beers Marine Namibia, which has not been included in previous years

2.1.3.4 Enterprise development

The Family of Companies operates investment funds to promote enterprise development in Botswana, Namibia and South Africa. These contribute to employment, economic diversification and the creation of alternative post-mining livelihoods. In addition to providing finance, these funding bodies provide valuable professional advice and mentoring that bolster the sustainability of the companies they invest in.

Peo Venture Capital

Peo ("seed") is a 50/50 joint venture between Debswana and De Beers Botswana. Peo is managed by De Beers Botswana with guidance from the Debswana supply chain function. Since its inception in 1997, Peo has assisted in the establishment of 60 businesses and has invested a total of US$5.2 million (US$4 million in loans and US$1.2 million in equity). It has also created employment for 1,360 Batswana. It is estimated that over 70% (2008: 87%) of businesses in the Peo portfolio are profitable. Peo did not initiate any new investments in 2009, partly due to the global economic recession.

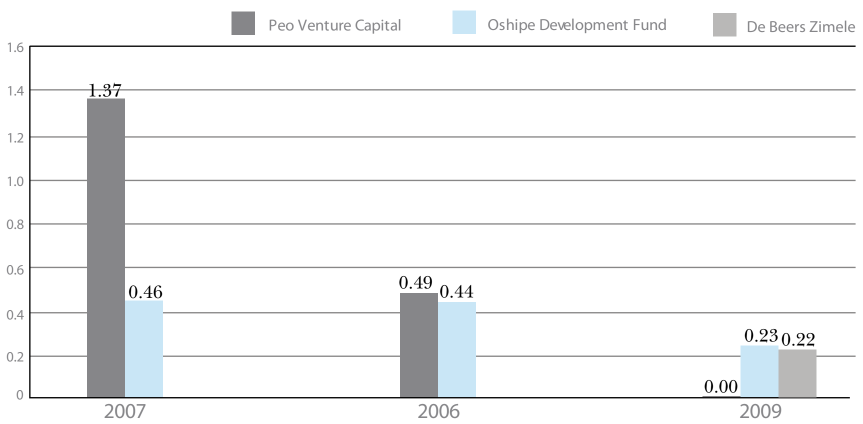
Oshipe Development Fund

Oshipe is a wholly owned subsidiary of Namdeb that aims to promote and facilitate the sustainable development and growth of local small and medium-sized enterprises (SMEs). Preference is given to SMEs partly or wholly owned by Historically Disadvantaged Namibians and also to those businesses that operate in or around our mining towns. Affiliation between Oshipe funded projects and our mine closure plan in Oranjemund, for example, is considered key to economic development post mining. Since its inception in 2005, Oshipe has made 17 investments totalling US$1.1 million. In 2009, Oshipe was involved in three key activities:

- SME investment
- Business advice and support for existing funded companies in Oranjemund and the rest of Namibia
- Business advice and support for companies trying to establish themselves in Oranjemund (p80)

Investments have been significantly reduced in 2009, amounting to US$0.2 million (2008: US$0.4 million).

Figure 2-10: Investment in enterprise development (US$ millions)



"We work with the SMEs in our portfolio to build good management skills, networking ability, emotional maturity and ensure robust financial planning linked to market demand. This helps protect our investments during times of economic volatility and recession."

Ronald Modikana, Peo Business Development Manager

De Beers Zimele

De Beers Zimele is based on Anglo American's internationally recognised Zimele model. It replaces De Beers Matlafalang as our main enterprise development vehicle in South Africa. De Beers Zimele provides loan funding, the transfer of business skills, mentoring and support, aims to help drive Black Economic Empowerment and fight poverty through the creation of sustainable SMEs. It hopes to create 25,000 employment positions over the next five to seven years.

In 2009, Zimele was piloted in Kimberley due to our longstanding association with the area and is planned for roll-out to other operations once the "small business hub" in Kimberley is fully established. De Beers Zimele is, for example, exploring opportunities for promoting enterprise development as part of the Living Edge of Africa Project in Namaqualand (p82-83). In 2009, De Beers invested a total of US$0.5 million in De Beers Zimele. Plans are in place for a significant expansion of the De Beers Zimele portfolio, with a target of 30 supported businesses by the end of 2010.

De Beers Zimele is currently funding six projects in Kimberley, through loans worth US$0.2 million. These include Perfect Fit Kitchens and Cupboards (four HDSA employees), Tiisetso Copy and Print (three HDSA employees) and Sophia's Excellence Driving Academy (two HDSA employees).

Dump trucks in operation at the Jwaneng mine, Botswana

2.1.4 The macroeconomic impact of the recession

Almost all countries in the world have seen lower or receding growth as a result of the global economic crisis. Our countries of operation were no exception. In the case of Namibia and Botswana, local recession was directly linked to an international fall in diamond sales.

2.1.4.1 Botswana and Namibia

According to the World Bank, Botswana and the Seychelles were the two African countries worst affected by the global economic recession. In the case of Botswana, it notes that this was due to "the collapse in international demand for diamonds". According to Botswana's Ministry of Finance and Development Planning, real GDP fell by 4.6% for the four quarters through to September 2009. Consequently, for the 2009/2010 financial year, the GRB announced a budget deficit position of 10.9%. This is in sharp contrast to a decade of budget surpluses.

Despite the county's economic decline in 2009, historical diamond revenues generated and managed by the GRB have put it in a good position to weather short-term economic disruption. According to the 2009 Budget Speech, as at the end of November 2008, Botswana's foreign exchange reserves amounted to US$9.2 billion, equivalent to 28 months' imports of goods and services. As a result, the dramatic fall in diamond revenues has not been fully reflected in the GRB's spending patterns. Although the GRB implemented a 7% reduction in recurrent spending, a 5% reduction in development spending and limits on civil servant wages, social spending has not been seriously affected.

The existence of substantial currency reserves, as well as a track record for sound macroeconomic management has helped the GRB access other forms of financing. In June 2009, for example, the African Development Bank approved a US$1.5 billion Budget Support Loan.

The Namibian economy also felt significant effects from the fall in demand for diamonds. In 2009, GDP growth slowed to a predicted 1.1% from 2.4% in 2008. This reflected reductions in the production of primary materials, export levels and domestic consumption. According to the World Bank, this has largely been due to lower demand for its commodity exports (mainly diamonds), as well as the slowdown of the South African economy.

- web.worldbank.org
- www.finance.gov.bw
- www.afdb.org

2.1.4.2 Canada and South Africa

Owing to the relatively minor roles played by the diamond industry in both countries, the dramatic global fall in diamond sales in 2009 had a limited national economic impact. Although Canada's real GDP shrunk by 2.6% over the course of 2009, this was due to prevailing global economic dynamics, which impacted almost all sectors. In South Africa, GDP fell by an estimated 1.8%, as a result of a decline in consumption spending and weak investment growth.

Locally, however, our mines play a vital role in the economies of their communities. This is particularly important in the case of Canada, where our mines are in remote locations and play a particularly important part in generating local employment opportunities and procuring local services (p70).

2.1.4.3 United Kingdom

In 2009, the United Kingdom's GDP fell by 4.9%. This was largely as a result of the country's level of exposure to the global financial crisis, which negatively affected almost every sector of the economy. In response to reduced Sightholder demand for diamonds globally, and as part of the DTC's ongoing shift in operational focus from London to southern African countries, staff numbers at De Beers UK Ltd were reduced by more than 25%, making it one of the most heavily impacted parts of our business.

2.1.5 Forging a united response

Our ability to manage risks posed by the challenging economic conditions of 2009 was greatly enhanced by the cooperation of our shareholder and government partners. A focus on long-term outcomes in the face of short-term adversity did much to ensure the sustainability of our business and its ability to generate value for our stakeholders.

2.1.5.1 Shareholder engagement and refinancing

During the first half of 2009 De Beers commenced discussions with its lending banks to renew its outstanding US$3 billion borrowing facility, of which US$1.5 billion was scheduled to become due and payable in March 2010. International and South African financing term sheets were agreed, and credit approval granted by the syndicates of lending banks. In addition, the shareholders of the company (Anglo American (45%), the Oppenheimer family (40%) and the GRB (15%)) showed strong support by agreeing to subscribe additional equity capital of US$1 billion in proportion to their existing equity holdings. This will enable a reduction in overall debt and strengthen the De Beers sa balance sheet. Detailed documentation of the new financing structure was concluded before the end of March 2010.

- www.angloamerican.co.uk

2.1.5.2 Government engagement

The global recession did much to demonstrate the strength of our partnerships with host governments. A collaborative approach enabled partners to mount a robust and far-reaching response to the recession and its impacts. For example, in September 2009, the GRN accepted Namdeb's request to defer its payment of royalties for three months in order to help it recover from the effects of recession.

As a key shareholder in De Beers sa, the GRB also agreed to a suspension of dividend payments for 2009. This did much to help maintain the cash flow of the business and help it weather the short-term challenge posed by a dramatic fall in sales. This likewise helped safeguard its long-term role as a generator of public revenues.

The Family of Companies took early and proactive steps to keep government partners informed on the state of the world diamond market. This helped policy makers make informed budgetary decisions based on accurate market intelligence and enabled adequate preparation for a significant reduction in diamond revenues. It also meant our government partners were fully aware of the need for, and likely impact of, our own short-term mitigation actions.

- www.gov.bw
- www.grnnet.gov.na

2.1.5.3 Mitigation strategies

De Beers responded quickly to the global economic crisis with a "Recession Action Plan" focused on sustaining the business through the recession and positioning it for future growth. In spite of exceptionally difficult trading conditions, which saw sales decline from US$6.89 billion in 2008 to US$3.84 billion in 2009, De Beers exceeded its cost-reduction targets, enabling the company to remain cash positive for the year and generate positive Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) (US$654 million) and Profit Before Interest and Taxes (PBIT) (US$318 million).

Maximising demand opportunities

Due to significant volatility in levels of rough diamond demand in 2009, the Diamond Trading Company (DTC) employed a flexible approach to its sales. Demand was affected most acutely in the first quarter. As the year progressed, however, Sightholder demand improved. This allowed the company to increase sales volumes throughout the second half of the year. DTC sales for the year totalled US$3.23 billion, significantly below 2008 (2008: US$5.93 billion), but above our half year expectations. On the consumer side, Forevermark™ continued to expand in China, Hong Kong, Japan and Macau and the brand is now available in 245 stores across Asia. The Everlon Diamond Knot Collection™, which is a De Beers-devised joint marketing campaign with leading retailers, made a strong contribution to improving Christmas diamond sales in the US.

- www.forevermark.com
- www.debeersgroup.com

> "We are going to come out of this in a stronger position than when we went into it in terms of our organisational efficiency and cost base, and when that happens it will allow us to get refocused on our long-term vision, which is one with a lot of excitement."
>
> *Inge Zaamwani-Kamwi, Namdeb CEO*

Producing in line with Sightholder demand

At the beginning of 2009 De Beers dramatically reduced production across its portfolio of mines, in response to reduced demand from DTC Sightholders. This resulted in a significant reduction in carats produced compared to 2008. As Sightholder demand gradually increased from the second quarter, the Family of Companies responded by increasing its production to 18 million carats in the second half of the year (2008: 24 million carats), an increase of 173% compared with the first half. This resulted in a full year total of 24.6 million carats (49% below 2008).

Cost saving

Across the Family of Companies, De Beers aggressively tackled costs, achieving a US$0.9 billion reduction in production and operating costs, down 45% compared to 2008. Measures included, for example, reduced operational activity (p23, p51), reduced business travel and the outsourcing of services.

Enhancing operating efficiencies

Regrettably, one of the most significant sources of cost reduction was a 23% reduction in our total workforce through delayering and decentralisation of the business (p50-53). Despite the difficult nature of this decision, this was absolutely necessary in order to secure the sustainability of our business. Further details are provided in the Employees chapter of this report.

Focusing on cash management

Our focus on cash management and capital expenditure, which was reduced by US$222 million compared with 2008, enabled the company to remain cash positive in 2009, in spite of the exceptionally challenging trading conditions.

Given the nature of the assets, the effects of a weak US Dollar and the impact of the global recession on pricing and production levels, De Beers made a non-cash impairment provision of US$700 million against its Canadian operations in 2009.

Disposal of AK06

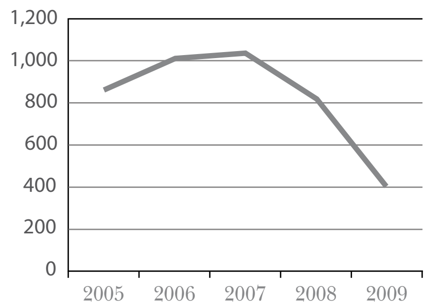
In December 2009, De Beers completed the sale of its 70% share in the AK06 mine to Canadian mining company Lucara Diamond Corporation for US$49 million. Due to the limited size of the mining plan at AK06, the decision was made to concentrate on larger-scale projects that deliver superior rates of return and appropriate production volumes.

- www.lucaradiamond.com

Figure 2-11: Reductions in carat production by business unit, 2009

Business unit	Year on year carat production
De Beers Canada	-31%
DBCM	-60%
Debswana	-45%
Namdeb	-56%

Figure 2-12: Annual operating costs (US$ millions)



2.1.5.4 Maximising long-term revenues

Reduced sales have impacted on our ability to maintain full production during 2009. Nonetheless, reduced short-term production effectively extends the long-term revenue-generation potential of each country's national diamond resources. For example, Namdeb's production holiday is believed to have increased the life of its land-based diamond resources by three years. This is because the return of consumer demand and consequent ramp-up of operations will be gradual.

In the absence of major new discoveries it is possible that we will not reach peak 2008 levels of production again. In this context, it is particularly important that each country's finite diamond reserves are developed in a responsible and measured way to maximise their long-term benefits.

Questions from stakeholders:

Does De Beers substantial economic role in southern Africa mean it has significant political influence?

We strive to meet the highest ethical standards in our relationships with government, our business partners, competitors, suppliers and communities where we operate.

Diamonds, and more specifically our business activities, make a significant contribution to development in southern Africa. This contribution has been most marked in Botswana and Namibia, where diamonds remain the largest single contributor to Gross Domestic Product (GDP), export earnings and government revenues. In 2009, De Beers paid US$782 million in taxes and royalties to governments; 88% of this (US$688 million) was paid to governments in Africa.

Our working relationship with the Government of the Republic of Botswana (GRB) is a strong one. This is based on four main factors:

- Our significant economic role in the country
- The significant role that Botswana plays in our business
- The 15% shareholding that the GRB holds in De Beers
- Our mutual 50% shareholdings in Debswana and DTCB (p18-19)

Owing to the materiality of our business to the GRB, there is a regulated process through which our business strategy is reviewed and reported on. This helps ensure the GRB is fully informed of the potential macroeconomic impacts of our actions, and that we are able to ensure the mutually beneficial management of Debswana and DTCB. We do not have, and do not aspire to have, any ability to influence the GRB's decision-making.

Our level of access to government in South Africa and Namibia is less than in Botswana. This is partly due to the smaller role diamonds play in each country's economy and our more limited commercial relationships. As a result, our interaction with each government takes place within the normal regulatory structures and is more in line with that of our peer companies.

Our relatively small operational presence in Angola is focused on a 50/50 exploration joint venture with state diamond company Endiama. Should we expand our presence in Angola, we would seek to deepen relations with the government in order to replicate the mutually beneficial model that we have established elsewhere in southern Africa.

Questions from stakeholders:

How does the Family of Companies "convert natural resources into shared national wealth"?

- Sharing wealth through joint ventures creates shared responsibility for success
- Hiring, training and promoting local citizens stabilises the business environment by building a strong local workforce
- Beneficiation – the localisation of value-adding processes – helps maximise the benefits derived from natural resources
- Contributions to the health and education of communities help to secure their long-term sustainability
- Industry leadership in ethical business practices, and support of good governance, promotes consumer confidence in diamonds
- Innovative environmental stewardship protects our investment in our operating countries

Case study: Exploration in Angola

Following nearly three decades of civil war, which ended in 2002, over the past seven years Angola has steadily been modernising its infrastructure, legislation and business environment. Angola is striving to diversify its economy, and the development of its natural resources is regarded as pivotal to shaping its future. The opportunities are many and in the mining context, modernisation has included the drafting of a new Mining Code.

De Beers is presently undertaking exploration for primary diamond mines in two concession areas, each of 3,000 km^2, in the provinces of Lunda North and Bié. In the past four years, our exploration teams have discovered 150 kimberlites in these two concessions, making Angola one of the most prospective regions of the world, and several of these pipes are being bulk-sampled to assess their economic potential.

Our exploration team has faced a number of challenges since commencing in 2005. These have included the fact that geological and geophysical data has to be gathered for the first time, a lack of specialised service providers (e.g. drilling) in the local market, and a scarcity of skills and experience in the field of mineral exploration. Notably, the shortage of skills and competencies in the local market has been exacerbated by competition from other diamond exploration companies and the petroleum industry. While the challenges are significant, none are insurmountable in the long term, and are being overcome through developing and importing the appropriate specialised equipment and technologies, and the training, development and deployment of Angolans in the operations.

De Beers remains fully committed to the discovery and development of kimberlite mines in partnership with state diamond company Endiama and the Government of the Republic of Angola. It is through such partnerships that we hope to make a real and sustainable contribution to the future growth, development and stability of the Angolan diamond sector and the Angolan economy as a whole.

www.endiama.co.ao


Our exploration team in Angola

2.1.6 Preparing for recovery

The economic crisis has provided De Beers with an opportunity to improve its balance sheet and to ensure it is well positioned as the industry emerges from the downturn. It has also demonstrated the positive outcomes that can result from early collaborative action. Nonetheless, the short-term remains uncertain and De Beers is focused on incorporating key elements of its Recession Action Plan into its normal way of working, with a strong focus on cost management at all levels of the business.

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

2.1.6.1 Access to new reserves

Access to new reserves is essential to the long-term sustainability of our business. These will come from two sources: expansion of our current mines and development of new mines.

At the end of 2009, Debswana announced a major expansion project at Jwaneng, the world's flagship diamond mine in Botswana. This project, also known as Cut-8, will ensure profitable and continuous production at Jwaneng until at least 2025. Debswana will invest US$500 million in capital expenditure, while the estimated project investment is likely to total US$3 billion over the next 15 years. At its peak, the project will create more than 1,000 jobs and will create access to a further 95 million carats, which could be worth in excess of US$15 billion over the life of the mine.

In 2009, Exploration spent US$44.8 million (2008: US$92 million) on work programmes in Angola, Botswana, Canada, India and South Africa supported by technical and laboratory services from South Africa. Despite the significant reduction in budget, Exploration maintained a high discovery rate, adding 45 kimberlites – up from the 37 discoveries in 2008.

2.1.6.2 New revenue streams

De Beers is in the process of developing an innovative new project with AngloGold Ashanti to utilise our marine diamond mining assets and capabilities to extract gold deposits in offshore sediments in southern Africa, New Zealand and Chile (p97). Critically, whilst relatively small, this project offers the prospect of a potentially new revenue stream using existing assets and technology.

www.anglogold.com

BUSINESSACTION FORAFRICA

Focus article

This article has been provided to the Family of Companies to provide expert commentary and insight on issues that affect the sustainability of our business.

Zahid Torres-Rahman

Director, Business Action for Africa

Harnessing business action to drive real and lasting economic development

For so long at the margins of the development debate, it is now widely recognised that the private sector has a central role to play in tackling poverty – by driving economic growth, creating jobs and contributing the tax revenues needed to fund public services. Governments and donor agencies around the world are looking for ways to tap the innovation and energy of the international and domestic private sectors.

Business also increasingly understands that what is good for development can also be good for the bottom line. At the same time, doing good business is very often the most powerful and sustainable way to reduce poverty – far more so than traditional philanthropic corporate social responsibility, important as that is. Ultimately, it is those businesses that are able to harness their core business practices and competencies that will have the greatest impact on development outcomes.

A pioneering example of business engagement is De Beers beneficiation programme. By moving towards Africa-based sorting, valuation and sale of locally mined diamonds, the programme will drive value addition into the local economy. It is a model that makes sense for business and for development, and is one that other investors across the continent should emulate.

From our perspective as Business Action for Africa, the key priority moving forward is to move from the question of whether business has a role to play in supporting Africa's development, to practical issues of how best it can fulfil this potential. We have identified two priorities.

The first is around how to make partnerships work. De Beers has a long track record in this area: partnerships have been central to the way it has done business (with Debswana an obvious example) and to how it has engaged on development issues (such as that of conflict diamonds through the Kimberley Process). De Beers continues to be a leader on the need for effective partnerships, including through its position as a Founding Board Member of Business Action for Africa.

Going forward, the business community as a whole needs to move towards a new type of relationship with international donors and governments: longer-term, more strategic relationships with a greater willingness to share financial resources and risk. De Beers experience of what makes partnerships work will be valuable in bettering our understanding of how to drive future partnerships: identifying the practical barriers to progress and how resources and capabilities could be better aligned.

The second priority that we see is the need for business to find better, more consistent ways of measuring its impact on development outcomes. Deeper analysis and understanding of business impacts in developing countries not only provides the all important evidence to drive increased business participation, but also makes an important contribution to policy making by building understanding of the approaches that work, and those that do not.

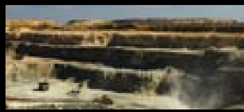
This year marks the two-thirds point to the deadline for achieving the Millennium Development Goals, and a stock take of progress later this year is likely to show that most of sub-Saharan Africa remains significantly off-track. Finding new opportunities to make up the deficit in the achievement of the MDGs must be a crucial part of the collective agenda for business and its development partners.

www.businessactionforafrica.org

Over the past 40 years, De Beers has significantly contributed to the economic and social development of Botswana. The country has evolved from being one of the 10 poorest countries in the world in 1966, to the middle income country it is today. Since independence in 1966, Botswana's Gross Domestic Product (GDP) growth rate has averaged 7% a year. The diamond industry is the lifeline of the economy, propelling the population to a higher standard of living and a better quality of life. De Beers commenced prospecting in Botswana in March 1955. The first kimberlite to be discovered was in the Mochudi area in 1966. On 1 March 1967, the first Orapa discovery was made (BK01), whilst the main AK01 pipe at Orapa was discovered on 25 April 1967. Mines at Letlhakane and Jwaneng soon followed.

23 June 1969

De Beers Botswana Mining Company (BMC) formed as an equal partnership between the Government of the Republic of Botswana (GRB) and De Beers



1971

Orapa mine starts operating

1972

Jwaneng diamond pipe discovered by De Beers geologists

Botswana Diamond Valuing Company (BDVC) establishes a joint venture between De Beers and Botswana Development Corporation

1973

Morupule coal mine starts operating

1975

Lethlakane mine starts operating

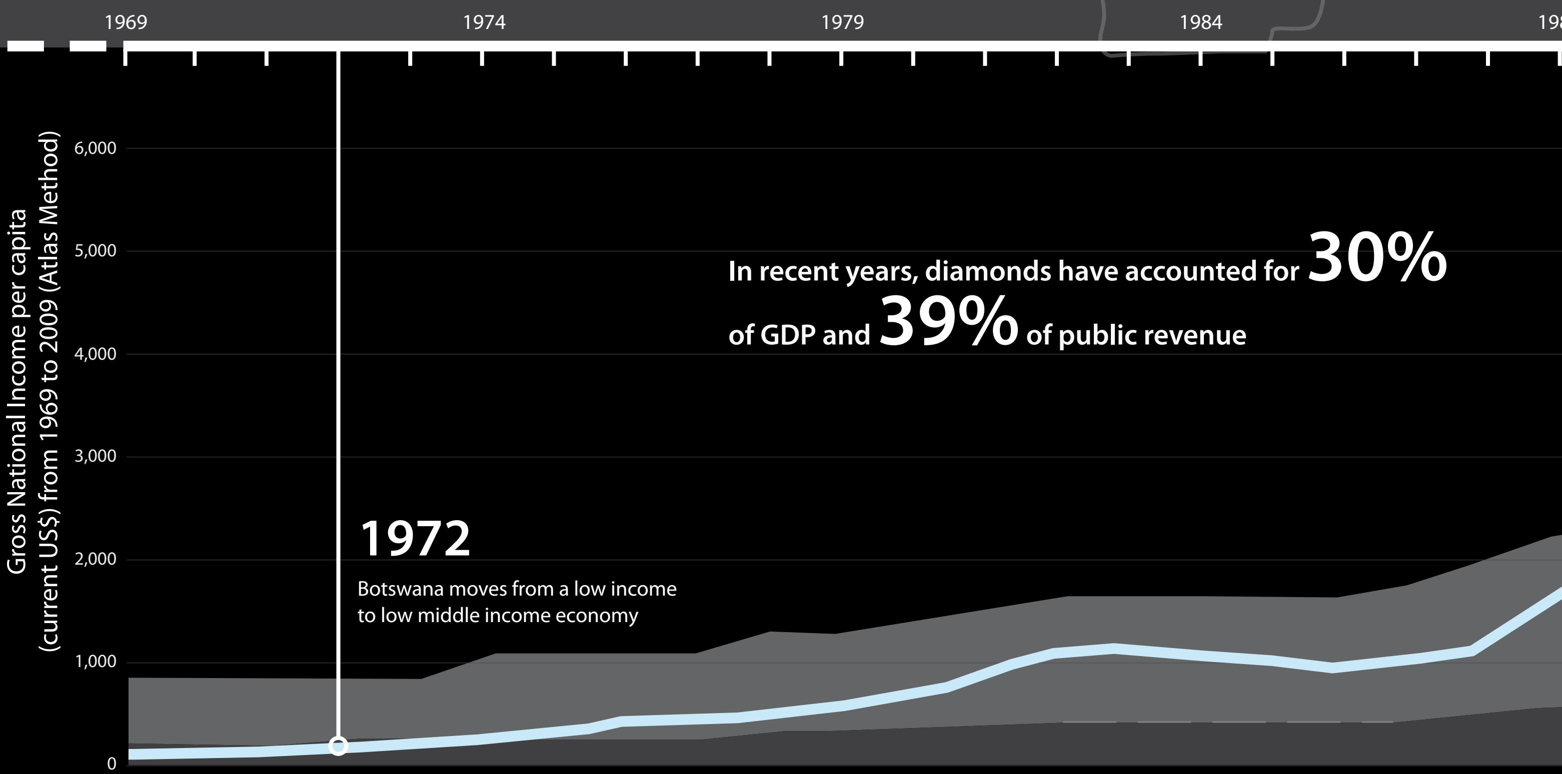
1982

Jwaneng mine starts operating

1987

BMC receives a 5% shareholding in De Beers. GRB entitled to two representatives on the Board

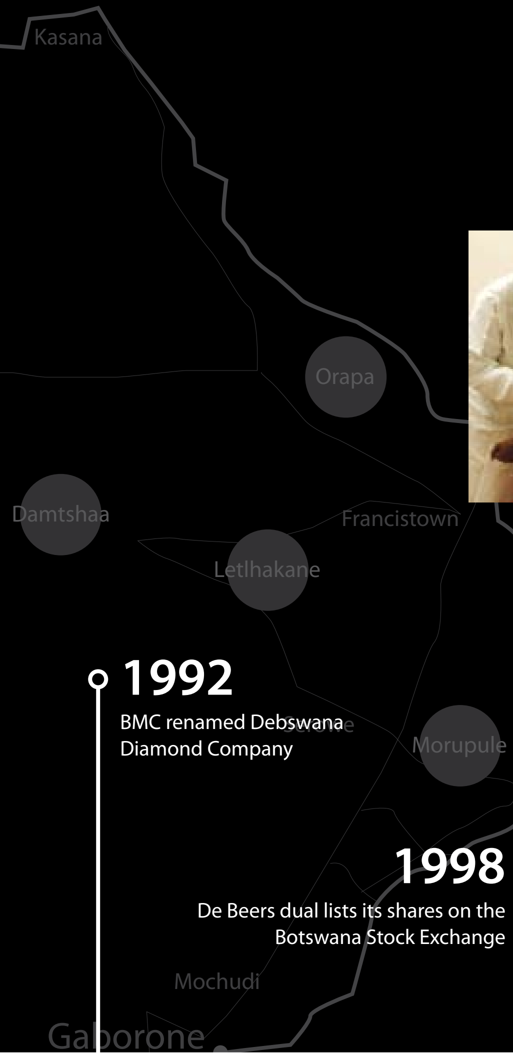
40 Years of Partnership

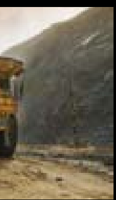


In recent years, diamonds have accounted for **30%** of GDP and **39%** of public revenue

1972

Botswana moves from a low income to low middle income economy





1992

BMC renamed Debswana Diamond Company

1998

De Beers dual lists its shares on the Botswana Stock Exchange

2001

De Beers delisted and privatised and GRB takes a 15% interest

Debswana becomes the first company in the world to provide free Anti-Retroviral Treatment to its employees

2002

Damtshaa mine starts operating

2006

GRB and De Beers establish the Diamond Trading Company Botswana (DTCB), a 50/50 joint venture between the GRB and De Beers to ensure further host country benefits from downstream beneficiation activities

2008

Opening of DTCB with more than 3,000 new local manufacturing jobs created in Botswana

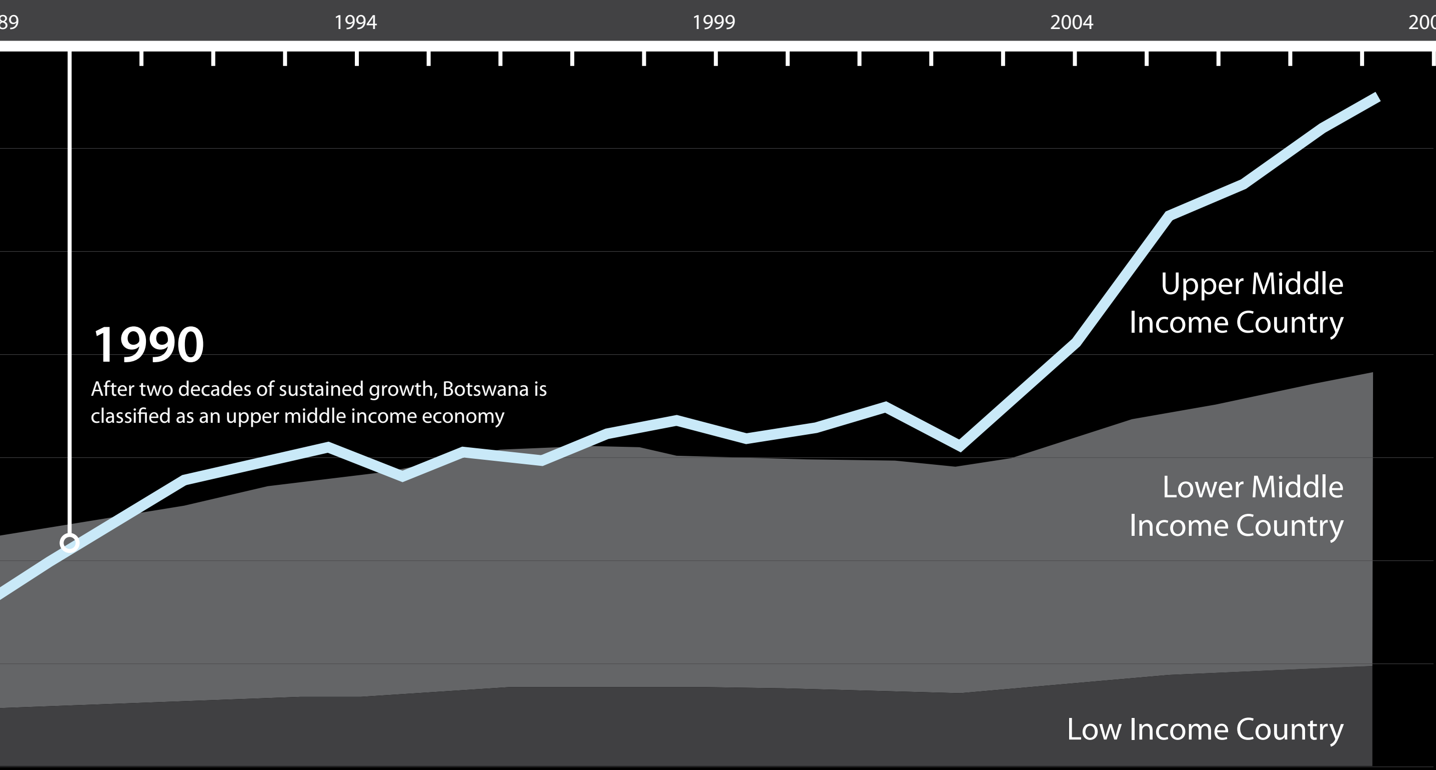
23 June 2009

De Beers commemorates 40 years of partnership in Botswana

First DTCB Sight takes place

in Botswana

Debswana is a 50/50 private-public partnership between De Beers and the Government of the Republic of Botswana. Over 80% of all gross profits realised by Debswana go into government revenues, making it the single most important source of financing for national development.



Source: World Bank, 2009

2.2 Success of beneficiation

Risk: Recession and a substantial reduction in diamond sales has had the potential to significantly impact on the ability of our operations and producer partners to develop and promote downstream diamond sorting, cutting and polishing, local procurement and enterprise development schemes.

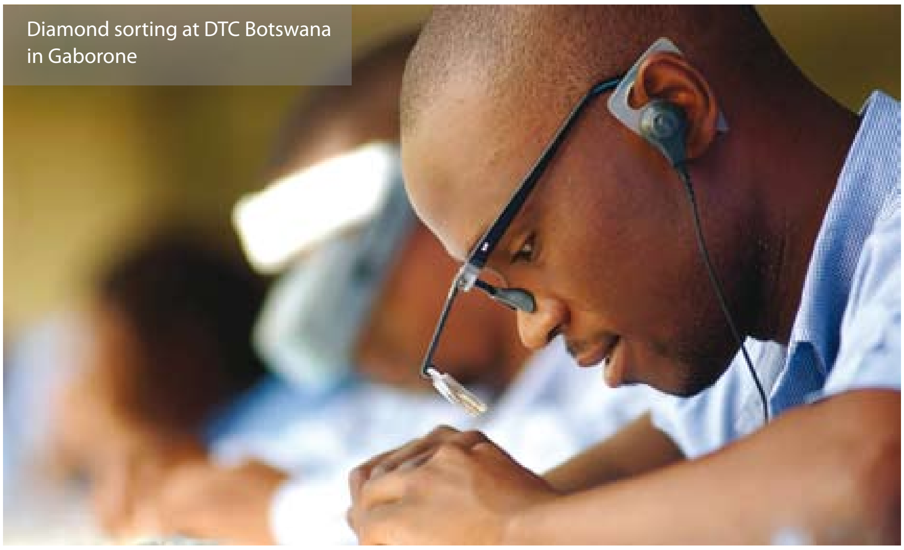
2.2.1 Sustainable development through diversification

Beneficiation is the process by which De Beers, through its sales and distribution arm, the Diamond Trading Company (DTC) and its government partners promote, develop and implement value-adding diamond-related activities in producing countries. These activities include the sorting, valuing, cutting and polishing of rough diamonds, as well as citizen skills development in all aspects of the downstream supply chain to retail. Beneficiation aims to optimise the economic returns from diamond resources through national capacity building, increased employment, enhanced revenues, diversification, the fostering of a more conducive business environment and the attraction of ancillary economic activity in a sustainable manner.

Our beneficiation activities differentiate De Beers from any other company. Beneficiation forms a key part of our long-term economic sustainability strategy, as well as our overall value proposition to our host countries. It is a means by which to manage finite national diamond resources in order to ensure the development of a robust and broad-based post-mining economy. The ability of host countries to compete with low-cost cutting and polishing centres such as India and China is to a large part reliant on the provision of robust governance, world class skills and facilities, and the maintenance of a favourable and responsible business environment.

In 2009, pressures associated with the global economic recession significantly challenged the sustainability of beneficiation. While the Family of Companies can help drive the process through regional investment and diamond sales, its ultimate success depends on attracting Sightholders and other companies involved in the diamond pipeline to invest in the diamond industries of our host countries. These companies faced serious commercial pressures throughout the year, including a fall in consumer demand, reduced liquidity and a shortage of available credit upon which they traditionally rely.

www.dtc.com



Diamond sorting at DTC Botswana in Gaborone

2.2.2 Beneficiation and diversification context

Upon extraction, and prior to sale at retail level, a diamond undergoes a series of complex processes and procedures. These include sorting, valuing, cutting, polishing and jewellery setting. Traditionally, very few of these value-adding activities took place in diamond producing countries and instead diamonds were exported to trading centres such as Antwerp, Mumbai, Tel Aviv and New York for onward processing.

Through our beneficiation initiatives the Family of Companies has worked with government partners to ensure that more of these activities take place in southern Africa as well as Canada. In so doing, greater economic value is created "at source" and ultimately the developmental power of diamonds can be truly released.

The scope for beneficiation outside of the Family of Companies remains considerable. The approximate value of diamonds mined globally in 2008 amounted to US$14.3 billion. Retail sales of diamond jewellery amounted to US$64.8 billion (US$18.4 billion value of diamond content in retail sales).

www.diamondintelligence.com

2.2.3 Progress

The Family of Companies beneficiation programme in southern Africa is driven through three locally established distributors of rough diamonds: DTC Botswana (DTCB), Namibia DTC (NDTC) and DTC South Africa. Beneficiation is further supported in South Africa through the assistance we provide to the State Diamond Trader. Each of these entities promotes in-country wealth creation and skills development by:

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

The process of beneficiation aims to extract maximum long-term value from our producer countries' diamond assets for the benefit of both the Family of Companies and our government partners. As well as promoting local job creation and skills development, it acts as a catalyst for further domestic investment from international business.

2.2.3.1 DTC Botswana

Incorporated: May 2006. Prior to the incorporation of DTC Botswana, sorting and valuations were undertaken in Botswana 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 is to supply US$550 million worth of rough diamonds (equivalent to about 3% of GDP) via this channel by the end of 2010. Discussions around the Debswana sales agreement, currently scheduled to end in 2011, are due to commence in 2010

Local Sightholders: 16

www.dtcbotswana.com

2.2.3.2 NDTC

Incorporated: January 2007. Prior to the incorporation of NDTC, sorting and valuations were conducted in Namibia 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

Local Sightholders: 11

www.dtc.com

2.2.3.3 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: About 50% of De Beers total production by value in South Africa is sold to the domestic cutting industry via DTC South Africa and the State Diamond Trader. In 2009, sales of rough diamonds to South African Sightholders and their Black Economic Empowerment (BEE) partners amounted to US$264 million (2008: US$573 million, 2007: US$670 million)

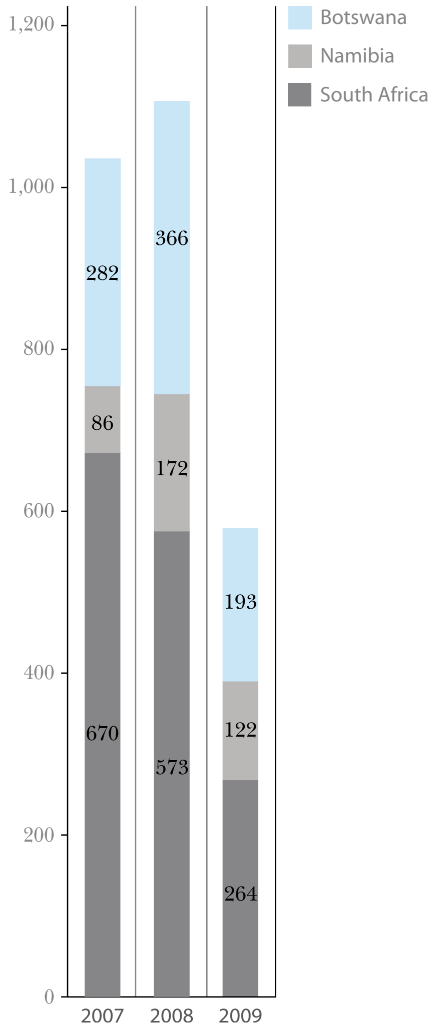
Local Sightholders: 17

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

2.2.3.4 Canada

In 2009, diamonds worth a total of US$15.5 million were supplied for local manufacture in Canada. The DTC's beneficiation activities in Ontario, Canada, began in February 2009 when Crossworks Manufacturing Ltd, based locally, was awarded Sightholder status. 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 to be made available for manufacture within the province. DTC Sightholder Crossworks made its first purchase of rough diamonds in July 2009 and, in the long-term, is expected to create about 50 new jobs. A similar agreement is already in place in respect of our Snap Lake mine and the Government of the Northwest Territories.

Figure 2-13: Rough diamond sales to Sightholders in southern Africa (US$ millions)



Case study:
Shining Light awards

First launched in 1996, the biennial DTC Shining Light Awards originally aimed to develop the technical and design skills of local designers, and to raise the profile of South African jewellery design. In 2009, the competition was broadened to include both Namibia and Botswana for the first time and managed by NDTC and DTCB respectively. Of the 18 jewellery pieces in the US$2.9 million collection, eight were created by designers from South Africa, five from Namibia and five from Botswana.

The Shining Light awards are the means by which the DTC promotes collaboration between its Sightholders, sponsors, local manufacturers and designers to produce innovative diamond jewellery. It serves to promote southern African jewellery, drive diversification within local diamond sectors and transfer knowledge and skills. During the manufacturing stage of the competition, for example, two of the winners were flown to India by their sponsors to participate in the manufacture of their winning pieces.

As part of the competition, the DTC hosts and sponsors Design Forums in all three participating countries. It is at the Design Forums that students of jewellery design, established jewellers and experts in the field of design from around the world, come together to network and increase their skills base. As part of the awards, the DTC also provides five jewellery design schools with educational grants.

www.shininglightsawards.com

"The Government of Namibia wants to see a flourishing industry in jewellery design and manufacturing that will not only discover talent within Namibia but will also create employment opportunities for Namibians. The Government endorses such endeavours, congratulates the participants and urges them to take the Namibian flag to higher ground."

The Honourable Erkki Nghimtina, Minister of Mines and Energy (2006-10)

Overall winner of the DTC Shining Light Awards in South Africa, designed by Bhekithemba Ngema and sponsored by Schachter & Namdar

2.2.4 Maintaining momentum

During 2009, beneficiation faced one of its harshest tests yet. Lower consumer demand for diamond jewellery, a substantial inventory overhang in the diamond value chain and restricted access to bank financing represented just some of the commercial challenges experienced by local Sightholders.

With lower labour costs in other manufacturing centres such as India and China, the economic environment had the potential to undermine the viability of beneficiation in producer countries. Had beneficiation proven less robust, the recession could have seriously affected what is a key component in the long-term strategy of both the Family of Companies and its government partners.

2.2.4.1 Impacts of reduced demand

During the course of 2009, many Sightholders operating out of our producer countries suspended the purchase of rough diamonds from the DTC to work through existing inventories. Only one of our Sightholder operations in Botswana was forced to close down. Nonetheless, another international Sightholder was soon able to take over the facilities following DTC Board assessment and agreement, hence safeguarding the employment of many of the ex-workers at the closed factory. This was part of a wider trend that saw local Sightholders start to reemploy retrenched employees in response to a gradual improvement in business conditions over the course of the year.

Whilst relatively small, employment levels in the cutting and polishing sectors of Botswana, South Africa and Namibia were impacted less over the course of 2009 than most other cutting centres. In Surat, India, the world's largest centre, employment figures fell markedly at the end of 2008 and in 2009 with only a gradual movement towards pre-downturn levels towards the close of the year.

Despite the commercial challenges of 2009, there was further evidence of Gaborone's growing importance as a diamond centre. In September, for example, ABN Amro Bank announced the relocation of its regional "International Diamond and Jewellery Group" office from Johannesburg to Gaborone. The arrival of the unit, which will serve the whole of Africa, marks an important milestone in the development of the city as a regional "diamond hub". In addition, 2009 saw the opening of a GIA (Gemological Institute of America) grading operation in Gaborone, thus providing a vital service to local operators.

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

2.2.4.2 Actions to support domestic Sightholders

The challenges that the recession presented to the global Sightholder community were recognised early on and were rapidly acted upon by the DTC and wider Family of Companies. In doing so, we were able to successfully manage and mitigate risks that would have posed a more serious commercial threat to the sustainability of beneficiation.

Confidence building

Due to its unique market position and historical knowledge, the Family of Companies sought to ensure that Sightholders were fully informed about market conditions and their likely impact. We also worked proactively to bolster confidence within the market amid very unsettling commercial times.

For example, a series of "Town Hall" meetings was organised by senior De Beers leaders in the world's cutting centres and southern Africa to proactively engage with our local commercial stakeholders. This involved setting out the measures that the Family of Companies was taking to support the industry as a whole, sharing information on our commercial activities, and setting out our frank assessment of market conditions.

Sightholders traditionally rely on credit to finance purchases. In this context it was vital both for the Family of Companies and its beneficiation partners to maintain an adequate flow of credit amid a worsening economic situation. The DTC liaised closely with several diamond industry banks (including those financing operations in producing countries) in order to allay any concerns regarding their perceived exposure to the diamond pipeline.

Schedule flexibility

At an operational level, measures were taken to add a degree of additional flexibility within the Sightholder sales system. For example, there is typically a 12 month forward planning delivery schedule for rough diamond purchases. This often requires relatively complex commercial planning by Sightholders. It was decided to introduce increased flexibility in order to allow our Sightholders to react more responsively to market conditions.

2.2.4.3 Supply stability for Sightholders

A key element of the DTC's offering to the Sightholder community is its tailored assortments or "Sight Boxes", which provide individual cutting and polishing operations with the required categories of rough diamonds. This level of consistency in approach maximised economic and practical efficiencies at a time when demand for rough and polished diamonds remained limited to particular categories.

2.2.5 Meeting the challenge

The severe test posed by the recession has demonstrated the robust and sustainable foundation of Sightholder operations in our producer countries. This validates the joint benefaction strategy we share with our government partners in southern Africa and Canada and bodes well for future success.

2.2.5.1 Securing the long-term future of southern African diamond processing

The DTC intends to move diamond aggregation activities from London to Gaborone. This will see the creation of about 50 posts, representing a valuable transfer of skills to Botswana. It will also significantly contribute to the government's concept of a thriving "diamond hub" and move it further towards the critical mass needed for long-term sustainability.

Our producer countries are unlikely to be able to compete with cutting centres such as India and China purely on the basis of labour costs. In the long-term this means that the sustainability of beneficiation will instead need to rely on delivery of appropriate assortments by the DTC, technological efficiency and operational excellence. Focus will continue to be placed on technology-led development driven by the DTC Research and Development facility in the UK.

www.dtc.com


Cutting and polishing at the Steinmetz Diamonds facility in Gaborone

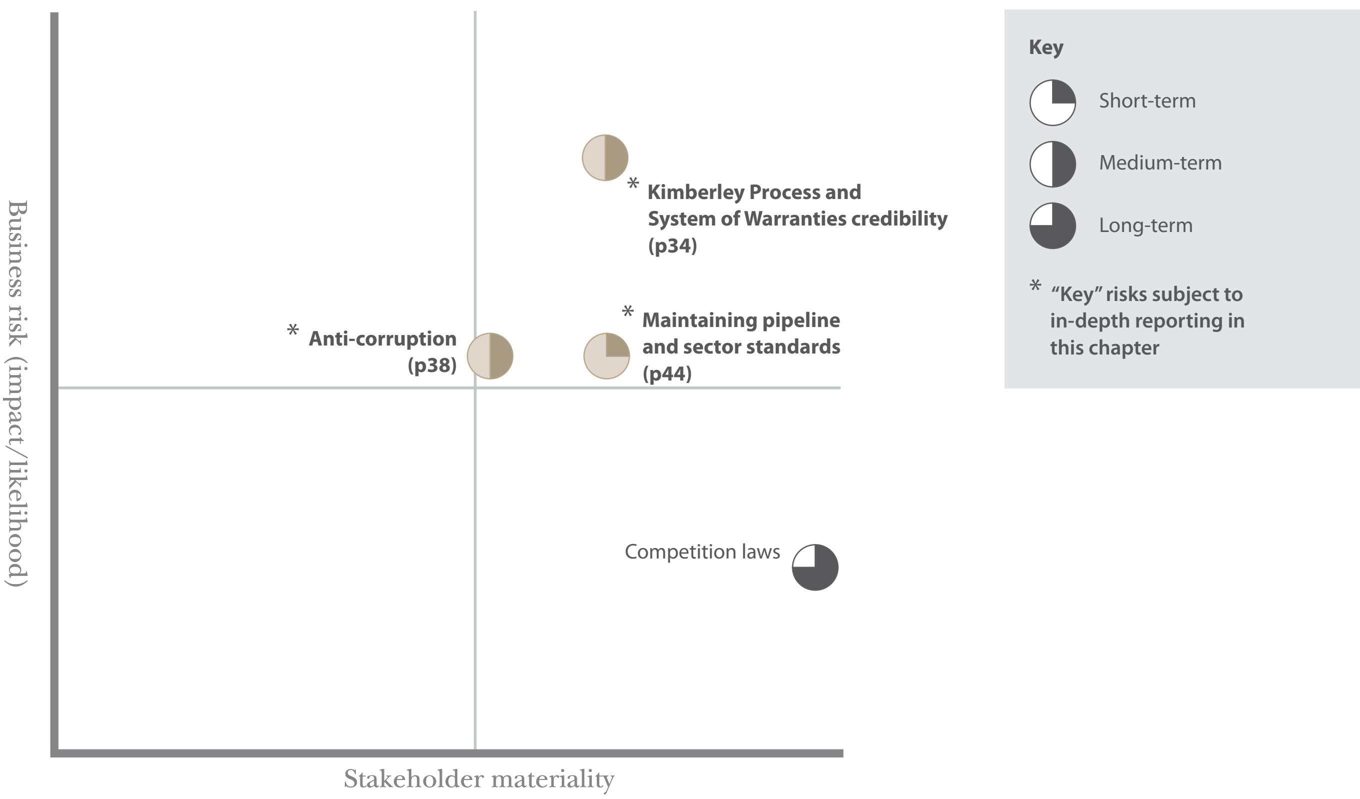
3 Ethics

Our commitment to meeting the highest ethical standards is founded on our aspiration to live up to the unique qualities of diamonds. This commitment has remained undiminished throughout the recent economic turmoil in the industry and the global marketplace. The behaviour of our employees, the robust nature of our assurance systems and the transparency of our business transactions are intended to maintain stakeholder confidence in our business and play a key role in upholding "diamond equity".

De Beers operations aspire to meet or exceed all applicable statutory requirements, as well as international standards on issues ranging from conflict diamonds to anti-corruption. This includes compliance with and continued promotion of the Kimberley Process and the Extractive Industries Transparency Initiative protocols, which in tandem assure the provenance of our diamonds and facilitate the responsible distribution of the revenues our business generates in producer countries.

The Family of Companies also works with its business partners to develop and embed ethical standards throughout the diamond value chain. Our Best Practice Principles (BPPs) apply not only to our own operations, but also to Sightholders, contractors and suppliers. We also work with sectoral initiatives such as the Responsible Jewellery Council to drive high standards throughout the industry.

Key ethical risks



Risks

* Kimberley Process and System of Warranties credibility (p34)

The Kimberley Process has been criticised over the strength of its enforcement mechanisms, as well as its ability to deal with serious human rights violations associated with diamonds. Such criticism has been spurred by reports of corruption and human rights violations in Zimbabwe, as well as Ivory Coast, Venezuela, Guinea and Lebanon. Likewise, the diamond jewellery retail sector has not traditionally provided necessary consumer assurance that diamonds are from conflict free sources. This presents a risk to the reputation and sustainability of the industry.

* Anti-corruption (p38)

Corruption poses serious legal, commercial and reputational risks to our business. Moreover, the corrosive social, political and economic effects of corruption pose a potential threat to the sustainable development and enduring stability of our current and potential operating environments. Our ability to transform natural resources into national assets depends on empowered and stable governments that are able to responsibly deploy related resources and revenues.

* Maintaining pipeline and sector standards (p44)

De Beers, our joint venture partners, contractors and Sightholders subscribe to the Best Practice Principles (BPPs) – a mandatory code of ethical business conduct. It remains essential that the application of these Principles throughout the pipeline is maintained as our business partners come under strong commercial pressure. Similarly, the consolidation of ethical codes of conduct across the jewellery industry presents both a risk and opportunity for the company. It is essential that high standards are maintained and that the transition from our BPPs to the Responsible Jewellery Council Code of Conduct is seamless.

Competition laws

De Beers is committed to ensuring compliance with competition and antitrust laws and regulations in all of the jurisdictions in which we operate. This requires the maintenance of a "zero-tolerance" stance towards any non-compliance.

** Further information presented in this report*

Individually traceable rough diamonds

Highlights

- All diamonds sold by De Beers are 100% conflict free. Compliance with the Kimberley Process and System of Warranties for 2009 was verified by Société Générale de Surveillance (p37, p104)
- No significant incidents of corruption were identified during 2009 and no significant fines or non-monetary sanctions were imposed on the Family of Companies in relation to non-compliance with anti-corruption legislation and regulations (p38)
- In February 2009, a new "SMART" approach to the BPP Assurance Programme was implemented to verify Family of Companies and Sightholder conformance with the BPPs and to improve the efficiency of the verification process (p44)
- Over 600 individuals were nominated to participate in online competition law compliance training in 2009, with those who completed the training scoring an average of 94% (p41)

3.1 Kimberley Process and System of Warranties credibility

Risk: The Kimberley Process has been criticised over the strength of its enforcement mechanisms, as well as its ability to deal with serious human rights violations associated with informal diamond mining. Such criticism has been spurred by reports of corruption and human rights violations in Zimbabwe, as well as Ivory Coast, Venezuela, Guinea and Lebanon. Likewise, the diamond jewellery retail sector has not traditionally provided necessary consumer assurance that diamonds are from conflict free sources. This presents a risk to the reputation and sustainability of the industry.

In 2009, the Kimberley Process came under increasing criticism from sections of the international community following revelations of alleged human rights abuses in the artisanal alluvial diamond fields of Zimbabwe. While De Beers does not operate in Zimbabwe it was incumbent upon the company, as a responsible industry leader and a founder member of the World Diamond Council, to work with stakeholders towards a constructive and sustainable solution to the issue.

All De Beers diamonds are certified to be conflict free and are produced in full compliance with national and international law, the Kimberley Process and our Best Practice Principles (BPPs). Today, more than 99.8% of world diamond production originates from, and circulates amongst, countries that participate in the Kimberley Process.

3.1.1 The Kimberley Process

The Kimberley Process was established in 2000 by the United Nations (UN), governments, non-governmental organisations (NGOs) and the diamond industry to eliminate conflict diamonds from the legitimate diamond supply chain.

The UN defines conflict diamonds as *"rough diamonds which are used by rebel movements to finance their military activities, including attempts to undermine or overthrow legitimate Governments."*[1]

Conflict diamonds were used by rebel movements, mainly during the 1990s, as a source of funding for civil wars against legitimate governments in countries such as Angola, the Democratic Republic of the Congo and Sierra Leone.

Members of the Kimberley Process agreed on a simple system in which rough diamonds are sealed in tamper-resistant containers and accompanied by forgery-resistant certificates with unique serial numbers each time they cross an international border.

This initiative, known as the Kimberley Process Certification Scheme (KPCS), was enshrined into national law in the participants' countries in 2003. In 2004, the Chair of the Kimberley Process announced that considerably less than 1% of diamonds are conflict diamonds, reduced from approximately 4% before the establishment of the Kimberley Process. While this was an improvement, it was still not enough.

Decreasing the trade in conflict diamonds in diamond-producing countries minimises the ability of rebels to fund violence. By allowing only legitimately sourced diamonds to be traded, revenues from these diamonds can then be used to benefit the people of that country. Today, the vast majority of diamonds traded internationally are from conflict free sources.

The international diamond industry also developed a "System of Warranties" to support implementation of the Kimberley Process. The System of Warranties is a business to business scheme that applies to both rough and polished diamonds. It requires companies to implement a system that ensures all invoices for the sale of diamonds, and jewellery containing diamonds, include a written guarantee that the diamonds invoiced are conflict free. Records of all warranty invoices given and received must be kept and externally audited on an annual basis.

The Family of Companies was instrumental in developing the System of Warranties through its work with the World Diamond Council. The Kimberley Process and the System of Warranties are also embodied in the De Beers BPPs and our Principles.

- www.kimberleyprocess.com
- www.worlddiamondcouncil.com
- www.debeersgroup.com

"In southern Africa, diamonds are an engine for growth, employment and prosperity. The World Diamond Council believes that, in addition to combating the scourge of conflict diamonds, the Kimberley Process has helped to safeguard these benefits that are shared and enjoyed by thousands of people in communities across the region."

Eli Izhakoff, Chairman of the World Diamond Council

3.1.2 Successes and challenges

Events during 2009 highlighted the need for continued vigilance in terms of ensuring the ongoing integrity and enforcement of the Kimberley Process.

3.1.2.1 Key events in 2009

- Namibia was the Chair for the Kimberley Process with Israel as Vice-Chair
- The seventh annual plenary session of the Kimberley Process was held at Swakopmund, Namibia. The World Diamond Council delegation and civil society attended the plenary as observers
- The total number of participants in the Kimberley Process stood at 49 representing the governments of 79 countries (including 27 members of the European Union represented by the European Commission)
- The Kimberley Process Working Group on Monitoring (WGM),[2] which deals with issues relating to the full and effective implementation of the KPCS by participants, carried out review visits to Angola, the Democratic Republic of the Congo, Liberia, Sierra Leone and Zimbabwe, as well as to trading centres in the European Community and Turkey
- In November 2009 Israel became the 2010 Chair for the Kimberley Process with the Democratic Republic of the Congo elected as Vice-Chair

"We want Israel to take the lead. We want Israel to accomplish what needs to be accomplished in this window of opportunity… I think it's potentially a good thing for the Kimberley Process, a good thing for the people of Zimbabwe and a good thing for the State of Israel to have the Israeli government take and succeed, in a leadership role, on an international human rights issue."

Carroll Bogert, Associate Director of Human Rights Watch

[1] UN Resolution 55/66, 2000, http://daccess-dds-ny.un.org

[2] The WGM, responsible for the peer-review mechanism, organises review visits in participating countries and conducts an assessment of participants' annual reports. It also deals with crises relating to difficulties of implementation in specific countries that might endanger the integrity of the Kimberley Process

3.1.2.2 Challenges to enforcement

In late 2008, the international community became increasingly aware of alleged human rights abuses carried out in Zimbabwe's Marange diamond fields. In June 2009 Human Rights Watch issued a report: "Diamonds in the Rough", in which it cited serious human rights abuses carried out by public security forces. The report also reported on the army's alleged takeover of the Marange diamond fields in late October 2008. Critics argued that the then-ruling Zimbabwe African National Union-Patriotic Front (ZANU-PF) party was complicit in these abuses.

According to Kimberley Process statistics, Zimbabwe produced 797,198 carats in 2008 valued at US$43.8 million.

Failure on the part of participant governments to take decisive action in the face of serious non-compliance in Zimbabwe provoked calls from NGOs and industry alike for the strengthening and reform of the Kimberley Process. The World Diamond Council called on government participants to:

- Take swift action when faced with cases of non-compliance and agree on interim suspension mechanisms with clear criteria
- Implement stronger government oversight of the diamond industry, including spot checks of companies
- Ensure the cutting and polishing sector adheres to Kimberley Process minimum standards
- Improve internal controls and increase collaboration and enforcement efforts to combat rough diamond smuggling

www.hrw.org

3.1.2.3 Conflict and human rights

The Kimberley Process was established to eliminate the potential for rebel movements to finance and prolong civil war through the sale of rough diamonds. As such, an extension of the Kimberley Process mandate would be required if sanctions were to be lawfully imposed on Zimbabwe, a country where direct or indirect complicity for human rights violations allegedly lay with the government.

In their most extreme, sanctions could have included the expulsion of Zimbabwe from the Kimberley Process. To do so would have diminished the influence and credibility of the Kimberley Process in the country and allowed the situation in Marange to run its own course.

De Beers was in favour of voluntary suspension by Zimbabwe, until such time as the country became compliant with the Kimberley Process. Ultimately the Kimberley Process chose the route of positive engagement, as opposed to exclusion, in order to try to remedy the Zimbabwean situation.

3.1.2.4 Zimbabwe: working towards a solution

April 2009
Avi Paz, President of the World Federation of Diamond Bourses (WFDB), called on members of 28 affiliated bourses to take all measures necessary to ensure that they do not trade, directly or indirectly, in diamonds originating from Zimbabwe. Paz stated: *"Any bourse member who trades in rough diamonds without Kimberley Process certification is liable for expulsion from his bourse, which in all practical terms means the exclusion from the entire diamond business community."*

June and July 2009
Representatives from governments, civil society and the diamond industry conducted a Kimberley Process review mission to Zimbabwe. A series of recommendations were made to address issues of non-compliance and alleged human rights abuses in the country in the form of a 12 month Joint Working Plan. The Government of Zimbabwe, in particular, was requested to develop an action plan in accordance with recommendations of the review. This included the demilitarisation of the Marange diamond fields and measures to ensure that production could be managed in a manner fully compliant with the requirements of the Kimberley Process.

July 2009
Varda Shine, De Beers Diamond Trading Company (DTC) CEO, wrote to DTC Sightholders urging them to ensure rough diamond purchases from non-De Beers sources do not contain stones from Marange. This followed a similar letter sent to Sightholders in December 2008. In addition, the Family of Companies provided photographic examples of diamonds from Marange as well as expert instruction on identification.

September 2009
The International Diamond Manufacturers Association (IDMA) supported the World Diamond Council's four-point position on Kimberley Process implementation (p35), as well as the July 2009 review mission to Zimbabwe. The organisation further stated that: *"if the KP review commission's recommendations are not implemented and addressed in an acceptable timeline, a call for the suspension of Zimbabwe from the Kimberley Process Certification Scheme is the only route to follow."*

November 2009
The Joint Working Plan was submitted to the Kimberley Process WGM before presentation to the Kimberley Process Plenary in Windhoek for discussion and ratification.

A key feature of the Joint Working Plan was the placement of a Special Monitor, appointed by the Kimberley Process WGM and mandated to oversee the export of rough diamonds from Marange. Exports from Marange were suspended pending the appointment of the Special Monitor. Although the Joint Working Plan fell short of recommending actual suspension, as requested by the United States, the European Community, Israel and Canada, it nonetheless marked a constructive step towards remedying the situation in Zimbabwe. As a result it is being supported, both in terms of funding and technical support, by the European Commission and the World Diamond Council.

Owing to systematic anomalies exposed by the Zimbabwe issue, NGOs called for reform of the Kimberley Process, including a constitutional shift from consensus to majority voting. Supported by the World Diamond Council, NGOs also proposed the inclusion of wording related to human rights into the minimum requirements of the KPCS.

The World Diamond Council also called on government participants of the Kimberley Process to redouble their efforts in enforcing systems and standards to ensure that all diamonds are lawfully mined, documented and exported.

www.wfdb.com
www.idma.net

3.1.2.5 The Kimberley Process in action elsewhere

Ivory Coast
In 2009, reports from the United Nations (UN) Group of Experts and satellite imagery recorded by the Kimberley Process Working Group of Diamond Experts highlighted increasing diamond mining activity in rebel controlled areas of northern Ivory Coast. They also suggested rough diamonds were subsequently illicitly infiltrating the legitimate global supply chain.

The WGM and the Kimberley Process Working Group of Diamond Experts discussed further collaboration with the UN Group of Experts under UN Security Council Resolution 1893, including prospects for a Kimberley Process visit to Ivory Coast. The WGM also liaised with Ivory Coast representatives in response to a WGM report to the Kimberley Process Plenary and the country's request for assistance in preparation for future certification.

Guinea
The Kimberley Process adopted a decision on the strengthening of Guinea's internal controls and assessment of the country's production capacity through cooperation between the government, the WGM and the Working Group of Diamond Experts.

The Forevermark Pipeline Integrity Standard

In 2004, Forevermark produced a Pipeline Integrity Standard in conjunction with the British Standards Institute (BSI). The initiative ensures that each and every diamond inscribed with the Forevermark icon can be tracked and traced back to a responsibly mined, conflict free source. The Pipeline Integrity Standard represents a non-prescriptive process and systems quality standard that can be applied to a range of diamond manufacturing business models.

On-site auditing is carried out by Société Générale de Surveillance (SGS). This involves checking that each and every Forevermark-eligible diamond consignment (from rough to polished) can be tracked and identified as eligible at all stages in the cutting and polishing process. Should there be any doubt as to the integrity of the system at any point in the process, the Pipeline Integrity Standard allows for immediate reconciliation to be performed.

All Forevermark Diamantaire-nominated entities around the world are audited for pipeline integrity annually. In addition, the Forevermark Diamond Institute in Antwerp (FDIA) is audited twice a year. Auditing twice annually at FDIA is required given the volumes of diamonds to be inscribed and graded. In 2009, the FDIA inscribed 51,031 diamonds and graded 15,552.

The Pipeline Integrity Standard has become a recognised and much valued process in helping both Forevermark and its partner Forevermark Diamantaires demonstrate a clear and strong commitment to responsible business practice and sourcing.

www.forevermark.com

All Forevermark diamonds are marked with an icon and unique identity number before being graded

Tamper-resistant containers for the import and export of rough diamonds

3.1.3 Supporting Kimberley Process credibility

3.1.3.1 Internal integration and compliance

Our worldwide compliance with the Kimberley Process and the industry System of Warranties was reviewed by a third party. This engagement excluded Element Six, Hindustan Diamond Company and De Beers Diamond Jewellers (DBDJ), which were independently reviewed. It related to the period commencing 1 January 2009 and ending 31 December 2009.

This report includes a statement by Société Générale de Surveillance (SGS) as part of its verification of the BPP Assurance Programme that supports our compliance and commitment to the Kimberley Process and the industry System of Warranties (p104).

www.e6.com
www.debeers.com
www.debeersgroup.com

3.1.3.2 The System of Warranties and the BPPs

The KPCS and the System of Warranties form part of the De Beers BPPs and our Principles. Any non-compliance with the KPCS and System of Warranties by DTC Sightholders will result in a material breach of contract and subsequent sanction.

No material breaches relating to the Kimberley Process were identified for the Family of Companies or Sightholders in the 2009 BPP assurance cycle.

3.1.3.3 The Kimberley Process in the future

While accepting that the Kimberley Process is not perfect, De Beers remains deeply committed to the initiative and its positive evolution. The company will continue to offer its full support to Israel as Chair and the Democratic Republic of the Congo as Vice-Chair of the Kimberley Process for 2010.

De Beers is committed to the enhancement of Kimberley Process implementation and coverage. We believe this can be best achieved by the following means:

- Support for a permanent Kimberley Process "secretariat"
- The establishment of majority rather than consensus voting within the Kimberley Process
- The improvement of statistical capabilities across Kimberley Process participants
- The inclusion of human rights language within the Kimberley Process framework

The Kimberley Process remains highly reliant on the political will of its national participants. Any enhancement or broadening of its mandate to explicitly include human rights will be conditional on the political will of its participants. So far this will has been lacking amongst many governments. The Kimberley Process may instead need to examine the potential benefits of increased multilateral engagement via the UN.

3.2 Anti-corruption

Risk: Corruption poses serious legal, commercial and reputational risks to our business. Moreover, the corrosive social, political and economic effects of corruption pose a potential threat to the sustainable development and enduring stability of our current and potential operating environments. Our ability to transform natural resources into national assets depends on empowered and stable governments that are able to responsibly deploy related resources and revenues.

De Beers explores for, mines and markets diamonds in a number of countries that are considered to be of a "high risk" from a corruption perspective. The nature of our business is such that our employees are exposed to a multitude of circumstances, be they geographical, commercial, political or other. As such, it is imperative that those most at risk of exposure, whether exploration staff, marketing managers or government relations specialists, receive appropriate training and furthermore have access to relevant channels through which they can learn how to combat corruption and, where necessary, confidentially disclose the activity.

The integration of a clear anti-corruption commitment into the corporate citizenship agenda sends a strong signal that the Family of Companies shares responsibility for the challenges of eliminating corruption. Countering corruption, however, remains one of the most challenging topics for the Family of Companies to implement, monitor and report on, due to its complex and hidden nature. Our commitment to the fight against corruption is demonstrated through:

- Our Principles
- The BPPs
- Our membership of the Partnership Against Corruption Initiative (PACI) of the World Economic Forum
- Our membership of the United Nations (UN) Global Compact
- Our support for the Extractive Industries Transparency Initiative (EITI) (p42-43)

In 2009, this commitment was further reinforced when Gareth Penny, CEO of the Family of Companies, signed the CEO Letter on UN Convention against Corruption calling for more effective enforcement of the Convention by governments.

No significant incidents of corruption were identified during 2009. No significant fines or non-monetary sanctions were imposed on the Family of Companies in relation to non-compliance with anti-corruption legislation and regulations.

www.idma.net
www.weforum.org
www.unglobalcompact.org
www.eitransparency.org

3.2.1 Defining corruption

Corruption in any form is recognised to be one of the world's greatest business challenges. Transparency International defines corruption as: *"the abuse of entrusted power for private gain".* This covers both financial gain as well as non-financial advantages.

Corruption can take many forms ranging from small "facilitation payments" to institutionalised and large-scale bribery. It can take place with or without the knowledge of the payer or payee of bribes. Common forms of corruption include: extortion, fraud, deception, collusion and money laundering, all of which constitute criminal offences in most jurisdictions.

www.transparency.org

3.2.2 Risks and consequences

3.2.2.1 The impact of corruption

Corruption acts as a major barrier to sustainable development. It undermines good governance and the rule of law, distorts fair competition and hinders economic growth and development. Together these have the potential to seriously undermine our operating environments, with long-term consequences for our business.

Not only can corruption create considerable financial and legal risks to the Family of Companies, but it also presents a significant reputational risk to the company. This has the potential to disrupt stakeholder relations, hinder our aspiration to be a "Partner of Choice" and ultimately damage the confidence of consumers in De Beers and diamonds as positive agents for global sustainable development.

3.2.2.2 The impact of the recession on corruption

The economic downturn has heightened the risk of corporate fraud and corruption. Strained economic circumstances can result in increased competition between companies to secure contracts and other commercial opportunities. They also mean employees are more likely to accept poor business practice or "cut corners" to improve their own financial situation. This risk is believed to become ever greater in developing countries and the extractive sector.

3.2.2.3 Sources of risk to the Family of Companies

The Family of Companies strives to meet the highest ethical standards in its relationships with governments, business partners, competitors, suppliers and communities. This is not only in order to live up to diamonds, but also because of the severe impact that unethical and corrupt practices can have on our business, our legal standing and our reputation.

Figure 3-1: The benefits of anti-corruption engagement with external stakeholders

Reduced risk of:
Criminal and/or civil sanctions against the company and its employees
Damage to reputation and brand resulting in reduced sales and erosion of "diamond equity"
Increased poverty and reduced growth in the communities in which we operate
Reduced investment interest from ethical and mainstream investors
Exclusion from bidding processes and other business opportunities
Less stable operating environments due to public resentment and political illegitimacy

Kagiso Jacob, a gemologist at Steinmetz Botswana, appraising a final cut gem

In 2009, an internal assessment of our existing Anti-Corruption Programme was carried out. The assessment was based on qualitative and quantitative data collected from managers across the Family of Companies, which was benchmarked against the Business Principles for Countering Bribery of the World Economic Forum PACI. The gap analysis identified the following areas for improvement:

- A formal, up-to-date published policy of zero tolerance of corruption
- A formal corruption risk assessment
- Explicit communication and awareness raising (including third parties)
- Comprehensive training of staff
- Upgraded internal anti-corruption controls and monitoring systems
- Upgraded procedures to deal with incidents of corruption

3.2.3 Business Principles

The Family of Companies is committed to fighting corruption and the damaging effects it has on business and economic growth. Accepting or giving bribes in all forms is prohibited in business transactions undertaken by the Family of Companies or through third parties. This includes subsidiaries, joint ventures or agents. This requirement is present in our Principles, the BPPs and our Code of Business Conduct and Ethics. It is further supported by our commitment to the 10 principles of the UN Global Compact, the UN Convention against Corruption, our support for the EITI and our participation as a founding signatory of PACI.

3.2.3.1 Dealing with unethical behaviour

The BPP third party Assurance Programme verifies compliance with national and, where appropriate, international legislation with respect to:

- Money laundering
- Terrorism financing
- Bribery
- Corruption
- Smuggling
- Embezzlement
- Fraud
- Transfer pricing
- Tax evasion

The Assurance Programme checks for the development and application of relevant policies, programmes and practices, including the recording of all transactions over US$10,000. Most importantly, it requires evidence of due diligence and exceptional record-keeping.

An outsourced global Fraud and Ethics Hotline Service was launched across the Family of Companies in May 2008 to replace the existing in-house hotline facility (see inside-back cover for details). The hotline is a safe and secure channel through which information on fraud, corruption, theft, diamond control, intellectual property or deviations from good corporate governance practice can be anonymously reported without fear of recrimination.

The Family of Companies does not tolerate unethical or illegal behaviour and will dismiss individuals identified as being in breach of these requirements. In 2009, there were 631 internal investigations into alleged illegalities and/or breaches of the current Code of Business Conduct and Ethics at our operations (2008: 718). This figure includes all allegations irrespective of severity, though they mainly relate to dishonesty including diamond theft. As a result, 162 employees (1.23% of our total workforce) were dismissed (2008: 120, 0.70%). Of these, 126 employees (0.95% of our total workforce) were referred to the appropriate law enforcement agencies (2008: 69, 0.40%). Not all of these cases were as a result of whistle blowing. A number were identified independently by the investigation departments of the various business units through a variety of means, including security controls, audits, and investigations.

No fines or non-monetary sanctions were imposed on the Family of Companies in relation to non-compliance with applicable laws and regulations.

3.2.4 Mitigating corruption risks

In 2007, the Family of Companies undertook an internal Corruption Perception Survey covering business units in Angola, Botswana, the Democratic Republic of the Congo, India, Namibia, South Africa and Tanzania. The survey was conducted to identify those areas of the business that were perceived to be most exposed to corruption and to assess the general perception of corruption in our countries of operation.

In 2009, findings from the survey directly informed the development of the new De Beers Anti-Corruption Programme, which clearly articulates policies and procedures to combat corruption across the business (p42-43).

The launch of the new Anti-Corruption Programme was prompted by the need to:

- Reflect developments in anti-bribery legislation in the UK
- Ensure maintenance of our reputation as a leading multinational company
- Ensure the mitigation of relevant risks, some of which were recession-based

The Family of Companies is also committed to meeting the standards and requirements established by the Responsible Jewellery Council (RJC). The RJC requires that the company has a comprehensive anti-bribery programme in place as well as policies, procedures, training, monitoring and reporting systems. The Family of Companies is to be certified as RJC compliant by 2012.

3.2.4.1 Anti-Corruption Policy

In 2009, De Beers made a public commitment to ensure that its new Anti-Corruption Policy was communicated and implemented across the entire Family of Companies. The document was published on our website in order to ensure that employees and other stakeholders could freely access the document.

The Policy requires full compliance with national and international legislation. It also requires the disclosure of transactions and relationships that might give rise to illegalities.

In 2009, business leaders across the organisation committed to ensuring that the policy was clearly communicated to, and understood by, every employee at every level of the business. Our Anti-Corruption Training Programme will be central in giving practical effect to this commitment.

www.debeersgroup.com

3.2.4.2 Anti-Corruption Programme

The De Beers Anti-Corruption Programme was constructed in such a way as to fully reflect the nature of the business, its size and sector, and the complexities associated with each operating environment.

Anti-corruption training, scheduled for implementation in 2010, focuses on defining corruption, highlighting corporate and personal liabilities, and raising the awareness of risks and consequences that corrupt activity may have on our financial standing and reputation. It will also give employees practical guidance on how to manage high risk situations. Training will focus initially on those teams considered to be "most exposed" in light of our 2007 Corruption Perception Survey. It will reflect real life scenarios collated from business units across the Family of Companies. Importantly, the Programme will enhance employees' understanding of corruption, and give them the confidence to report corrupt practices through conventional channels and our "Fraud and Ethics Hotline Service".

3.2.4.3 Political donations

The Family of Companies does not participate, directly or indirectly, in party politics nor does it make payments to public officials. In exceptional cases, political donations may be made in support of the democratic process. They are made only to pro-democratic registered parties that are committed to the protection of human rights, good governance and the rule of law. These are parties that support regular multi-party elections, sound financial/fiscal policies, executive accountability and parliamentary oversight. We believe these criteria support our shared long-term goal of a more conducive, transparent and responsible business environment.

Angola

In 2009, De Beers Exploration made two political donations in support of the democratic process in Angola. Both payments were committed in 2008 but only paid in 2009 following requisite due diligence checks on payees' accounts. The payments included:

- US$100,000 to the Comissão Nacional Eleitoral de Angola (Angolan Electoral Commission)
- US$500,000 to Movimento Popular de Libertação de Angola (MPLA)

www.cne.ao

Canada

De Beers Canada donated US$437 in 2009 in support of a provincial political reception with stakeholders. The payment was for tickets to a fundraising dinner for a Member of Provincial Parliament, Gilles Bisson, MPP. Mr. Bisson is a member of the New Democratic Party (NDP) of Ontario and represents the Timmins-James Bay Region (near the Victor Mine). He currently serves as the party critic for Francophone Affairs, Ministry of Natural Resources, Transportation and Native Affairs.

www.ontariondp.com

Namibia

Following recently concluded elections, De Beers Namibia donated US$2,500 in support of a "Born Frees" music concert. "Born Frees" are those voters born post-independence and who were entitled to vote for the first time. The celebration event, spearheaded by the South West Africa People's Organization (SWAPO) Youth League, was inclusive of all young voters.

www.swapoparty.org

3.2.4.4 Anti-money laundering and terrorist financing

The Family of Companies is committed to the prevention of money laundering and to combating the financing of terrorism.

In 2009, no fines or non-monetary sanctions were imposed on the Family of Companies in relation to money laundering. No material breaches relating to anti-money laundering have been identified for the Family of Companies or Sightholders since implementation of the BPP assurance cycle in June 2005.

Our policy on anti-money laundering and combating the financing of terrorism applies to all our operations. It has also been communicated to both joint ventures and partner companies. The policy ensures the Family of Companies is only able to enter into transactions with approved financial institutions. It also forms part of the Sightholder selection process, which relies on comprehensive background checks. These checks are supported by a Datanomics information technology system implemented in early 2009, as well as World-Check.

www.datanomics.com
www.world-check.com

3.2.4.5 Legal compliance and competition law

The Family of Companies has taken clear and demonstrable action to ensure continued compliance with competition and antitrust laws and regulations in all jurisdictions in which it operates. This commitment is integral to our continued success in a competitive global economy. Our Legal Compliance Training Policy applies to all members of staff at every level of wholly owned and managed companies. Companies that are not wholly owned or managed are strongly encouraged to adopt this policy. Compliance training is regularly undertaken by our Corporate Legal Services team, including guidance on competition laws and how these apply to each business and functional area. Employees are requested to report any breaches of this policy through our Fraud and Ethics Hotline. De Beers will not tolerate violations of competition law, or mistakes resulting from carelessness or inattention to legal compliance by its employees.

Key highlights from our online competition compliance training in 2009 include the following:

- Over 600 individuals were nominated by management to participate
- Two training programmes were used according to nominee participation and achievement in the 2008 online training: a long version (around 90-120 minutes) and a short version (around 45 minutes)
- Of those individuals who completed the training the average score achieved was 94%

In order to encourage greater completion rates in 2010 and to further convey the compliance message, online training will be streamlined by using the shorter 45 minute programme and a refresher session for those nominees who successfully participated in 2009. Longer sessions will only be used for individuals who repeatedly fail the short version.

Case study: Enhancing airport security through Scannex diamond detection technology

Following an attempted terrorist attack against an aircraft flying to Detroit in the United States on 25 December 2009, significant interest was shown by stakeholders internationally in the application of De Beers proprietary Scannex technology to airport security.

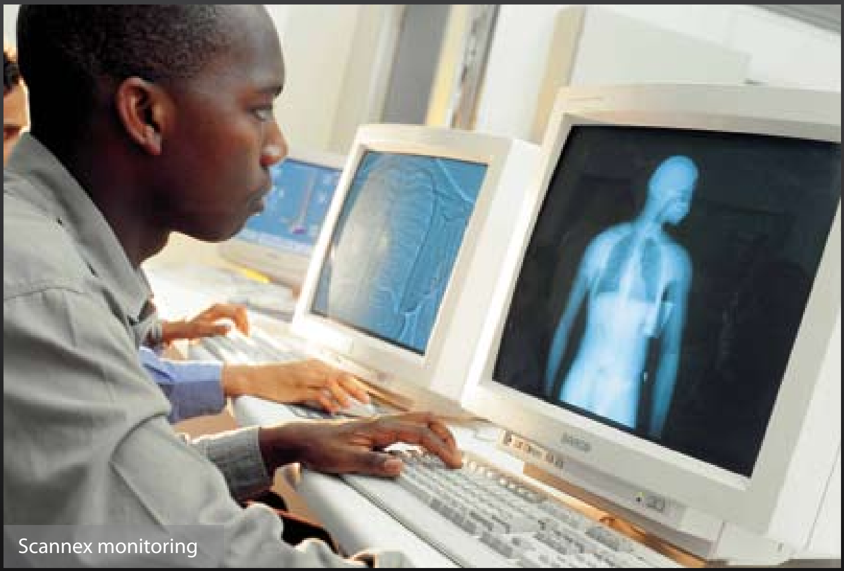
Scannex is an advanced X-ray scanning technology developed and assembled in South Africa by the De Beers research unit DebTech. The technology is currently utilised by Family of Companies security teams in South Africa and Namibia.

The images produced by Scannex are of such a high resolution that it can detect diamonds as small as 1 carat, wherever they may be located on or in the human body. Images, whether normal, “masked” or three dimensional, are immediately availably on an operator’s screen and can be stored electronically.

A complete scan can take place in 10 seconds and exposes subjects to a very low level of X-ray radiation. This means it can be used on a subject more than 200 times a year and still remain within legal exposure limits.

In addition to security technology, DebTech provides timely, cost effective and value adding technology to the Family of Companies in the areas of diamond exploration and ore treatment. This is with the aim of underpinning a sustainable competitive advantage for the Family of Companies.

www.debtech.com



Scannex monitoring

Anti-Corruption Programme

In support of its commitment to the United Nations (UN) Global Compact, the De Beers Family of Companies has a zero tolerance policy towards corruption and is committed to carrying out its business fairly, honestly and openly.

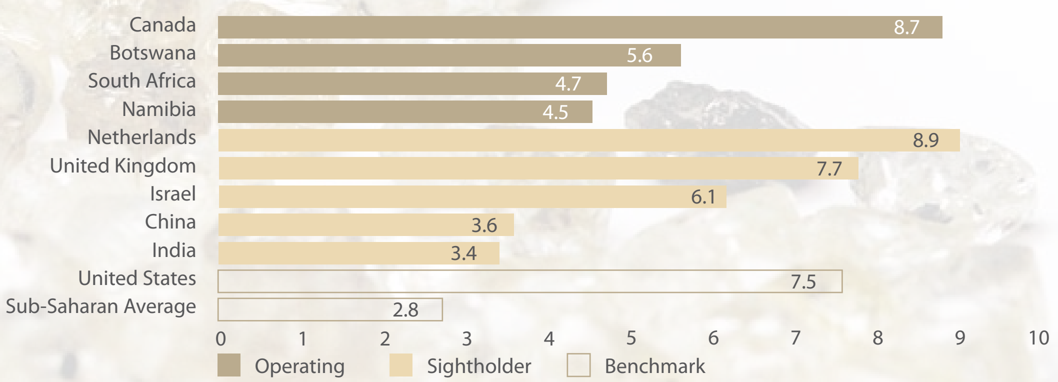
The De Beers Anti-Corruption Programme aims to:

- Develop appropriate anti-corruption mechanisms throughout the Family of Companies' value chain
- Raise awareness among employees and third parties of the risks and implications of corruption
- Educate employees on the forms of corruption and appropriate responses
- Further strengthen our ethical working culture
- Maintain our long-term strategic commitment to business ethics and economic development

5% of global GDP

Annual global cost of corruption

Figure 3-2: 2009 Transparency International (TI) Corruption Perception Index (CPI) for De Beers Sightholder and operating countries



The TI CPS measures the perceived level of perceived corruption in 180 countries
A score of 10 indicates lowest risk and a score of 0 represents highest risk

Internal anti-corruption initiatives

Development and use of global anti-corruption tools

Participation in global anti-corruption initiatives

2009 Anti-Corruption Programme activities

Initiated **employee consultation and stakeholder engagement**

Obtained external assurance on the Anti-Corruption Programme from **Transparency International (TI)**

Hosted **Diamond Dialogues** (p12) on (1) the Kimberley Process Certification Scheme; and (2) corruption, money laundering and conflict

Developed a draft **Anti-Corruption Policy** (ACP) and supporting guide (including content on risks, responsibilities, scenarios and response actions)

Submitted the **Partnership Against Corruption Initiative** "Highlighting Achievers" self-assessment survey. This assesses and benchmarks company anti-corruption frameworks

Contributed to **Resisting Extortion and Solicitation Scenarios in International Transactions II.** This employee training tool provides guidance on how to respond to high-risk business scenarios

Participated in field-testing the **UN Global Compact** reporting guidance on the tenth principle against corruption

Became a **Corporate Supporter** of TI (UK), publicly supporting its mission and values

Participated in Ethical Corporation's **European Anti-Corruption Summit** in Brussels, Belgium

Signed the CEO letter requesting improved enforcement of the **UN Convention against Corruption**

Continued support of the principles and aspirations of the **Extractive Industries Transparency Initiative (EITI),** which promotes transparent reporting of company payments and government revenues in the extractive sector

Future Anti-Corruption Programme activities

Stage 1:

- Publish the ACP
- Conduct a communication and awareness-raising campaign
- Establish an Anti-Corruption Peer Group

Stage 2:

- Tailored training for senior management
- Conduct "train the trainer" workshops for middle managers in order to cascade training to local employees that are exposed to corruption risks
- Provide managers and employees with documented guidance for managing unethical scenarios
- Reinforce reporting channels
- Incorporate the ACP into employee handbook and induction programmes

Stage 3:

- Implement ACP monitoring and review systems
- Upgrade internal anti-corruption auditing
- Incorporate monitoring results into ACP design to ensure continuous improvement

3.3 Maintaining pipeline and sector standards

Risk: De Beers, our joint venture partners, contractors and Sightholders subscribe to the Best Practice Principles (BPPs) – a mandatory code of ethical business conduct. It remains essential that the application of these Principles throughout the pipeline is maintained as our business partners come under strong commercial pressures. Similarly, the consolidation of ethical codes of conduct across the jewellery industry presents both a risk and opportunity for the company. It is essential that high standards are maintained and that the process of aligning our BPPs to include the Responsible Jewellery Council Code of Conduct is seamless.

In 2009, the diamond industry faced unprecedented commercial pressures. Few companies, if any, could maintain "business as usual".

Regardless of industry sector, the recession has had a profound impact on the manner in which businesses approach decision-making. With cash conservation and staying in business a central focus for many companies worldwide, some commentators have speculated on the possible demise of responsible business practices during and post recession.

Aware that ethical complacency could present a significant risk to the company and to the industry as a whole, De Beers acted to underpin consumer confidence and "diamond equity".[3]

3.3.1 Protecting diamond equity and the recession

A diamond's rarity, and the immense skill required to release its brilliance, make it unlike any other jewel or luxury item. Diamonds stand alone in their distinctive appeal and hold a unique place in people's hearts and minds. When someone buys a diamond, they do so to represent a significant moment in a person's life. It is therefore vital to ensure that the integrity of a diamond is as exceptional as the moment, commitment or love that it represents.

[3] "Diamond equity" refers to the ethereal value that society ascribes to diamonds

In the diamond industry we believe it is in the long-term interest of all members of the trade to meet consumer and stakeholder expectations relating to business ethics and economic contributions, health and safety, labour standards and the environment. At De Beers we have sought to meet these expectations at our operations through the application of our Principles, policies, standards and the BPPs. The BPPs also apply to Diamond Trading Company (DTC) Sightholders, their contractors and suppliers. Given the scale and scope of such operations, the BPPs have ensured that a sizeable segment of the industry has been positively influenced through the application of our exacting standards.

3.3.2 Best Practice Principles

3.3.2.1 The BPP framework

The BPPs are a continuously evolving standard intended to ensure that consumers buying diamond jewellery can rely on the professional, ethical and technical standards of the gem diamond industry. They do so by protecting against unacceptable business ethics as well as social and environmental practices that might undermine consumer confidence in diamond jewellery.

The BPPs include a requirement for the recording of all Kimberley Process Certification Scheme (KPCS) certificates and System of Warranty invoices received and issued when buying or selling diamonds. This helps eliminate the possibility of a transaction taking place involving conflict diamonds. The BPPs also require the disclosure of all use of synthetics, treatments and simulants, and adherence to strict social and environmental requirements, including those relating to health and safety, child labour and forced labour. Sightholders have participated in the BPP programme since 2005.

Contractors that derive 75% or more of their revenue from a Sightholder or a Family of Companies entity have actively participated in the BPP programme since 2008. Contractors that fall below the 75% mark are required to sign a declaration of integrity stating that they are free of any material breaches.

In February 2009, a new "SMART" approach to the BPP Assurance Programme was implemented with a view to verifying Family of Companies and Sightholder conformance with the BPPs. The SMART system has dramatically increased the efficiency of the BPP process through the generation of customised self-assessment workbooks linked to the risk exposures of each individual entity. The SMART system also serves as an online database for the legal, commercial, sales and distribution functions of the DTC, providing considerable efficiencies for both the DTC and Sightholders.

3.3.2.2 BPPs and our Sightholders

As the sales and marketing arm of De Beers, the DTC is responsible for implementing our sales strategy. Our strategy seeks to align those Sightholders best placed to drive demand for particular categories of rough diamonds with the promotion of appropriate business practice. Sightholders are selected against a pre-defined set of performance criteria relating to core business strengths and their ability to meet BPP requirements. Compliance with the BPPs and the maintenance of a good business reputation and financial standing are mandatory.

Each Sightholder operation employs a BPP Manager, who is responsible for the maintenance of relevant systems and processes, the accuracy of data capture and the submission of BPP workbooks, which fully articulate a Sightholder's performance.

Eric Austein of Leo Schachter, a DTC Sightholder, examines a parcel of rough diamonds during Sight week

In 2009, the scope and volume of information required in the BPP workbooks was reduced in recognition of the commercial pressures faced by Sightholders. The workbooks only required information that was essential to meeting legal obligations, such as adherence to anti-money laundering procedures and Kimberley Process compliance. During 2009, a limited amount of additional information was required to reflect evolving legal demands. This included:

- Information relating to company directors that receive goods or invoices from Family of Companies entities in order to satisfy anti-money laundering requirements
- Workbooks required "facilities", not only companies, to be listed as part of operating company structures
- When one of our Sightholders' operations becomes dormant or inactive, formal notification must be provided so that relevant changes can be made to the SMART system

Despite the general easing of workbook requirements, where Sightholders had made "major breaches" of the BPP system in 2008 full workbooks were required in 2009. At no point were standards of compliance or auditing softened or reduced.

Our pursuit of this strategy enabled all operations under the BPPs to maintain their legally robust status. It also encouraged a smooth transition to the online SMART system and helped Sightholders weather the impacts of recession.

While workbook requirements were reduced in 2009, the number of Sightholder operations audited for BPP compliance remained consistent with 2008 levels at 10% coverage of a total complement of 76 Sightholders (2008: 78 Sightholders).

In 2009, 14 Sightholders were found to have at least one major case of non-compliance (2008: 12). Nonetheless, the total number of breaches fell dramatically compared with 2008, with an overall reduction of 61.4% (Figure 3-3). In part, this is likely to be due to reduced cutting and polishing activity during the course of 2009. It is also reflective of the continuing maturation of the BPP process, as well as the deepening integration of the BPPs into Sightholder business practices.

Figure 3-3: BPP infringements by Sightholders

	2009	2008	2007
Business	338	1,028	2,006
Social	178	310	658
Environment	0	0	0
Total	**516**	**1,338**	**2,664**

3.3.2.3 BPPs and our operations

A full review of conformance by the Family of Companies to the BPPs can be found in our first and third party assurance statements completed by De Beers Group Services Internal Audit (p101) and Société Générale de Surveillance (SGS) (p104) respectively.

3.3.3 The BPPs and the Responsible Jewellery Council

The BPPs have enabled De Beers and its Sightholder community to protect and promote diamond equity and consumer confidence at a difficult time for the industry. This system has contributed significantly to underpinning stakeholder confidence in the industry and ameliorating risk and uncertainty when scrutiny by stakeholders, be they investors, bankers, NGOs or others, has never been greater.

Recognition by the diamond, gold and jewellery industry of the need to underpin consumer confidence has led to the development of a number of initiatives similar to the BPPs. While this initiative is a positive development reflecting growing industry-wide ethical standards, it has created complication and bureaucratic friction that has stymied efficiency, particularly where there is a need to complete multiple compliance workbooks and audits which are, in essence, attempting to achieve the same goal. With this in mind De Beers and 13 other organisations came together in 2005 to establish the Responsible Jewellery Council (RJC).

3.3.3.1 The RJC certification system

The RJC is an international not-for-profit organisation representing over 200 member companies across the gold and diamond jewellery supply chain. The organisation aims to reinforce confidence across the diamond and gold jewellery supply chain and to exploit synergies with respect to the standards members demand of themselves and those they do business with. De Beers is represented on the RJC Board of Directors and Executive Committee.

Over the last three years, the Family of Companies has been actively involved in developing the RJC certification system. The system, which was launched in December 2009, will certify its members for responsible ethical, social and environmental practices throughout the jewellery supply chain. All members of the RJC are required to undergo independent verification by December 2011 (or December 2012 if they have mining facilities).

The RJC Code of Practices is the standard against which members' conformance is assessed. This covers four key areas:

- Business ethics (including bribery, the Kimberley Process and synthetic diamonds)
- Human rights (including child labour, health and safety, security and artisanal mining)
- Environmental performance (including hazardous substances, energy use and biodiversity)
- Management practices (including impact assessment, closure planning and reporting)

All members are required to receive third party accreditation to ensure compliance with the Code of Practices. An auditor accreditation process is currently underway and training is being delivered to members. Members who have been independently verified can benefit from the RJC brand. This will not only enhance the reputations of members, but it will also help enhance the reputations of the suppliers and customers with which they do business.

www.responsiblejewellery.com

3.3.3.2 RJC scope

In 2011, the Family of Companies aims to integrate the RJC Principles and Code of Practices into the existing BPP Assurance Programme. Due to our part in the creation of the RJC Principles and Code of Practices the number of differences between the two systems is limited. One area that contains a small amount of material not covered by the current BPP structure is the RJC "Mining Standard". The Mining Standard incorporates topics such as community development and engagement, artisanal mining and environmental performance at mining facilities. At present these matters are addressed through, for example, the implementation of Anglo American's Socio-Economic Assessment Toolbox, our engagement with the Diamond Development Initiative and our adherence to the ISO 14001 Environmental Standard.

3.3.3.3 Evaluating RJC opportunities

The strategy to shift from BPP to RJC certification is currently being carefully considered by the Family of Companies. The decision will be broadly consulted across the organisation and take cognisance of the risks and opportunities associated with transition. For example:

- The RJC benefits from a broad membership base, all of whom are committed to promoting responsible ethical, human rights, social and environmental practices in a transparent and accountable manner
- The RJC represents a single, universally acceptable, certification scheme that covers all elements of the supply chain from "mine to finger"
- The RJC Mining Standard requirements are, in the opinion of De Beers, calibrated on the basis of "good" rather than "best" practice. We intend to maintain a number of systems and processes in addition to the RJC to ensure that our approach remains leading edge and to enable continuous development of the RJC by providing feedback to the RJC
- The RJC provides a recognisable brand of surety likely to inspire confidence at a retail level. This level of consumer recognition is unlikely to be realisable through the BPPs
- The online BPP SMART system is capable of a seamless transition to the RJC system, saving time and costs for both Sightholders and the DTC

3.3.3.4 The RJC in the future

De Beers is in the process of developing a hybrid RJC/BPP system for downstream application. This is with the intention of offering Sightholders the possibility of RJC certification on the basis of BPP compliance and RJC membership. The hybrid system will be rolled out to Sightholders at the start of 2011, at which point it will have become fully integrated across the Family of Companies as part of our legal mandate to treat Sightholders and our own entities equally.

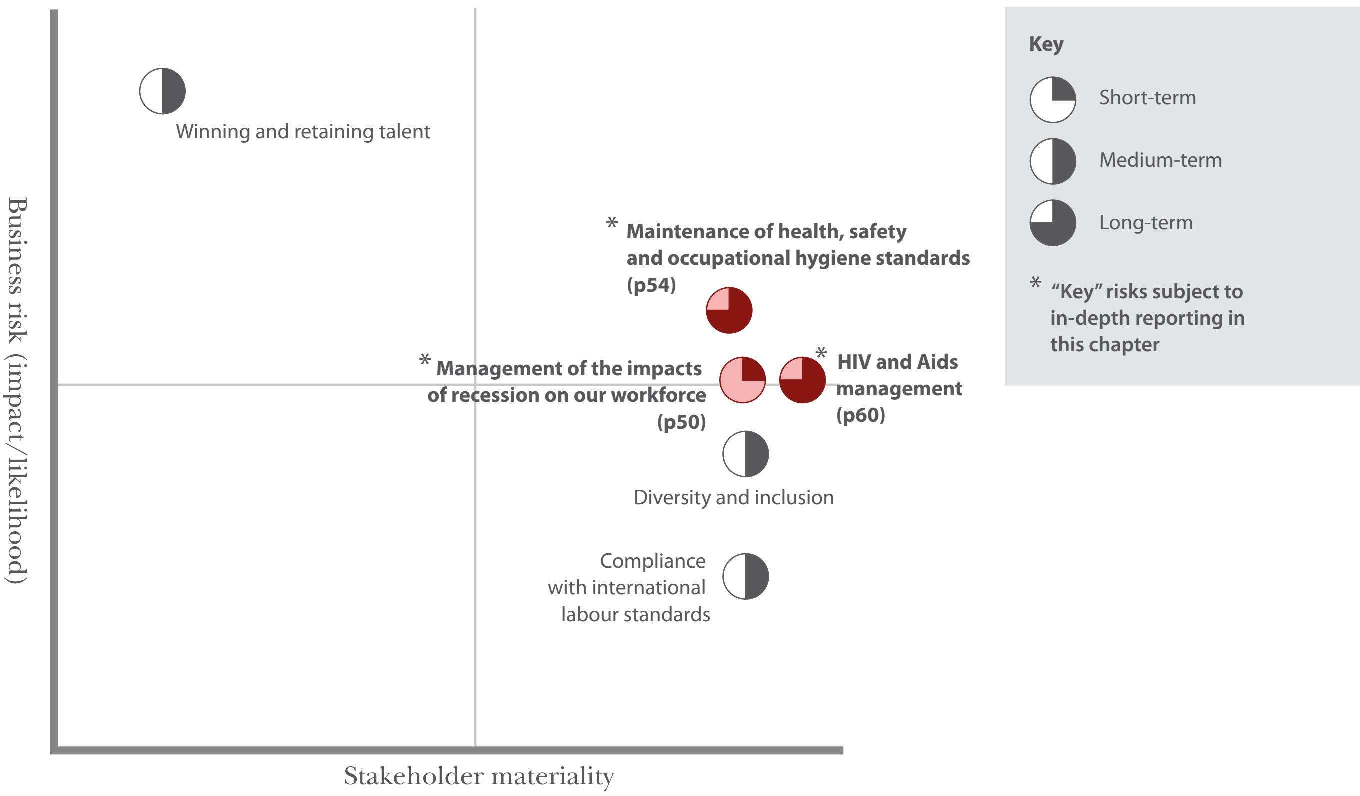
4 Employees

Creating a working culture where all employees take a shared responsibility for the delivery of our business goals is a key component of our business model. To achieve this we focus on building local capacity by employing and developing local talent at all levels of the business, a process that in turn helps build a wider skill base wherever we operate. We also continue to engage proactively with priority concerns in our producer countries, including management of the HIV and Aids pandemic, Black Economic Empowerment and gender equity. This ensures the harmonisation of our human resources programmes with national human development goals and encourages our employees to make a more substantial emotional investment in the success of our business.

Ensuring the health, safety and wellbeing of our employees remains our top priority and, in 2009, we took a number of important steps to improve the maturity of our safety management systems, a process that resulted in a significantly improved safety record.

We are also committed to meeting or exceeding all relevant global labour standards in addition to respecting the right of employees to associate freely and bargain collectively. This latter commitment was of particular importance in 2009 as we successfully managed to restructure the business in order to ensure our ability to withstand the impact of the economic crisis.

Key employee risks



Risks

* Management of the impacts of recession on our workforce (p50)

The downturn has had a profound impact on employees in terms of staffing levels, use of contractors and remuneration. These factors present a range of risks in terms of employee recruitment, retention, motivation and skills – as well as our positioning for recovery.

* Maintenance of health, safety and occupational hygiene standards (p54)

The health and safety of our employees and contractors remains our top priority. The effective management of safety risks requires constant vigilance and stringent adherence to international standards and our Principles, as well as a culture of sustained health and safety hazard awareness.

* HIV and Aids management (p60)

The majority of our employees live in countries classified as hyper-endemic for HIV. Their exposure to HIV and Aids represents a real threat to their health, their families, the continuity of our business and the long-term development of Africa.

Diversity and inclusion

De Beers is committed, and in some jurisdictions required, to ensure its workforce is reflective of the diverse societies in which it operates. We continue to support government efforts in southern Africa for the provision of opportunities to previously disadvantaged groups.

Compliance with international labour standards

Ensuring a safe, respectful and fair workplace is a priority across all business units. We aim to meet or exceed all relevant global labour standards in addition to respecting the right of employees to associate freely and bargain collectively.

Winning and retaining talent

The downturn has had a significant impact on our workforce, and thus on our ability to remain agile and responsive to changing markets. This remains particularly important as we position ourselves as an efficient competitive organisation ready to benefit from economic recovery.

** Further information presented in this report*

Mervin Mudau and Moses Kgopana at the screening section where ore is separated and graded, Venetia mine, South Africa

Highlights

- In 2009, and as a direct result of a significant drop in global diamond sales, the Family of Companies reduced its total workforce by 23%. This represents a total of 3,902 permanent and non-permanent employees (p52)
- The Family of Companies achieved zero fatalities for the first time in 80 years, reflecting the implementation of numerous targeted safety measures. Our Lost Time Injury Severity Rate improved from 106.89 per 200,000 hours in 2008 to 6.52 in 2009 (p56)
- The DBCM Occupational Illness Frequency Rate fell significantly from 1.02 cases per million in 2008 to 0.44 cases per million in 2009. This was largely due to the ongoing progress of our hearing conservation programme (p57)
- The Family of Companies continues to provide Anti-Retroviral Treatment to a total of 1,820 employees and family members in Botswana, Namibia and South Africa (p64)

4.1 Management of the impacts of recession on our workforce

Risk: The downturn has had a profound impact on employees in terms of staffing levels, use of contractors and remuneration. These factors present a range of risks in terms of employee recruitment, retention, motivation and skills – as well as our positioning for recovery.

During 2009, circumstances demanded strong measures in order to weather the impact of the global recession and to prepare our workforce for eventual economic recovery. In this context, the Family of Companies pursued three key objectives: keeping safety as a priority at all times; mitigating the impacts of recession on our employees; and seeking to maintain a motivated, focused and lean workforce into the future.

4.1.1 Engagement with government, employees and unions

4.1.1.1 Building consensus with government partners

In Botswana and Namibia, where host governments are 50% shareholders in Debswana and Namdeb respectively, frequent and constructive communication between the Family of Companies and senior officials punctuated our handling of the recession in 2009. Dialogue was essential in order to examine and explore the commercial context in which the Family of Companies managed its workforce. In South Africa, the main means of engagement with the government was through the Chamber of Mines and the Department of Mineral Resources.

- www.gov.bw
- www.grnnet.gov.na
- www.bullion.org.za
- www.dme.gov.za

4.1.1.2 Employee engagement

Proactive employee engagement played a critical part in the management of recessionary impacts on our workforce. At all points, we sought to maintain meaningful consultation with our employees on, for example, reasons for retrenchment, packages available to employees and the future shape of the business.

Employee engagement was carried out through multiple consultation sessions. All questions were collected and answered, and all reasonable attempts were made to investigate or comply with employee recommendations for business improvement.

In Botswana, a high-level engagement campaign was carried out by Debswana's CEO and External and Corporate Affairs function regarding the likely impacts of recession. Human Resource managers also held a series of meetings at each of the mining operations to explain the likely impacts on employees. An internal survey indicated that approximately 60% of Debswana's employees felt they had received enough pertinent information regarding the economic situation.

4.1.1.3 Union engagement

Early and proactive engagement with unions in 2009 proved essential in order to explain the broader economic and commercial challenges facing the Family of Companies.

Botswana

Debswana's engagement with the Botswana Mine Workers' Union (BMWU) took place through national-level and mine-level Joint Committees. Debswana and the BMWU were able to find a negotiated outcome with respect to most cost-cutting measures. Negotiations in respect of the annual wage increase from April 2009 to December 2009 were ongoing at the time of writing.

South Africa

DBCM's constructive engagement with the National Union of Mineworkers (NUM) took place at both strategic (i.e. national) and operational (i.e. regional) levels.

Although annual wage negotiations with the NUM typically take between two and three months, in 2009 they were concluded in three days. A wage increase of 9% was agreed and the parties renewed their commitment to working together to ensure the sustainability of the operations.

Despite this, the NUM mounted a successful challenge in the Labour Court in relation to some of the legal issues surrounding the retrenchment consultation process. The challenge specifically concerned the timing of termination notices for about 150 employees at the South African operations of the Family of Companies, following the impact of the recession. Three DBCM operations (Finsch, Namaqualand and Kimberley) and DTC South Africa complied with the court order by reissuing new notices of termination. Nonetheless, our South African Exploration unit is pursuing an appeal of the ruling.

- www.num.org.za

Namibia

A negotiated agreement between Namdeb and the Mineworkers Union of Namibia was reached in March 2009 on the three month production holiday.

Mining Area No. 1 on the Namibian coast

Case study: The Diamond Professional Graduate Certificate

This year saw the launch of the Diamond Professional Graduate Certificate programme, an innovative new training programme developed by the Diamond Trading Company (DTC) and the University of Leicester in the United Kingdom. The programme is designed to build a commercial understanding of how value can be created across the entire diamond pipeline. Its objective is to deliver a university accredited qualification, which enhances the ability of our employees to work in different international locations.

The 12 month programme was developed with expert input from the schools of geology and management at the University of Leicester, the DTC Diamond Academies in Gaborone, Kimberley, Windhoek and London, and the broader Family of Companies. Primarily aimed at high potential employees within the DTC, the programme combines:

- Web-based distance learning
- Specialist DTC Diamond Academy training
- International residential courses

Activities include presentations to senior managers, as well as visits to and analysis of our operations in southern Africa.

In 2009, 16 DTC employees successfully graduated from the programme. Of these, three came from the London office, whilst the remainder were from southern Africa. Although the impacts of the global recession saw the suspension or closure of many employee development initiatives in 2009, this programme has been deliberately maintained. This was due to the vital role it plays in helping to enhance diamond skills in southern Africa to the benefit of both the Family of Companies and the countries in which it operates (p29). In 2010, the programme will be expanded to include a further six southern African participants, drawn from the broader Family of Companies.

www2.le.ac.uk
www.dtc.com

"DTC are pleased to be partnering with Leicester and its Schools of Geology and Management in the creation of the Diamond Professional Graduate Certificate. It is an important and innovative employee talent development opportunity for the De Beers Group."

Phil Volkofsky, Downstream Human Resources Director

4.1.2 Mitigating impacts of the recession on the workforce

The dramatic fall in Sightholder demand for diamonds in late 2008 and 2009 (p18) necessitated significant and decisive cuts in production. In this context, the Family of Companies implemented a range of "intermediary" measures to avoid the need for the involuntary retrenchment of staff. These included:

- Early retirement
- Voluntary retrenchment (including full retrenchment packages)
- Minimisation of overtime worked
- The suspension of salary increases
- Voluntary special leave with partial pay
- Reduced shifts
- Production holidays with basic pay
- Redeployment within and outside the Family of Companies
- Employment on reduced time (e.g. consulting or part-time employment)

Although some of these measures had an impact on the take home pay of some employees, they did much to safeguard a large number of jobs.

4.1.2.1 Our global response

Botswana

- No material involuntary retrenchments were made in 2009. This decision was based on a strategic three year human resources review known as the "People Impact Assessment". This suggested that, given a likely recovery in demand and strong international competition for skilled mine workers, the benefits of maintaining Debswana's workforce were likely to outweigh the costs
- Temporary shutdown of all Debswana operations between the end of 2008 to mid-April 2009
- Production suspended from February until the rest of the year at Damtshaa mine and until August at the Orapa No. 2 Plant
- Voluntary retrenchment process resulting in the exit of approximately 400 permanent employees

Canada

- 30% of permanent employees were retrenched at Snap Lake in February 2009
- Temporary and contract workers were reduced at both Victor mine and at Snap Lake mine in particular
- Production reduced at the Victor and Snap Lake mines through two production holidays of four and six weeks respectively. While employees were not paid during these periods, the impact of this was mitigated through contributions from national unemployment insurance funds
- By the end of 2009, Snap Lake was recruiting again, with some former staff being reemployed

South Africa

- DBCM reduced its workforce by 740 permanent employees. Approximately half of reductions were made through voluntary retrenchments, whilst the remainder were involuntary
- Employee shift patterns were aligned to operational and production requirements, and were reduced in many instances
- At Namaqualand, production was reduced to one shift per day in accordance with an existing closure plan
- At De Beers Marine, about 50 employees were subject to involuntary retrenchment

Namibia

- Namdeb implemented a fully paid three month production holiday in 2009 and implemented a voluntary retrenchment process that reduced its workforce by about 400 employees. Owing to land-based operations nearing the end of their productive life, Namdeb also initiated a restructuring exercise that saw the retrenchment of 400–500 employees
- De Beers Marine Namibia reduced its operational fleet from five to three vessels, whilst voluntary retrenchment saw a workforce reduction of about 200 employees

Elsewhere

- DTC and its joint venture partners implemented a 22% reduction in its global workforce (approximately 200 employees) as a result of both the recession and pre-existing restructuring plans
- Group Services, which provides a range of corporate functions to the Family of Companies, was reduced from approximately 1,000 employees to approximately 600. The majority of these employees were subject to involuntary retrenchment

4.1.2.2 Training and capacity building

The global economic recession heavily impacted our external discretionary spend on professional development in 2009. Total investment fell to US$5.8 million from US$9.3 million in the previous year.

Nonetheless, training in high priority operational and legally required areas such as safety and mining technology was maintained (p56). Furthermore, we continued to focus on the internal development of employees through:

- Internal training courses
- The broadening of employment roles
- Mentoring and coaching
- e-learning

At DBCM, our focus on skills development is supported by legislation such as the South African Employment Equity Act 1998, the Broad-Based Black Economic Empowerment Act 2003 and our Social Labour Plans (p71). DBCM's well-established bursary scheme, focusing on engineering, geology and metallurgy disciplines, continued to thrive through the recession.

At Debswana, safety training increased in 2009 in order to make constructive use of production holidays and to maintain safety standards. Debswana also maintained technical training for its artisans at the Debswana Training Centre at Orapa in order to ensure operations were ready to respond to a recovery in global diamond demand. In addition, the company employed 19 students from its ongoing scholarship programme. This programme places graduate level employees and potential employees at a number of international academic institutions.

De Beers Canada initiated a partnership with the Mine Training Society, Aurora College and the Northwest Territories Department of Education, Culture and Employment to advance and enhance its current underground mine training programme. This marks an important step in fulfilling De Beers Canada's commitment to the development of a skilled local workforce and to increase the proportion of employees from the Northwest Territories.

4.1.3 Managing retrenchments

In 2009, and as a direct result of a significant drop in global diamond sales, the Family of Companies reduced its total workforce by 23%. A significant proportion of this reduction was as a result of retrenchment. The retrenchment of any employee has a significant impact on individuals and, in many cases, on extended families. This reality served as a crucial guide over the course of the retrenchment process.

In line with our aspiration to be an employer of choice in the countries in which we operate, the Family of Companies paid competitive severance packages that typically exceeded local legal requirements.

4.1.3.1 Advice and counselling

The year 2009 was a traumatic one for many of our employees, not only for those subject to retrenchment, but also those who have been subject to a high degree of uncertainty. Our health personnel (and supporting organisations) saw a significant increase in demand for advice and counselling, whilst support was also provided via each business unit's Employee Assistance Programme.

4.1.3.2 Professional support

Active measures were also taken to help ex-employees find alternative employment, and all employees to manage their personal finances in a period of uncertainty. These included:

- One week "fairs" in which external financial and employment experts were invited to engage with employees at Debswana
- Training programmes to provide accredited courses for the reskilling of retrenched employees
- The sale of certain assets by operations in Namaqualand to ex-employees for alternative income generating activities
- The placement of retrenched employees within our shareholder Anglo American (45%)

"Circumstances dictate that we will, regretfully, be losing many good people. People that have spent their lives in service to De Beers, and many other companies across the industry. We must ensure that, whether they are leaving us or staying, they are treated with dignity and the respect they deserve."

Nicky Oppenheimer, Chairman of De Beers

4.1.4 The impact of recovery

The post-recession environment will demand a fundamental realignment of our approach to employees in 2010 and beyond. Downsizing and delayering exercises implemented in late 2008 and 2009 were permanent. As such we do not foresee staff numbers rising in the future to replace those employees retrenched.

Figure 4-1: Average hours of training by employee category, 2009

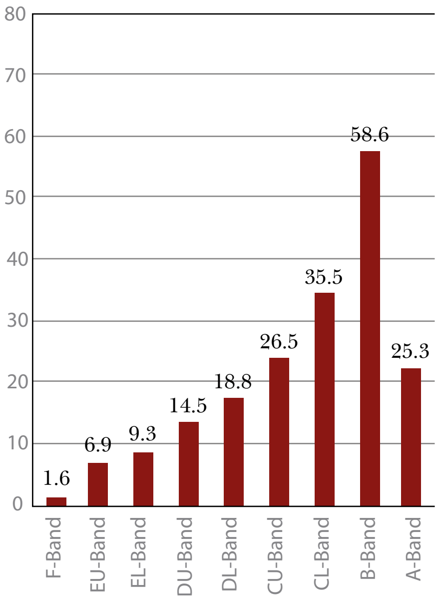
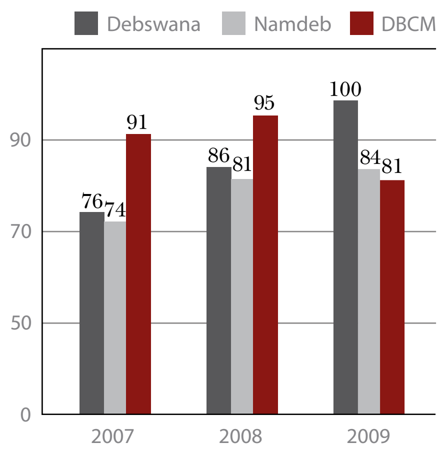


Figure 4-2: Union membership at our major operations (semi-skilled worker, %)



Case study: Careways – offering support to retrenched DBCM employees

The Family of Companies provides Employee Assistance Programmes, which provide a range of psychosocial support to employees and their dependants. In South Africa, this service is delivered by Careways through a network of providers. This proved to be of great value at a time when DBCM reduced its workforce by 740 permanent employees, sometimes through voluntary and involuntary retrenchment. In this context, it was of utmost importance to offer employees support with respect to financial planning and debt management. This support was extended through formal workshop sessions at mines prior to the departure of staff, as well as one-on-one counselling through Careway's network of service providers. During 2009, this support was provided for a further month after staff ended their employment at DBCM.

www.healthfirst.co.za

Employee counselling in Namaqualand, South Africa

4.1.4.1 Winning and retaining talent

Our ability to remain responsive to market change and to shape the long-term sustainability of the business is of critical focus as we emerge from recession. We are committed to retaining talented employees through offering a clear and competitive employee value proposition, whether through competitive salaries, supportive workplace environments, valuable professional experience or otherwise.

4.1.4.2 Employment prospects

While the Family of Companies will not seek to replace those positions retrenched in 2009, two key projects are likely to provide new employment opportunities:

- The Jwaneng "Cut-8" mine expansion project will employ in excess of 1,500 mine workers over its project lifecycle in planning and design, construction and mining phases. Following project completion, Jwaneng's expanded operations are likely to require an additional 700 workers by 2016
- The ramp-up of Snap Lake is expected to create 175 new positions by the time it reaches full production in 2012. The resumption of construction at the mine is likely to employ 30 workers in 2010

Although Debswana made no involuntary retrenchments in 2009, its employees were issued with a notice under Section 25 of the Employment Act giving notice of potential job losses in 2010. This exercise is part of Debswana's Operational Review, which was launched in 2008 and is focused on the strategic restructuring of the company. The Operational Review is not connected to short-term recessionary impacts.


Mine face monitoring at the Orapa mine, Botswana

Figure 4-3: Labour turnover (%)

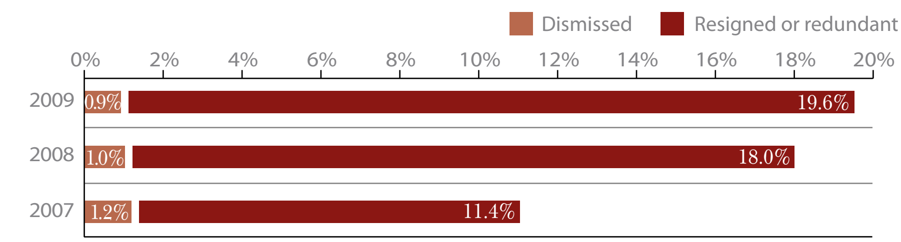
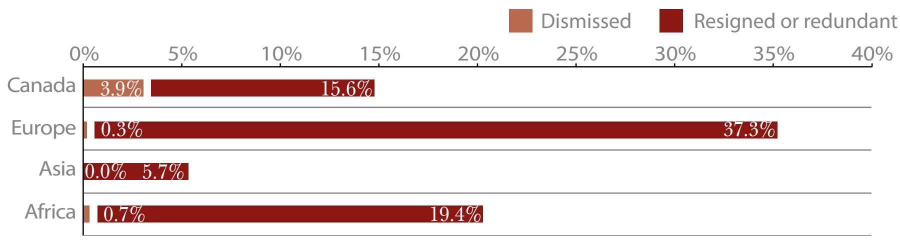


Figure 4-4: Labour turnover by region (%)



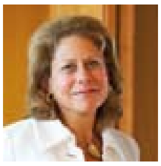
4.2 Maintenance of health, safety and occupational hygiene standards

Risk: The health and safety of our employees and contractors remains our top priority. The effective management of safety risks requires constant vigilance and stringent adherence to international standards and our Principles, as well as a culture of sustained health and safety hazard awareness.

4.2.1 Maintaining strong standards during a period of change

During periods of operational and organisational disruption, it becomes imperative to ensure that safety standards are not only maintained but are reinforced. This view was prioritised in 2009 by the leadership of the Family of Companies and also by our shareholders. Although 2009 saw reductions in the resources available to many of our Environment, Community, Occupational Hygiene, Health and Safety (ECOHS) teams, the safety discipline was effectively ring-fenced.

In 2009, our health services saw a higher degree of disruption due to organisation change. As a result, the focus for the Health Peer Group was on "doing more with less" by prioritising and mitigating employee health risks (p56).



"As 45% shareholders of De Beers, we steadfastly hold the view that the continuous improvement of employee safety cannot, at any point, be compromised, irrespective of other pressures on the business."

Cynthia Carroll, CEO of Anglo American

4.2.1.1 Worker wellbeing

The safety performance, wellbeing and productivity of our employees can be significantly impacted by a number of factors. In times of organisational change and financial disruption, stress levels are known to increase.

Our health and human resources teams prioritised financial counselling for employees who have been under the threat of retrenchment, have been retrenched or whose real incomes have been reduced by intermediary cost-cutting measures (p51). In addition, our Health Peer Group developed Stress Management Guidelines and associated measurement tools, as well as performance standards for illness-related absenteeism.

4.2.2 OHSAS 18001

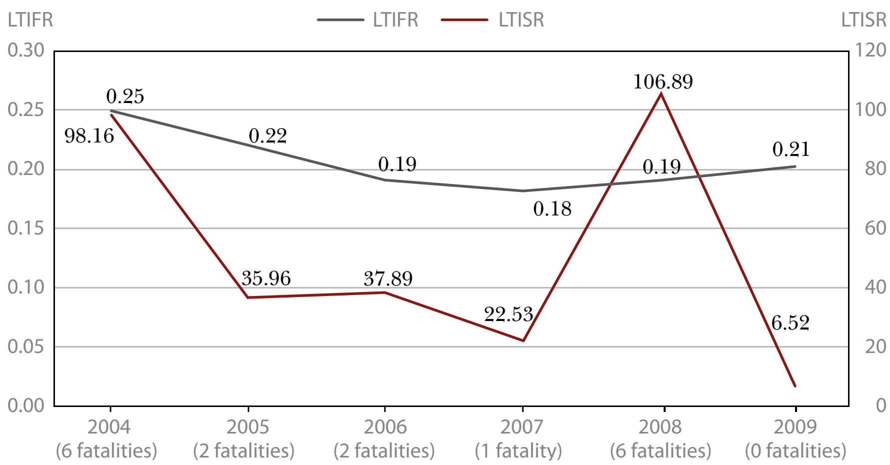
4.2.2.1 Implementation

All of our diamond mining operations (except for the Snap Lake and Victor mines in Canada) are third party certified to the Occupational Health and Safety Assessment Series (OHSAS) 18001 standard. We expect to achieve full certification across the Family of Companies in 2010, with OHSAS 18001 in effect becoming the minimum standard for every one of our mines. In 2009, we carried out a general review of the process and assessment criteria applied by certification bodies in order to ensure the highest standards of assessment. The results of this review are being used to develop a set of guidelines on the appointment and evaluation of external certification providers.

4.2.2.2 Audit tool

In addition to OHSAS 18001, we also apply our Best Practice Principles (BPPs) and BPP Assurance Programme. These provide additional third party verification of our "system" integrity (p104-105). The 2009 audit cycle found no significant health and safety infringements at any of our operations.

Figure 4-5: LTIFR and LTISR



4.2.3 Safety

In 2009, our Lost Time Injury Frequency Rate (LTIFR) rose marginally from 0.19 in 2008 to 0.21 per 200,000 hours (Figure 4-5). This result was broadly inevitable due to production slowdowns (Figure 2-11) and holidays. Namaqualand, Morupule and De Beers Marine Namibia showed a particularly strong performance, with each registering an LTIFR of 0.00. Our Lost Time Injury Severity Rate (LTISR) decreased sharply from 106.89 per 200,000 hours to 6.52, reflecting the absence of fatalities in 2009. LTISR fell significantly at almost all of our operations, with the exceptions being Namdeb, Group Exploration and De Beers Marine. There were no statutory fines imposed on the Family of Companies in 2009.

These figures compare to a general industry trend that often sees a considerable worsening in safety performance after significant operational restructuring.

De Beers Marine Namibia won first place in the Namibian Chamber of Mines "Inter-Mines A Division Safety Competition". In addition, the exploration team at De Beers Canada was awarded the "Safe Day Everyday" Gold Award for the highest number of days worked without an Lost Time Injury (LTI). The award was presented by the Prospectors and Developers Association of Canada and the Association for Mineral Exploration British Columbia.

- www.chamberofmines.org.na
- www.pdac.ca
- www.amebc.ca

4.2.3.1 Safety activities in 2009

In 2008, the De Beers Family of Companies mourned the loss of six lives amongst our contractor workforce. This unacceptable performance necessitated a large-scale review of the management of employees and contractors at our mines. In 2009, our learnings were translated into the development and review of our Contractor Outcome Standard and Good Practice Guideline, which are planned for roll-out in 2010.

Other key safety activities in 2009 include the following:

- Close cooperation and information sharing with safety personnel at Anglo American, including review of our Fatal Risk Control Guidelines
- Effective and comprehensive information sharing between all business units, as well as the implementation of universal representation in the Safety & Hygiene Peer Group
- More advanced safety measurement to include, for example, non-Lost Time Injuries (LTIs), first aid cases and "near hits"
- Ongoing development of our "Visible Felt Leadership Guidelines" to maintain and promote a culture of safety awareness
- Promotion of the Safety Risk Management Programme (SRMP) to move the Family of Companies from safety "compliance" to safety "proaction" (p56)
- Self-auditing and assessment of the implementation of our Fatal Risk Control Guidelines (FRCGs)
- Promotion of the BHP Billiton Incident Cause Analysis Methodology (ICAM) by Debswana. ICAM focuses not only on incident investigation, but also on the potential outcome of incidents. In addition, it places emphasis on high-potential incidents rather than LTIs
- Enhanced integration by Debswana of health and safety into line management responsibilities, internal audit, monitoring and measurement

Both the Safety & Hygiene Peer Group and the Hydrofluoric Acid working group were mandated in 2009. This reflected the incorporation of occupational hygiene into the safety discipline, as well as recognition of the need for a more homogenous approach to the management of hydrofluoric acid within the Family of Companies.

In 2010, we are planning to finalise our Risk Assessment Guidance document, which is based on the Anglo American Risk Assessment Matrix. The Risk Assessment Guidance is also being reviewed to ensure its alignment with Anglo American's Safety Risk Management Programme.

- www.angloamerican.co.za

Figure 4-6: LTIFR and LTISR by location, 2009

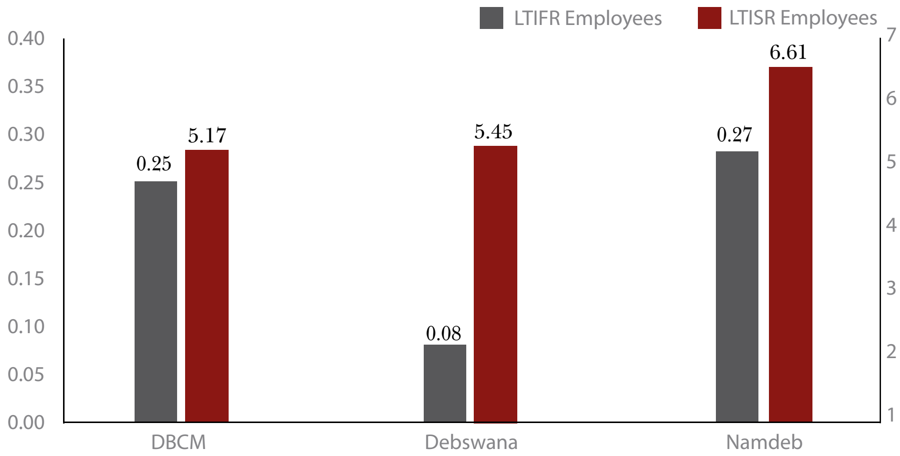


Figure 4-7: Safety Risk Management System "DNA" model

4.2.3.2 Safety Risk Management Programme

The SRMP was developed by Anglo American and the University of Queensland to educate employees and contractors at all levels to better identify hazards and to assess and manage risks using a standard set of tools and methods. Mining operations across the Family of Companies currently operate at different application levels of the SRMP (Basic, Reactive, Compliant, Proactive and Resilient). The system is at its most advanced level of implementation at DBCM and at our Jwaneng mine.

The SRMP is based on the concept of a complete leadership-led intellectual shift. In 2009, extensive management level "A3/A4" training was implemented across the Family of Companies.

Our DBCM operations are "cascading" learnings from the SRMP to mine employees through our existing Project Vika ("protect yourself"). This aims to move workers away from being passive observers of safety regulations to becoming active participants.

4.2.3.3 Engaging employees and contractors

All new employees, contractors and site visitors are required to attend a health and safety induction before being allowed on site at our operations. During 2009, our operations also provided safety inductions to workers impacted by production holidays. Contractors are legally required to adhere to the same standards and monitoring practices as our own employees. Our Contractor Management Standards and Guidelines are expected to be completed in 2010.

At Debswana, innovative use was made of the new Safety Value Conversations model at the Jwaneng mine. This three day event was aimed at promoting free discussion about safety issues at work and at home. It was run along traditional, consultative lines and was conducted in the national language of Setswana. In addition, Debswana developed a comprehensive "Site Rules and Regulations" document for contractors.

4.2.3.4 Fatalities

In 2009, we had no work-related fatalities within the Family of Companies. This was due to:

- Improved and more uniform implementation of our Fatal Risk Control Guidelines (FRCGs), including monitoring and reporting
- A significant reduction in operational activity due to the impacts of the global recession (p23)
- The continued "engineering-out" of risk exposure from machinery and the amendment of procedures
- More rigorous contractor management, including better training and induction programmes, as well as increased emphasis on our fatal risk control requirements
- Embedment of long-term contractors into our own safety systems in order to ensure the maintenance of common standards

Employees and contractors are represented in joint committees and daily briefings with managers to monitor and advise on health and safety programmes. In South Africa, for example, the law requires that joint safety committees have 50% employee representation. At Debswana, a Safety and Health Agreement is in place with relevant unions covering health and safety committee meetings, as well as the roles and responsibilities of safety representatives.

"I would like to congratulate the Family of Companies for the exceptional achievement of having reported zero fatalities during 2009. That the first fatality free year in 80 years was achieved under particularly difficult circumstances makes it all the more impressive. The achievement should be widely communicated and celebrated."

Nicky Oppenheimer, Chairman of De Beers

4.2.4 Health and wellbeing

Our approach to employee health and wellbeing is informed by our Occupational Health and Occupational Hygiene Policies, which are supported by a suite of standards and guidelines. Health risks vary across the diamond pipeline depending on the country and type of operation. In exploration and mining operations, inherent occupational health risks include infectious diseases, noise induced hearing loss and airborne pollutants.

4.2.4.1 Doing more with less

In 2009, circumstances demanded a scenario-based review of our health services, as well as the development of a new model for operating resilient health services with restricted resources. Key aspects of this new model included:

- A reduction in central coordinating health staff
- Increased reliance on our peer group network
- Increased emphasis on cross-discipline collaboration
- Expansion of Health Peer Group membership to include a broader range of internal health stakeholders

The strength of this approach was demonstrated in the proactive steps taken to address the H1N1 influenza pandemic. Our Pandemic Influenza Policy was immediately updated, whilst peer group members collaborated closely to put action plans in place at all business units before the appearance of "community acquired" H1N1cases at DBCM, Debswana, DBMN, Namdeb and De Beers UK Ltd.

Despite a significant reduction in resources and increased workload relating to exit medicals and employee stress (p52), the overall quality of our occupational medical services was maintained, and in certain cases consolidated over the course of 2009. For example, we implemented audiometry (hearing monitoring) at all of our global mining operations and developed new guidelines on stress and pregnancy at work.

While health service training was generally reduced in 2009, essential and legally required training was maintained. This includes courses in audiometry, spirometry (measuring lung function) and emergency life support training. In addition, two doctors at Namdeb qualified as occupational medical practitioners.

4.2.4.2 Implementation of health standards

OHSAS 18001 certification (p54) was complemented by our audit tool for occupational health and emergency medical care. The emergency medical services at all of our underground and surface mining operations received an audit performance rating of more than 90% compliance with our standards. Likewise, all underground and surface mining operations with existing OHSAS 18001 certification received an occupational medical service audit performance rating of more than 90% (Figure 4-9).

In addition, Jwaneng Hospital became the first hospital to be accredited in Botswana by the Council for Health Services Accreditation of Southern Africa, achieving a score of 97% (p73).

4.2.4.3 Awareness raising

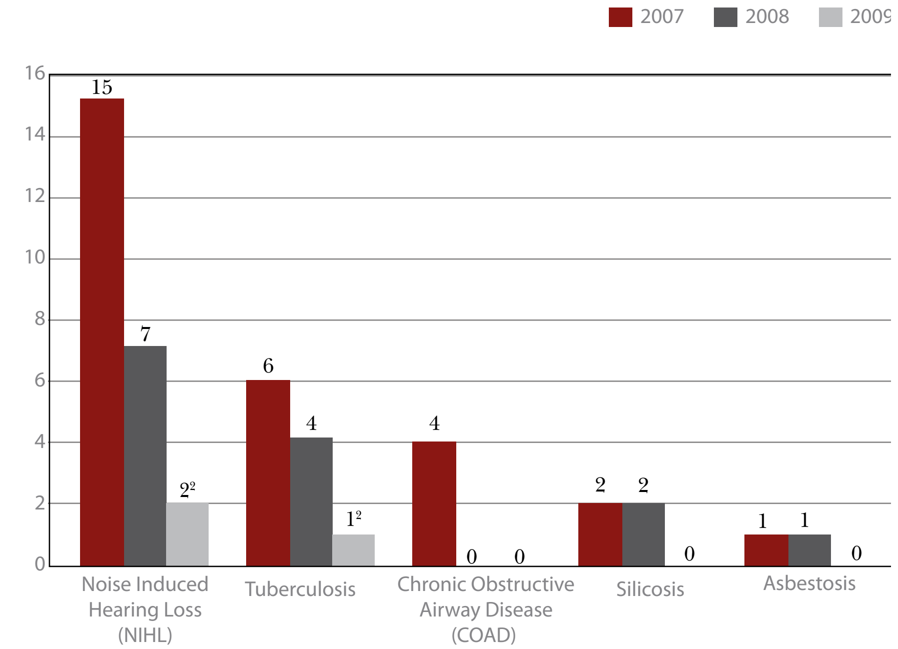
Health issues are discussed with employees through health and safety representatives or during interactions with health professionals. We have collaborated with a variety of internal and external stakeholders including unions, management and the National Institute for Occupational Health in the piloting and development of educational material for the prevention of occupational diseases.

4.2.4.4 Health performance

Our DBCM Occupational Illness Frequency Rate (OIFR) fell significantly to 0.44 cases per million person hours worked (2008: 1.02, 2007: 2.01). This translates to an incidence of 0.1 cases per 100 person years (2008: 0.22, 2007: 0.50). This achievement is largely due to the considerable progress made in 2009 with respect to our hearing conservation programme and the monitoring of those with hearing loss to prevent further deterioration. Debswana and Namdeb completed hearing baselining in 2009 and the retrenchment process contributed to a fuller picture of employee health due to our mandatory exit medical assessments.

A survey of our morbidity and mortality data across the Family of Companies identified more than 60 non-work related ill health retirements and deaths in service in 2009. The common known causes of premature death were HIV and Aids, cardiovascular disease and motor vehicle accidents. Each of these is to be targeted in our ongoing wellbeing initiatives, which include development of wellbeing and chronic disease indicators.

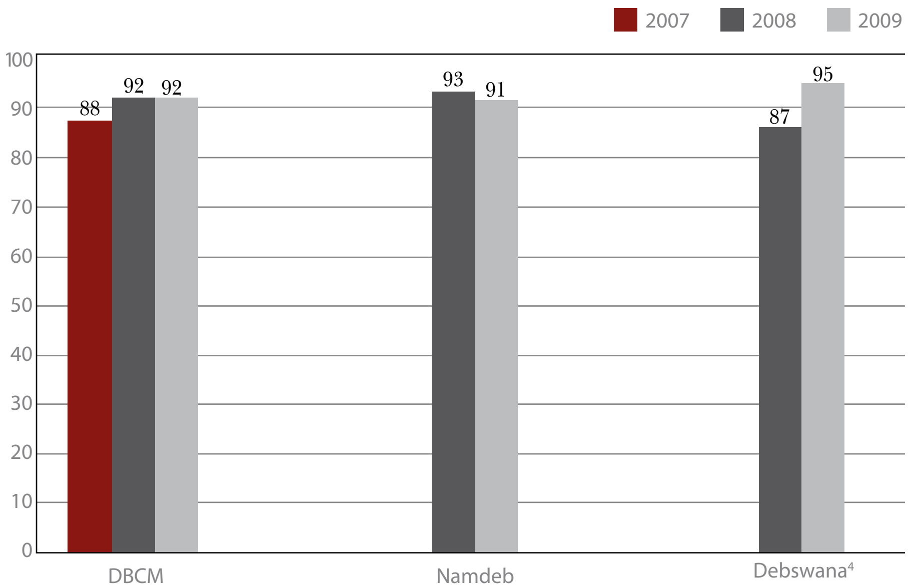
Figure: 4-8: Incidence of occupational disease for DBCM[1]



[1] Equivalent data are not available for Debswana and Namdeb. This is due to the lack of national reporting systems or definitions on "occupational" disease

[2] Cases submitted in 2009 are not yet certified

Figure 4-9: Occupational medical audit results (% performance rating)[3]



[3] DBCM, Namdeb and Debswana have been included as they represent the business units with the largest workforces within the Family of Companies

[4] Derived from simple average of results from Jwaneng and Orapa

Case study: Emergency Medical Response at Namaqualand

The updating of emergency and trauma management skills was a key priority for all health staff in 2009. DBCM organised three International Trauma Life Support (ITLS) training courses for on-mine professional nurses and doctors as well as medical personnel from supporting private and state services. All 20 participants completed the basic ITLS accreditation, with 65% successfully completing more advanced level accreditations.

In October 2009, the Namaqualand mines carried out a further unannounced disaster training exercise to test the mine's emergency response systems and medical preparedness. This included a simulated disaster of five individuals "injured" as a result of collapsed scaffolding. The mine's medical staff that responded were initially unaware of the simulation and responded as normal by administering emergency care, immobilising victims using stretchers, head restraints and spider harnesses prior to transportation to the mine hospital by ambulance. Nurses that responded to the disaster scene said the ITLS course had equipped them with the skills and confidence to assess the "injured" persons and to provide the emergency care required.

www.itrauma.org

Medical training in Namaqualand

4.2.5 Health hazards

Noise exposure remains the most significant occupational health hazard for our employees. In 2009, Noise Induced Hearing Loss (NIHL) accounted for the majority of occupational disease cases. Proactive plans to reduce this risk are to resume in 2010 following the disruption caused in 2009 by the economic crisis. These include the "engineering-out" of noise from machinery, promoting the use of protective equipment and monitoring exposure levels.

A baseline dust risk assessment conducted in 2009 at the Snap Lake mine in Canada indicated potential exposure of employees to respirable crystalline silica. The mine is implementing an occupational hygiene programme to monitor and mitigate the hazard.

Dust measurements at Finsch indicate that since the commissioning of the wet scrubber for the crusher, there have been no excursions in dust exposure over the occupational exposure limit. Dust exposure monitoring at other operations is ongoing, with results obtained remaining below occupational exposure limit levels.

Diesel particulates are a recognised carcinogen for which exposure limits have, or are in the process of being set, in producer countries. In 2009, DBCM collaborated with Anglo American's Technical Division to investigate current exposures at underground and surface operations to inform the limit being introduced in South Africa.

4.2.5.1 Endemic diseases

Tuberculosis is a significant endemic disease in southern African countries with a high prevalence of HIV. In South Africa, all cases of tuberculosis in underground miners exposed to respirable crystalline silica are considered to be occupational illnesses. The national incidence rate is 948 per 100,000 population. This compares to an incidence rate among DBCM permanent employees in 2009 of 137 per 100,000.

Malaria remains a significant occupational health challenge at exploration sites in Angola, as well as a significant health issue for local employees. A number of improvements are being made to reduce the impact of malaria on our exploration teams. Our Exploration unit has implemented a new anti-malaria plan based on World Health Organization (WHO) guidance. This includes:

- Long-lasting insecticide treated bed-nets
- Indoor residual spraying
- Prevention and rapid treatment with effective medicines

Case study: Holistic health screening

De Beers corporate headquarters in Johannesburg continued health and wellness screenings through its health services during 2009. This included on-site mammography, which represented a first in South Africa and for De Beers.

Cause Marketing Fundraisers, an NGO focused on breast cancer advocacy, launched its mobile mammography unit in August 2009 as part of its "Pink Drive" campaign. Pink Drive has two mobile mammography units working in Gauteng Province, serving an estimated 1.6 million women.

De Beers secured Pink Drive services in September 2009 (ahead of "breast cancer month" in October) in order to offer on-site screening for all of its employees and contractors at its Johannesburg campus. To complement this, our on-site clinic also provided Papanicolau tests (or Pap smears) and prostate screening. This helped ensure we were able to offer comprehensive reproductive health screening for all. The continued focus of our health services on gender equity has helped ensure that sexual and reproductive health is an integral part of our holistic approach to health.

www.pinkdrive.co.za

Medical facilities at the Jwaneng mine, Botswana

Other measures against endemic disease, particularly for exploration teams, include education on transmission and immunisation for diseases such as Poliomyelitis, Meningococcal Meningitis, Yellow Fever and Hepatitis as part of our comprehensive endemic disease prevention programme.

www.who.int

4.2.5.2 Emergency preparedness

The reduction in our emergency medical care capacity has been mitigated by enhanced emergency training and performance among staff. This has contributed significantly to our functional resilience (p58).

In 2010, the new Hydrofluoric Acid working group (p55) will develop a common standard for the transportation, use and disposal of hydrofluoric acid. This is expected to ensure a homogenous approach across the Family of Companies.

"I am particularly proud of the exemplary management of the DBMN on-board case of H1N1 influenza, in which Namdeb health services played a supportive role; it again displayed the benefits of the Health Peer Group collaboration and preparations."

Inge Zaamwani-Kamwi, Namdeb CEO

4.2.6 Emerging health risks

With an increasing number of women in the workforce, the likelihood of pregnancy and the potential for associated health complications has risen, particularly at mining operations. At one operation, 10% of the female workforce was pregnant in 2009. The Health Peer Group has produced evidence-based guidelines on the risk assessment and management of pregnant and post-partum workers.

Additional health risks identified in 2009 include occupational dermatitis and musculoskeletal disorders. These are likely to become increasingly important as occupational exposures are identified as being causative. Ergonomic exposures, from manual handling to computer operation, are also an emerging hazard. There will be increased focus on these issues, as well as non-occupational chronic diseases. For example, our Safety Peer Group is in the process of assessing risks involved in manual handling and introducing guidelines to prevent injury and musculoskeletal disorders.

4.3 HIV and Aids management

Risk: The majority of our employees live in countries classified as hyper-endemic for HIV. Their exposure to HIV and Aids represents a real threat to their health, their families, the continuity of our business and the long-term development of Africa.

Sub-Saharan Africa remains the most HIV and Aids burdened region in the world with 67% of all infections. Almost 60 million people have been infected with HIV and 25 million have died since the beginning of the epidemic.

The majority of our employees (91%) are based in southern African countries classified as hyper-endemic for HIV. The exposure of our employees in these countries to HIV and Aids is a real threat to their health, to their families, to the continuity of our business and to continued development in Africa.

Managing this risk is a complex social and developmental challenge requiring an integrated and systems-based approach that makes HIV and Aids a central part of our ongoing operational health risk management programme in the Family of Companies.

According to UNAIDS, the latest prevalence rates (2007) for HIV amongst adults (15-49 years) in our southern African countries of operation are as follows:

- Botswana: 23.9%
- Namibia: 15.3%
- South Africa: 18.1%

www.unaids.org

4.3.1 An unchanging and long-term commitment

Our vision and strategy for the management of the HIV and Aids risk continues in the areas of prevention, treatment, care and support. The focus of our HIV and Aids risk management strategy has been on workplace treatment programmes, with prevention being integrated into our health services through Provider Initiated Counselling and Testing (PICT). Our ultimate goal is the integration of our HIV and Aids programmes with the public health systems of each of our countries of operation.

4.3.2 Prevention

Our approach to preventing HIV infection, both within our workforce and more broadly, is built on awareness raising, testing and research.

4.3.2.1 Awareness raising

The Family of Companies continues to provide awareness and training interventions to prevent and manage HIV and Aids, as well as related risks including tuberculosis. Confidential HIV testing and the provision of male and female condoms are available free of charge to employees through on-site medical centres, clinics and in restrooms at our operations and offices.

Debswana places particular emphasis on behaviour change and communication in order to ensure that relatively high levels of awareness are properly translated into the "right" behaviour and practices. These include, for example, innovative use of participative drama activities.

Furthermore, our HIV and Aids principal has been active in engaging external organisations. Examples include:

- Ongoing engagement with the Global Business Coalition on HIV/AIDS, Tuberculosis and Malaria (GBC) (including support for a toolkit to help small businesses address HIV and Aids)
- Regular presentations to the South African Business Coalition on HIV/AIDS (including an update on the impact of the recession on the private sector response to HIV and Aids)
- Representation on behalf of the business sector on the Resource Mobilisation Committee for the South Africa National Aids Council, which provides South Africa's Country Coordinating Mechanism with the Global Fund to Fight AIDS, Tuberculosis and Malaria

www.gbcimpact.org
www.sabcoha.org
www.sanac.org.za
www.theglobalfund.org

"The down turn in the economy this year has seen budget cuts among our members, with new initiatives in companies being put on hold for 2009. However, some companies have not moved their focus and have been striving to get as much value out of what they have, such as De Beers. For the GBC this has meant a greater demand on valuable services to our members. A heightened desire for collaborations and partnerships from business with governments, the Global Fund and other multilaterals. The GBC facilitates these partnerships and this area of work has been a priority for the GBC."

Adjo Mfodwo, Vice President & Regional Director (Southern Africa), Global Business Coalition on HIV/AIDS, Tuberculosis and Malaria

4.3.2.2 Testing

Confidential HIV testing has been provided to all staff in southern Africa since the inception of our respective country-specific treatment programmes. Confidential testing and access to treatment is essential to encourage employees to know their HIV status. Whilst we had a target to ensure 90% of all South African employees know their HIV status by 2009, we have not yet been able to achieve this. Uptake has declined over time from a peak of 77% in 2006 to 64% in 2008.

Our move from Voluntary Counselling and Testing (VCT) campaigns as the predominant mechanism of testing to PICT was accelerated with the loss of HIV coordinators in DBCM in 2009. PICT provides more control of provision and data recording of each test. If maintained at a high level, PICT provides better health data and potential incidence rates than VCT due to our enhanced ability to monitor repeat testing. Our Voorspoed mine in South Africa, which started operations in 2008 and has only ever used PICT, saw an 89% employee uptake in 2009.

Case study: Human Rights Dilemmas Forum case study on HIV and Aids

In 2009, the Family of Companies took part in an innovative new project funded by the GE Foundation and hosted by the United Nations Global Compact. The Human Rights Dilemmas Forum aims to enhance the business community's collective understanding of human rights and labour standards themes. It also aims to identify good practice that responsible business can implement when challenged by real-world dilemmas.

As part of this project, the Family of Companies contributed an extensive and frank case study to illustrate the dilemmas faced when implementing effective and responsible HIV and Aids management programmes. The case study analyses a number of challenges, including the need to:

- Balance the role of the state as a provider of essential public services and that of the state as a shareholder
- Set appropriate boundaries in terms of who is included in HIV and Aids management
- Balance the requirements of strong HIV and Aids management against individual rights

It also sets out examples of good practice that can be followed by multinational corporations in order to address these challenges. These include many of the actions described in this report, including:

- Eliminating stigma and promoting participation in extensive and confidential Voluntary Counselling and Testing (VCT)
- Extending the provision of Anti-Retroviral Treatment to members of employees' families
- Improving employee quality of life and productivity through physical and psycho-emotional care and support

The Forum includes an online discussion forum through which companies, international organisations, NGOs and other stakeholders can comment on, and contribute to, good practice.

www.human-rights.unglobalcompact.org

Routine HIV testing enables the provision of testing during medical consultations at mine clinics, either through occupational medical examinations or primary care consultations. HIV tests are available to all employees, spouses, life partners and contractors. Private-public partnerships help make testing available in communities (p74).

Despite our maintenance of a strong HIV and Aids risk management programme, some aspects have been affected by recessionary impacts. For example, the loss of our dedicated HIV and Aids coordinator roles in South Africa has:

- Reduced our ability to carry out proactive campaign testing
- Increased the difficulty of collating and analysing HIV and Aids data (as have fluctuations in workforce numbers that undermine comparability and traceability)

Furthermore, the significant increase in exit medicals in 2009 has impacted on the ability of our health services to maximise HIV and Aids testing amongst employees.

4.3.2.3 Research

The Family of Companies conducts operational and "in-field" research projects to improve the effectiveness of our existing HIV and Aids risk management programmes.

This includes, for example, our partnership with the Health Economics and HIV/AIDS Research Division (HEARD). This partnership examines factors influencing challenges to adherence to HIV treatment services. Early results have identified a number of issues, including logistics, a perceived lack of confidentiality, fear of being seen to take medication in the workplace and other related factors (p62-63).

DBCM is providing funding for research in 2010 on the occupational health, social and cultural aspects of HIV and Aids at our Voorspoed mine in South Africa and the local community. The research is being carried out through the Health Sociology programme at the University of the Witwatersrand. It will maintain its focus on social and personal aspects, as well as the "softer" societal frameworks and beliefs about health and HIV and Aids that, if better understood, could inform our ability to enhance prevention of the disease.

4.3.3 Treatment

Anti-Retroviral Treatment (ART) is available free to HIV infected employees and their spouses or life partners where it can be provided in a responsible and sustainable manner. This includes our South African operations and joint ventures in Botswana and Namibia. In 2009, our ART programmes were externally coordinated by Aid for AIDS via a network of accredited service providers. Our goal is to encourage all HIV positive employees and their spouse or life partner to join a disease management programme as early as possible and to maintain 100% accessibility in the countries affected by HIV and Aids.

In South Africa, ART continues to be provided to employees upon retirement or retrenchment. This differs in Botswana and Namibia where, on cessation of employment with the respective De Beers companies, the retired or retrenched employee is seamlessly migrated from company to government programmes. Our ongoing experience with a dedicated HIV treatment programme in South Africa and experience with integrated programmes in Namibia and Botswana continues to highlight the need for closer alignment with primary and occupational healthcare to provide improved patient care. This includes holistic wellbeing programmes.

In addition to ART, the Family of Companies Disease Management Programme provides employees with access to comprehensive health programmes that address physical and psycho-social wellbeing. This includes post-exposure prophylaxis, medication to prevent opportunistic infections, pathology, counselling and support, wellness advice and nutritional supplements.

Continuity of Anti-Retroviral Treatment for Employees in South Africa

Since July 2003, De Beers has provided free Anti-Retroviral Treatment (ART) to HIV-infected employees and their spouses or life partners in South Africa. There are currently 455 participants, representing 78% of all people who ever registered. Of these, 260 are still working with current or previously owned De Beers operations and the remainder are pensioners or retrenched employees.

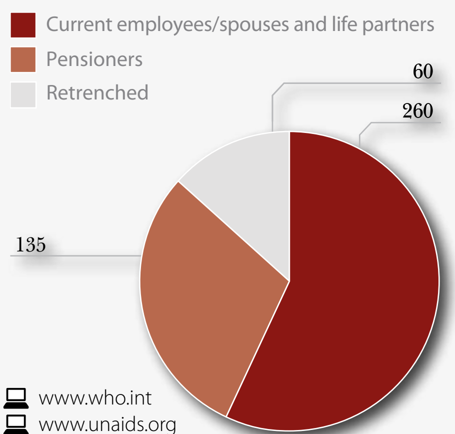
What is ART?

ART involves the use of anti-retroviral drugs to suppress the HIV virus and prevent the development of Aids. This results in extended life expectancy and improved quality of life. Treatment also assists in lowering transmission rates by reducing viral loads to almost undetectable levels. This has been demonstrated by the successful prevention of mother-to-child transmission of HIV globally, and is replicated in the De Beers programme. For ART to work, patients must adhere to treatment; interruption can lead to drug resistance.

How have retrenchments affected ART at DBCM?

Despite substantial downsizing in the first quarter of 2009, DBCM continues to provide ART to retired and retrenched employees. The programme is designed to ensure continuity of treatment once it has been initiated. In part, this is due to the fact that the programme was initiated before government provision of ART. This programme, as well as our programmes in Namibia and Botswana, is overseen by independent service provider Aid for AIDS, which has specialised in Aids disease management for the last decade.

Figure 4-10: DART members[5]



www.who.int
www.unaids.org
www.aidforaids.org

[5] DART is the De Beers Anti-Retroviral Treatment Programme in South Africa

Education is an important part of ART adherence

"Our responsibility to our employees does not end when they leave DBCM. We are committed to ensuring that retrenched and retired employees continue to receive ART, whatever their circumstances."

Joy Beckett, DBCM, Manager Health Services

Support from partners increases ART adherence

HEARD research into programme adherence

The Family of Companies is working with the Health Economics & HIV/AIDS Research Division (HEARD) at the University of Kwazulu Natal, to explore the efficacy of ART employee programmes. In particular, the study aims to understand the reasons for low uptake of ART and Voluntary Counselling and Testing (VCT) programmes in the workplace.

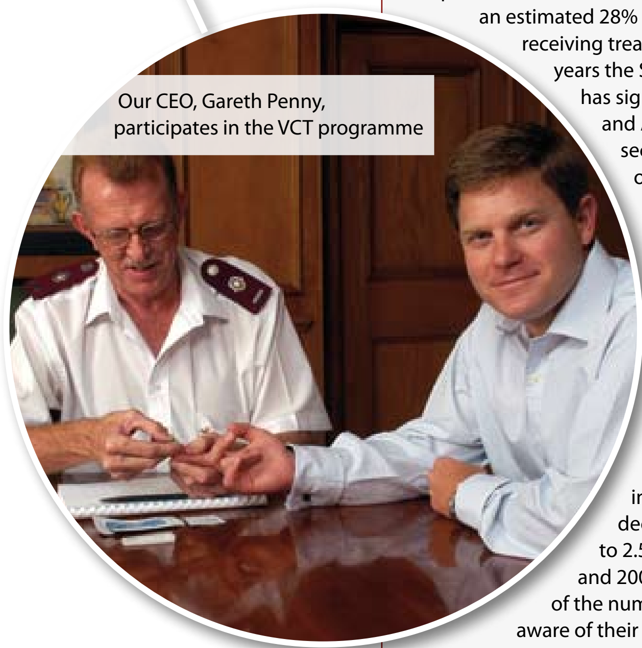
The research found that some of the following factors impeded treatment adherence:

- Lack of trust in the confidentiality of clinical staff
- Reticence to commit to life-long treatment, particularly for non-visible symptoms
- Concerns with side effects during work shifts, such as drowsiness
- Fear of how drugs interact with traditional medicine and alcohol
- Lack of support from partners and work colleagues
- Significant stress and depression from the medical, psychological and social consequences of treatment

Research participants cited support from their partners and other family members as important factors in facilitating adherence. The availability of free medication and constructive attitudes amongst health personnel were also positive influences. De Beers is using these results to design a treatment programme focusing on family and community support.

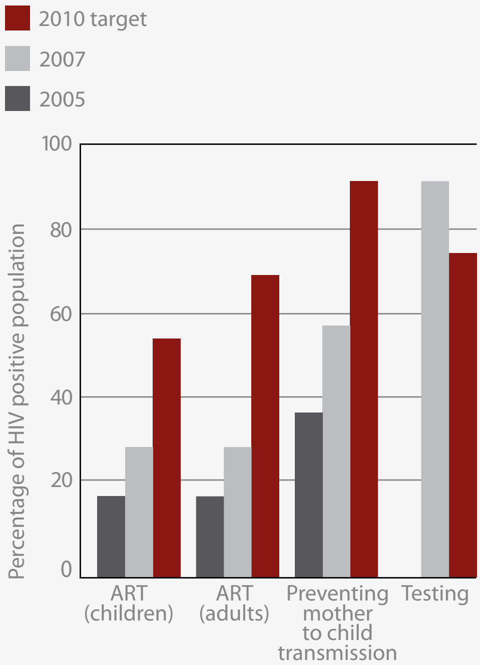
Turning the tide on HIV and Aids in South Africa

South Africa is home to the world's largest population of people living with HIV (5.7 million). More than 15% of South Africa's population (aged 15–49) are HIV positive. At the end of 2007 (latest figures), only an estimated 28% of infected people were receiving treatment. Over the last two years the South African government has significantly increased its HIV and Aids budget, now ranking second in the world in terms of domestic spending on HIV and Aids. Most of this spending aims to achieve the government's target of providing treatment, care and support to 80% of HIV positive people by 2011. In 2008, there were some encouraging signs of stabilisation and change in HIV prevalence. For example, the prevalence in children aged 2–14 decreased from 5.6% in 2002 to 2.5% in 2008. Between 2005 and 2008 there was also a doubling of the number of teenagers who were aware of their status.



Our CEO, Gareth Penny, participates in the VCT programme

Figure 4-11: Progress towards universal treatment access in South Africa[6]



[6] Based on 2005 and 2007 data reported to the United Nations General Assembly Special Session 2008

Figure 4-12: Participants on our ART programmes, 2009

Country Start date	Current registered	Deceased from all causes[7]	Left programme	Ever registered
Botswana 1 May 2001	1,096 (70%)	132 (8%)	335 (21%)	1,563 (100%)
South Africa 1 July 2003	455 (78%)	77 (13%)	51 (9%)	583 (100%)
Namibia 1 May 2004	269 (85%)	14 (4%)	33 (10%)	316 (100%)
Total	**1,820 (74%)**	**223 (9%)**	**419 (17%)**	**2,462 (100%)**

[7] The % deceased indicator is a "crude" measure that ideally needs to be adjusted for the duration of enrolment and the cause of death
Source: Aid for AIDS, December 2009

4.3.4 Management and measurement

In light of financial constraints presented during the global economic crisis, the role of HIV and Aids coordinators was assessed, leading to a loss of relevant staff at all DBCM mines. The exception was Finsch mine, which has a significant President's Emergency Plan for AIDS Relief (PEPFAR) treatment programme in place that is facilitated by our health service.

Despite the loss of these resources, 2009 has seen the integration of our increasingly mature HIV and Aids management capabilities into our general health services.

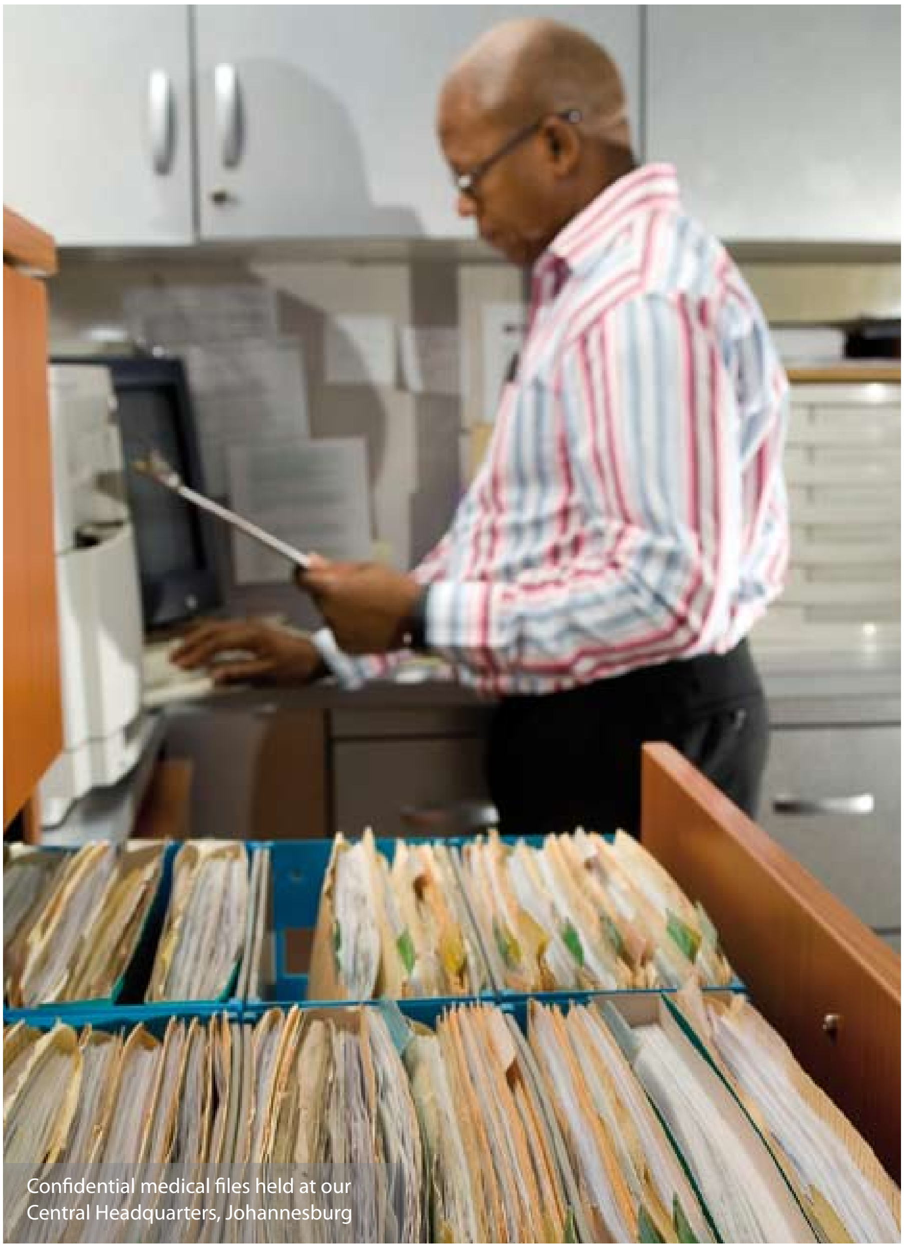
This has been reflected in the integration of the HIV and Aids Operating Committee into the Health Peer Group in 2009. This ensures the utilisation of considerable synergies at a time of careful resource management. It also means that HIV and Aids is treated as one of several other chronic infections, helping to reduce stigma. Furthermore, our health services will be able to establish a more accurate epidemiological picture, within the restrictions imposed by our policy of strict confidentiality.

www.pepfar.gov

4.3.4.1 SANS 16001 and AMS 16001

In 2009, Debswana made steady progress in shifting from the Aids Management System (AMS 16001: 2003) standard to the new South African National Standard (SANS 16001: 2007) for HIV/Aids Management Systems (HAMS), including preparation for implementation and auditor training.

At DBCM, the programme for addressing implementation gaps identified during its 2008 SANS baseline review was extended from 2009 into 2010 due to staff reductions.



Confidential medical files held at our Central Headquarters, Johannesburg

Case study: Strengthening rural public health systems in South Africa

In 2007, African Health Placements (AHP) was launched as a joint venture between the Professional Foundation for Development and the Rural Health Initiative (RHI). Over the last three years, De Beers has provided US$0.2 million worth of funding to AHP and RHI. The objective of the initiative is to transfer skills and build the capacity of rural health systems through the recruitment and placement of foreign and locally qualified health professionals.

Compared with urban centres, health systems in rural areas have fewer healthcare facilities, less financial resources and an inequitable distribution of healthcare professionals. For example, whilst South Africa has an average of 60 doctors per 100,000 people, certain rural communities may have as few as two or three doctors per 100,000 people. AHP works with partners like De Beers to improve rural health systems by bringing health workers to rural and underserved areas. As a result, over the last three years, AHP has assisted in placing 1,300 foreign doctors across eight of the nine provinces in South Africa.

AHP's support and assistance focuses on supporting:

- The National Department of Health in its recruitment, placement, orientation and retention of recruited healthcare professionals
- The Health Professions Council, including the South African Nursing Council, and local and international organisations in their efforts to improve healthcare capacity

www.ahp.org.za

Questions from stakeholders:

How does the Family of Companies ensure the application of responsible labour standards, not only amongst employees but also its contractors?

Our Human Rights Policy provides explicit protection for the internationally recognised core labour standards. These include:

- The right to associate freely and to bargain on a collective basis, subject to locally applicable membership threshold requirements
- Protection from forced labour, including explicit recognition of the voluntary nature of overtime in line with national permitted levels
- Protection from child labour, including a prohibition on any child under the age of 16 from being employed, or for those under the age of 18 being involved in potentially hazardous roles
- Protection from unfair discrimination based on race, colour, sex, religion, political opinion, gender orientation, national extraction or social origin

The effective implementation of our policy is ensured through our BPP Assurance Programme, not only within the Family of Companies but also by our Sightholders, suppliers and contractors (p44-47).

All of our producer countries have legislation in place protecting these standards, as well as strong enforcement mechanisms. As a result, application remains a matter of legal compliance.

When dealing with contractors, the BPPs impose a number of requirements to help safeguard these standards. These include requirements to:

- Adopt an equal opportunity approach, including adherence to relevant national legislation
- Provide market related remuneration packages
- Provide ongoing training and development of staff
- Respect employees' rights of freedom of association and collective bargaining

In the event of a failure by a contractor to meet these requirements, a corrective action plan must be implemented or, in extreme cases, the business relationship will be terminated. In addition, contractors are also held accountable for any failure to communicate and respect these or other contractual requirements as a result of sub-contracting.

Questions from stakeholders:

How do you account for the significant reduction in workplace fatalities compared to 2008?

In 2008, the Family of Companies suffered a total of six fatalities amongst its contracted workers (see Report to Society 2008 p49). This upsurge in fatalities from one in 2007 prompted an immediate review of operational safety across the Family of Companies and renewed our determination to eliminate the risk of future fatalities in the workplace.

This ambition was achieved in 2009 through a range of measures. Last year's tragic events were followed by in-depth investigations by our business units, the Environment, Community, Occupational Hygiene, Health and Safety Committee and the applicable authorities. We also carried out a third party audit of our Fatal Risk Control Guidelines, as well as a separate external benchmarking of our safety culture, leadership and systems. Additional mitigation measures have included enhanced preventative interventions, including the re-engineering of machinery.

Additional efforts aimed at improving the safety performance of our contractors have also played a key role. This includes enhanced contractor induction and training, as well as improved risk assessment procedures (p55-56). Where we have long-term relationships with contractors, we have sought to integrate them into our own safety systems in order to ensure the application of standards applied by our own employees.

A further reason for the improved performance of the Family of Companies in 2009 is the marked reduction in production activity compared to 2008 (p23). The suspension of operations at a number of our facilities, as well as reduced shifts, has inevitably had a positive impact on our absolute safety performance (p55).

5 Communities

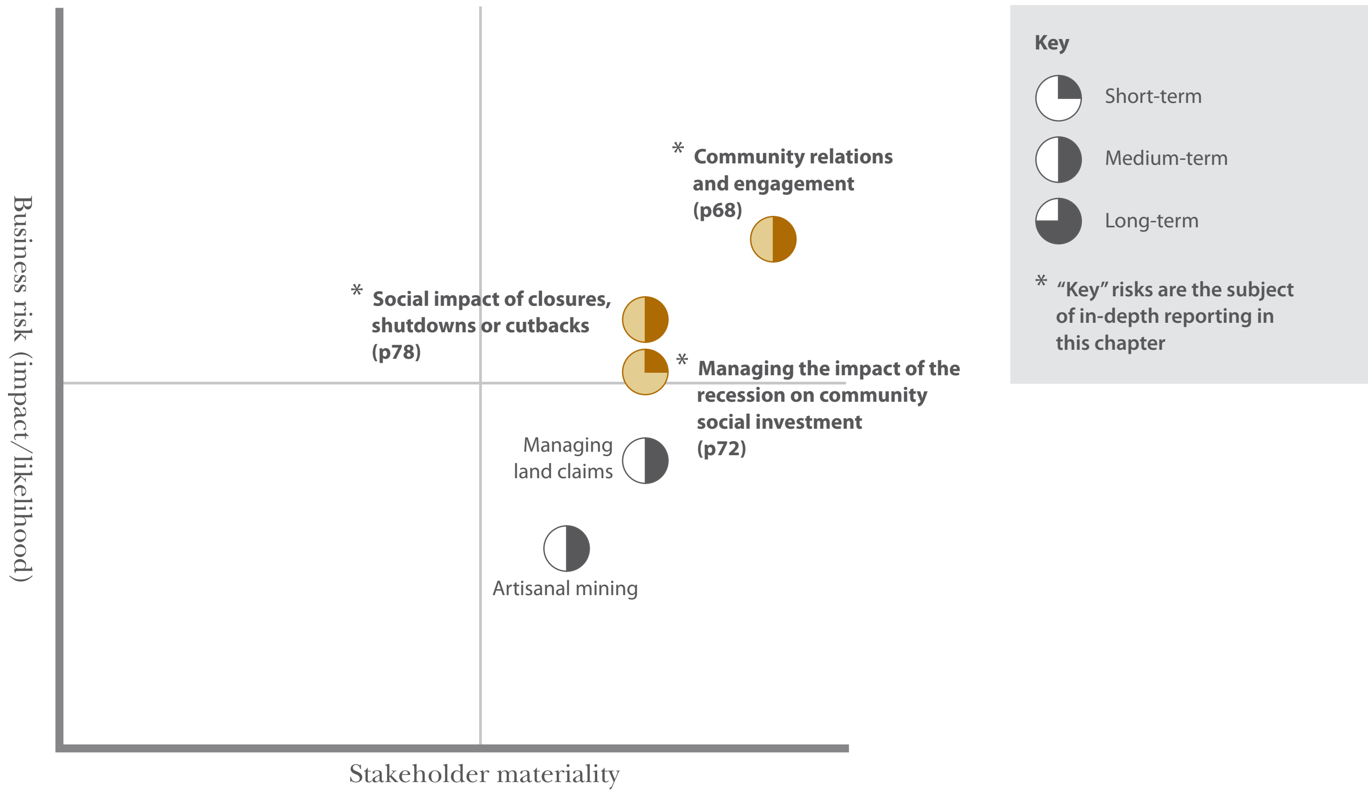
Our engagements with local communities are based on the same principles of sustainability that frame our partnerships with producer governments. Our aim is to promote the development of sustainable local economies that endure post-mining. We work with local communities to "multiply" the impact of our presence into long-term and self-sustaining development. We do this through capacity building, infrastructure development, the provision of employment, strategic social investment, enterprise development and the promotion of procurement agreements with local suppliers.

Successful partnerships are based on principles of mutual benefit and reciprocity. In our engagements with local communities the framework for these principles is defined in terms of our social licence to operate. Gaining a social licence involves ongoing engagement with local and indigenous communities with a view to ensuring that they understand the impacts of our activity and participate in the development of impact mitigation strategies, as well as programmes to maximise local benefit.

Well managed community engagement during the life of a mine promotes a foundation for a positive post-mining legacy. This requires careful planning for closure, ongoing monitoring and continuous review. It also requires us to work in partnership with government and non-government agencies to find relevant and lasting solutions to community development challenges.

The value of this integrated approach to supporting our communities was clearly demonstrated in 2009 as we were able to ensure the continuity of key community programmes across all our operations despite staff cutbacks, production holidays, temporary closures and reduced social investment budgets as a result of the economic crisis.

Key community risks



Risks

* Community relations and engagement (p68)

Effective engagement is essential for constructive, frank and stable relationships with local communities and other interested parties. Without such relationships, our business risks operational disruption as well as reputational damage. These relationships also inform our efforts to generate lasting socio-economic benefits at a local level and to maintain our social licence to operate.

* Managing the impact of the recession on community social investment (p72)

While social investment in our local communities is essential to maintaining our social licence to operate, expenditure over and above statutory requirements and the maintenance of ongoing commitments is ultimately dependent on the revenues available to our operating companies and business units.

* Social impact of closures, shutdowns or cutbacks (p78)

The effective management and mitigation of the socio-economic impacts of mine closure depends to a large extent on a mining operation's ability to generate consistent local value throughout the productive lifespan of the mine. The need for mining operations to adapt to variable economic conditions, as was the case in 2009, can impact on their ability to do so.

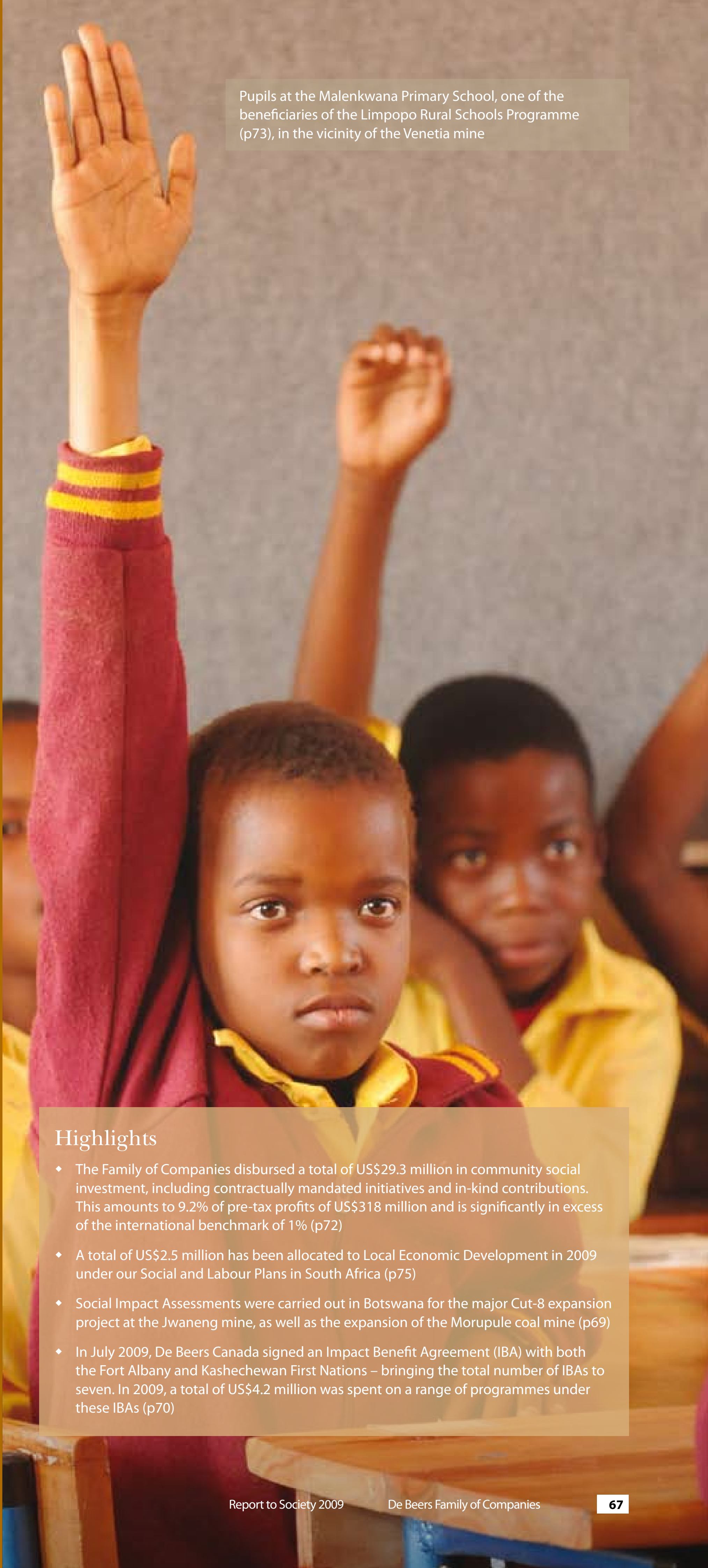
Managing land claims

Our community policy recognises that people's interests in property may derive from traditional and spiritual association in addition to legal title. Through free and informed dialogue we seek to ensure the land rights of indigenous people are upheld at all times.

Artisanal miners

Although the Family of Companies is not involved in artisanal mining, informal small-scale diamond mining does take place in some of our exploration areas in which our future growth is likely to be focused. In addition, the poor socio-economic conditions and exploitative practices that are often associated with artisanal mining pose a reputational risk to the diamond sector as a whole.

** Further information presented in this report*



Pupils at the Malenkwana Primary School, one of the beneficiaries of the Limpopo Rural Schools Programme (p73), in the vicinity of the Venetia mine

Highlights

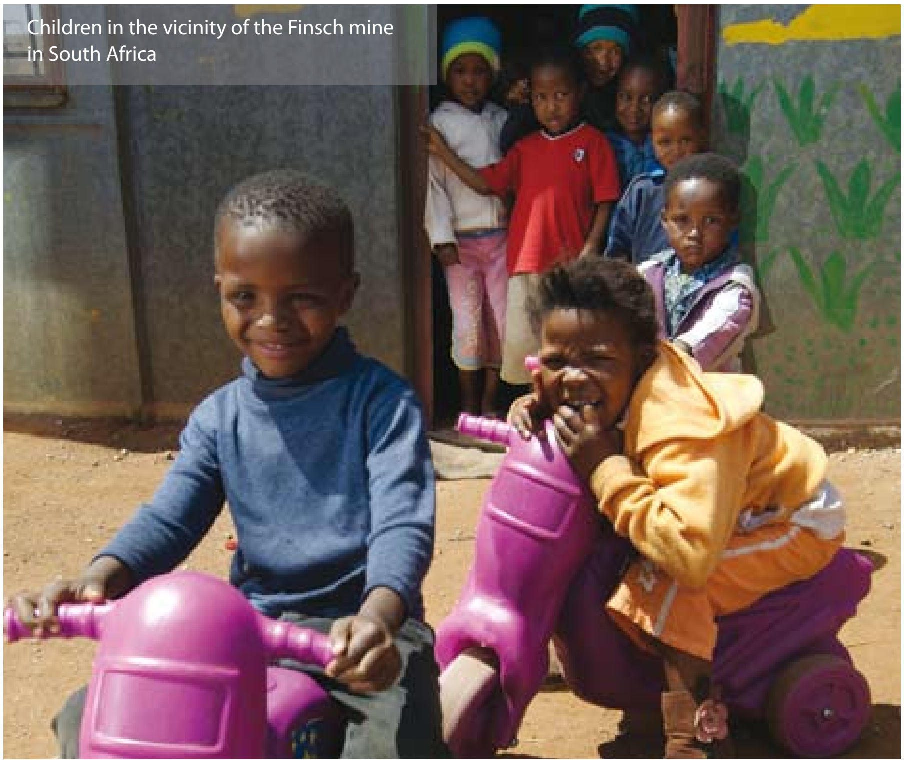
- The Family of Companies disbursed a total of US$29.3 million in community social investment, including contractually mandated initiatives and in-kind contributions. This amounts to 9.2% of pre-tax profits of US$318 million and is significantly in excess of the international benchmark of 1% (p72)
- A total of US$2.5 million has been allocated to Local Economic Development in 2009 under our Social and Labour Plans in South Africa (p75)
- Social Impact Assessments were carried out in Botswana for the major Cut-8 expansion project at the Jwaneng mine, as well as the expansion of the Morupule coal mine (p69)
- In July 2009, De Beers Canada signed an Impact Benefit Agreement (IBA) with both the Fort Albany and Kashechewan First Nations – bringing the total number of IBAs to seven. In 2009, a total of US$4.2 million was spent on a range of programmes under these IBAs (p70)

5.1 Community relations and engagement

Risk: Effective engagement is essential for constructive, frank and stable relationships with local communities and other interested parties. Without such relationships, our business risks operational disruption as well as reputational damage. These relationships also inform our efforts to generate lasting socio-economic benefits at a local level and to maintain our social licence to operate.

Our social licence to operate relies on the creation and maintenance of mutually beneficial partnerships with local communities. The success of our partnerships requires ongoing, frank and constructive engagement with local stakeholders at all stages of the mining cycle. Stakeholders not only include local communities, but also government and non-government agencies that can bring vital skills, perspectives and resources into our decision-making process. This level of engagement maximises the benefit of our operations and assists in the mitigation of any negative impacts. Engagement of this kind also ensures:

- The continued operational efficiency of our mines
- Our continued access to diamond resources
- Our status as a miner of choice for host governments
- The maintenance of "diamond equity" amongst consumers and other stakeholders


Children in the vicinity of the Finsch mine in South Africa

5.1.1 Community engagement

Effective community engagement requires an intimate knowledge of the communities in which we work. It also requires us to ensure we are doing our utmost to meet their needs, address their concerns and proactively manage our stakeholder relationships.

5.1.1.1 Maintaining constructive community relations

The Family of Companies seeks to build and maintain its community relationships by:

- Ensuring we understand communities and the issues that affect them, including our own impact
- Establishing effective structures at all operations to ensure full and constructive engagement of appropriate community stakeholders
- Implementing strong lifecycle planning to ensure our actions are appropriate given the social impacts of each lifecycle stage

During 2009, we adopted a risk-based approach to managing community relations. This was in order to ensure the prioritisation of those community relationships that are most material to the sustainability of our operations.

In addition, we deferred a number of key strategic projects in order to concentrate on the immediate challenges posed by the impact of reduced diamond sales on our community relations. This includes a Social and Economic Scenario Planning exercise to support exploration and business development activities in Angola, as well as the universal roll-out of the Anglo American Socio-Economic Assessment Toolbox (SEAT).

These actions helped mitigate the impact of organisational changes within the Family of Companies and on our ability to manage community affairs. This includes the allocation of responsibility for international community relations strategy to our global External and Corporate Affairs function and a reduction in the size of our Community team. Nonetheless, the Community Peer Group continued to operate throughout 2009, with participation from External and Corporate Affairs, as well as ECOHS professionals and community liaison managers from our mining operations. Four peer group meetings were held during the course of the year.

In addition, Debswana has initiated the development of a new Community Relations Policy to supplement the Family of Companies Community Policy. This reflects efforts to better tailor our policies to local circumstances (p77).

5.1.1.2 Community context

The development, operation and closure of mines can have significant socio-economic effects on local communities. These vary depending on the lifecycle stage of the mine. Examples include:

- The influx of workers from outside of the community during construction and initial operation
- Reduced availability of natural resources such as water and grazing land due to mine operations
- Restrictions on community access to land and freedom of movement due to mine safety and security measures
- The loss of local economic opportunities, employment and other benefits due to mine closure

The effective management of these impacts is particularly important when operating in areas of socio-economic vulnerability or cultural sensitivity. Our mines in southern Africa and Canada all fall within these categories. Key issues affecting our relations with local communities in 2009, for example, included:

- The strong cultural, social and economic relationship between local First Nations communities in Canada and the land on which we operate (p70)
- The communication of the benefits generated by our mining operations to local communities in Botswana
- Ongoing land claims in South Africa (p71)

5.1.1.3 Managing engagement

The Family of Companies conducts impact assessments for all new mining projects and whenever significant changes are made at existing operations. All of our operations are covered by Environmental Impact Assessments (EIAs). Many also have Social Impact Assessments (SIAs) in place, as well as formal agreements with local communities. These include Impact Benefit Agreements (IBAs) in Canada (p70) and Social and Labour Plans (SLPs) in South Africa (p71). We rely on a number of tools to ensure the effective engagement of community members. These include:

- Our Community Policy
- Anglo American's Socio-Economic Assessment Toolbox (SEAT)
- Our 2008 SIA Guidelines
- Our Projects Environmental and Social Guidelines
- The International Council on Mining & Metals (ICMM) and Anglo American Closure Toolbox
- DBCM SLP Guidelines
- Relevant local requirements

Our Community Policy meets and exceeds international law and industry protocols relating to the rights of local communities and indigenous peoples, resettlement and compensation. All of our exploration staff have also received our Human Rights Policy to help guide them in their interactions with local communities.

SEAT was initially developed by Anglo American. It includes tools to map and engage local stakeholders in remote and underdeveloped areas, as well as under-represented groups such as women and indigenous people. SEAT also contains tools to help operations manage their socio-economic impacts on local communities. As a result of disruption caused by the recession during 2009, the global roll-out of SEAT or equivalent tools was deferred at operations, following a pilot project at the Venetia mine in South Africa during 2007 and 2008. Nonetheless in 2009, De Beers Consolidated Mines (DBCM) continued to use SEAT to engage local communities in Namaqualand (p82-83) and it remains a core tool for our Community discipline. The broader application of SEAT across our southern African operations will be reviewed in 2010. In Canada, SEAT will be used to carry out a gap analysis of current community engagement programmes.

Launched in 2008, our SIA Guidelines cover issues including community development planning processes, coordination with partners and procedures for identifying resources essential to community subsistence. Our SIA Guidelines also identify the land and customary rights of local communities, including those of indigenous peoples. They are based on work completed by the ICMM, as well as the principles endorsed by the International Association for Impact Assessment.

In 2010, we plan to conduct a mine-by-mine gap analysis against the community related requirements of the Responsible Jewellery Council's (RJC) certification scheme. This will be conducted as part of our broader RJC pilot process in 2010, which will be integrated into the internal BPP process (p46-47).

www.angloamerican.co.uk
www.responsiblejewellery.com
www.icmm.com
www.iaia.org

On 26 October 2009, a group of teenagers from "Demelza" visited the DTC in London. Demelza provides hospice care for more than 600 young people with life-limiting illnesses from across East Sussex, Kent and South East London, United Kingdom

5.1.2 Botswana

In 2009, the Family of Companies carried out an SIA for the Cut-8 mine expansion project at the Jwaneng mine in Botswana (p25). The project required an approach that explicitly recognised both the human resources management and social management aspects of the design of employee accommodation for the project.

The SIA focused on a range of issues identified through internal and external stakeholder engagement, including:

- HIV and Aids
- Local economic benefits
- Family integrity
- The wellbeing of employees and their families
- Employee productivity
- Existing social structures and amenities

Following the SIA, it was recommended that accommodation be developed in such a way that about 60% of employees were transported in and out of the mine by bus on a daily basis from villages within a 90 km radius. This was (in part) due to the need to:

- Protect family integrity
- Reduce employee dependence on Debswana
- Stimulate broad economic growth in labour sending areas

It was further recommended that another 30% should be accommodated in third party built family housing that would be available for renting or purchase. This again offers advantages in terms of family solidarity, as well as the accommodation of people from more distant locations. It was recommended that the remaining 10% be accommodated in an "operations village" adapted for use by employees' families and offering regular accommodation without having to check in and out. At the time of writing, Debswana was consulting with employees as to the final form of accommodation for the project.

In addition, Debswana carried out an SIA at the Morupule coal mine and a series of engagements were initiated with local communities. These included meetings with traditional leaders, mine tours for local people and the communication of project descriptions. Plans are in place to combine Debswana's engagement efforts with the developers of a new power station at Morupule (p90).

There are also plans in place for an SIA in 2010 for the potential conversion of the No. 1 plant to treat tailings and the construction of a new No. 3 plant at Orapa. This will focus on accommodation for project personnel, as well as economic benefits for surrounding areas.

Case study: Impact Benefit Agreements in Canada

Impact Benefit Agreements (IBAs) are signed between mining companies and First Nation communities in Canada in order to provide assurances of tangible benefits for local people. They are not legally required.

Of 45 active IBAs in Canada, De Beers is signatory to seven, four in the Northwest Territories (NWT) and three in Ontario. These include agreements with the:

- Attawapiskat First Nation (November 2005)
- Yellowknives Dene First Nation (November 2005)
- Tlicho Government (March 2006)
- North Slave Métis Alliance (August 2006)
- Lutsel K'e and Kache Dene First Nation (April 2007)
- Moose Cree First Nation (September 2008)
- Fort Albany and Kashechewan First Nations (July 2009)

Although the specific content of each IBA varies, they typically include the following benefits:

- Business opportunities: For example, the Moose Cree IBA includes provisions for one third of the seasonal freight transport from the rail head to the Victor mine site
- Preferential hiring: For example, all members of the First Nations in the NWT IBAs have been established by De Beers as the first hiring priority
- Education and training: For example, training of Aboriginal apprentices, and support for one training centre in Yellowknife and two in Attawapiskat
- Cultural support: This is included in all seven IBAs. A cultural centre has been constructed at Snap Lake to support cross-cultural awareness at the mine site and the company brings in Aboriginal artists (performing, visual, literary) to showcase and support culture. Similarly, a tepee has been constructed at Victor as a centre for cross-cultural activities
- Environmental monitoring and protection: For example, funds provided through IBAs with the Fort Albany and Kashechewan First Nations are used to map and protect traditional harvesting grounds and trap lines and some of the funds provided to Attawapiskat are used for environmental monitoring
- Monetary compensation: For example, in 2009 a total of C$4.8 million (US$4.2 million) was paid to the seven communities in which we operate

www.impactandbenefit.com

"[This] is a fair agreement for our people. It respects our way of life. At the same time, it provides opportunities for our youth and our workforce. It also provides compensation to assist us to manage the impacts of the mine on our livelihood and it recognises the need to protect wildlife and the environment."

Chief Jonathan Solomon, Kashechewan and Fort Albany Communities, commenting on their July 2009 IBA

Dene Hand Games tournament, Northwest Territories, sponsored by De Beers Canada

5.1.3 Canada

Impact Benefit Agreements (IBAs) are signed between mining companies and First Nation communities in Canada in order to provide assurances of tangible benefits of mining for local people. Although not a legal requirement for permits, IBAs are considered best practice to establish a formal mechanism between companies and First Nation communities that define how the First Nations will participate in, and benefit from, mining projects.

At Snap Lake, we have IBAs with four groups, including Tlicho Government, Yellowknives Dene First Nation, the North Slave Métis Alliance and the Lutsel K'e and Kache Dene First Nation.

At Victor, three IBAs are in place with four groups, including Attawapiskat First Nation, Moose Cree First Nation and an agreement with both the Fort Albany and Kashechewan First Nations. The latter agreement was ratified and signed in July 2009. This marked an important step forwards in the consolidation of our community relationships in the area. In addition, we have a Working Relationship Agreement with a further First Nation at Victor mine.

In February 2009, a faction from the Attawapiskat First Nation blocked the winter road to the Victor mine for two weeks. Those involved cited disagreements within their own community, as well as a perceived lack of communication and failure to resolve asserted issues on the part of De Beers Canada. An action plan was subsequently agreed and the blockade was removed. Dialogue to resolve remaining disputes continued with all significant issues related to the company having been resolved by the end of 2009.

De Beers Canada also undertook negotiations with the Moose Cree First Nation regarding the back haul of timber cut during the construction of a power line from Otter Rapids to Moosonee, as well as the use of herbicides to clear the route before handover to the power operator.

In certain cases, De Beers Canada provided assistance to local communities in relation to issues outside of its responsibility. For example, De Beers Canada provided emergency accommodation for about 100 members of the Attawapiskat First Nation when sewage back-up contaminated eight housing units. The company also worked successfully with the Attawapiskat First Nation to encourage the federal government to put the community on the priority list for a new elementary school.


Pupils at the Musina Primary School, South Africa, part of the Limpopo Rural Schools Programme

5.1.4 Namibia

As part of its "Positive Legacy Project", Namdeb continued to engage with the Namibian government to expedite the Oranjemund town proclamation process (p80). To facilitate the process, the Oshipe Development Fund was moved to Oranjemund to help promote local economic development (p21). This took place within the context of Namdeb's broader environmental rehabilitation of the West Coast mining areas (p98-99).

www.oranjemundonline.com

5.1.5 South Africa

Under South Africa's Mineral and Petroleum Resources Development Act 2002, applicants must submit an SLP before mining or production rights will be granted. This process requires close consultation with local communities and local authorities to ensure we not only satisfy our legal and rehabilitation requirements, but also maximise community benefits. Each SLP includes both a Skills Development budget for employees and a Local Economic Development budget. They aim to advance the socio-economic welfare of all South Africans, drive transformation of the extractive sector to include more Historically Disadvantaged South Africans (HDSAs) and ensure mines contribute to socio-economic development and local employment in those areas where they operate. DBCM is implementing SLPs at all of its mines in line with plans agreed with the Department of Mineral Resources and commensurate with available funding.

DBCM is also working with local communities in Namaqualand on the Living Edge of Africa Project (LEAP). This aims to mitigate the anticipated impacts of the suspension of production and potential sale of the mine on local employment and community development. LEAP includes an integrated stakeholder engagement plan to support the closure planning process and aims to establish alternative livelihoods through a number of programmes, including mariculture, tourism and renewable energy (p82-83).

The De Beers Zimele enterprise development vehicle was piloted in Kimberley in 2009 in order to help address our long-term legacy issues in the area (p21). It is also examining opportunities to support LEAP.

In 2009, DBCM faced a number of ongoing land claims. These included:

- Engagement with the Limpopo Land Claims Commissioner over claims made on company properties in the Venetia Limpopo Nature Reserve
- A validated claim involving company properties in the Hondeklip Bay area
- Engagement with the government and the Regional Land Claims Commission in relation to claims relating to Griqualand and Rooiport

5.2 Managing the impact of the recession on community social investment

Risk: While social investment in our local communities is essential to maintaining our social licence to operate, expenditure over and above statutory requirements and the maintenance of ongoing commitments is ultimately dependent on the revenues available to our operating companies and business units.

5.2.1 Our community investment strategy

The Family of Companies community investment strategy looks beyond narrow philanthropic spending to focus on real socio-economic outcomes for local communities. This is in order to reflect the full range of our contributions to the communities in which we operate. It also ensures our community activities closely support our social licence to operate (p68) by helping maintain positive and constructive relations with local communities, government and other relevant stakeholders (p68-71).

This approach has been particularly important in 2009 due to the impact of a significant fall in revenues from diamond sales on our short-term philanthropic spend (p18). Despite this, our core investment in local communities has been maintained as a result of a range of long-term programmes such as our Social and Labour Plans (SLPs) in South Africa (p71), Impact Benefit Agreements (IBAs) in Canada (p70) and important in-kind educational and medical contributions in Botswana (p73).

5.2.2 Our total investment in 2009

Traditionally our community social investment reporting has only recorded voluntary cash disbursements for external community initiatives (i.e. philanthropic spend). Reflecting the impact of reduced diamond sales on cash flow within the Family of Companies, this narrow measure fell from US$13.6 million in 2008 to US$7.5 million in 2009. The fall reflected a reduction in available cash within the Family of Companies due to lower diamond sales. This resulted in the prioritisation of philanthropic spending on existing and core projects, as well as the partial suspension of support for new initiatives. This gives a three year average of 2% of pre-tax profits compared to the international benchmark of 1%.

In 2009, we introduced a broader measurement of corporate social investment to more accurately reflect our actual impact on the societies in which we operate. In addition to our philanthropic spend, this includes a range of community benefits that have hitherto not been recorded such as social investment that is required under applicable legislation or contractual agreements (e.g. such as our SLPs in South Africa (p71) or IBAs in Canada (p70)), as well as long-term, in-kind social investment.[1] Under this broader measure, De Beers spent a total of US$29.3 million on community social investment in 2009. A total of 67.1% of this spend (US$19.7 million) was concentrated in Botswana, primarily as a result of Debswana's ongoing provision of education (US$9.5 million) and health services (US$8.9 million) that are available to the public. This broader measure of community social investment represents 9.2% of pre-tax profits of US$318 million and is significantly in excess of the international benchmark of 1%.

5.2.3 Community social investment activities

Where relevant, we try to align our community investment activities with relevant national development programmes in order to maximise the impact of our community social investment on long-term national development. These include:

- Botswana's National Development Plan 10
- Namibia's Vision 2030 National Development Plan
- The Accelerated and Shared Growth Initiative for South Africa

Our overall social investment contribution falls into the following six broad categories.

www.gov.bw
www.npc.gov.na
www.info.gov.za

Figure 5-1: Social investment spend by region and (African) country, 2009 (US$)

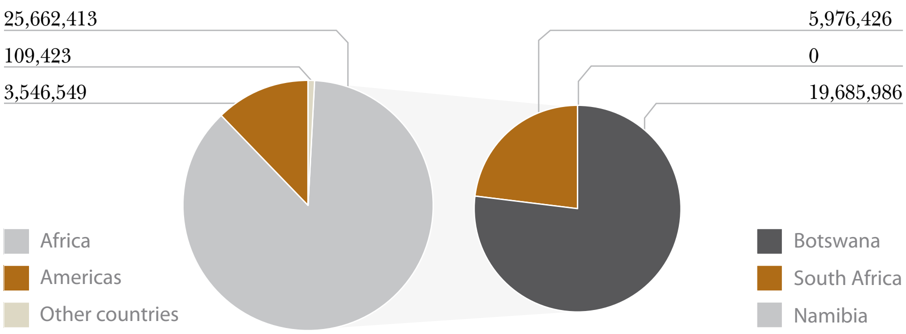
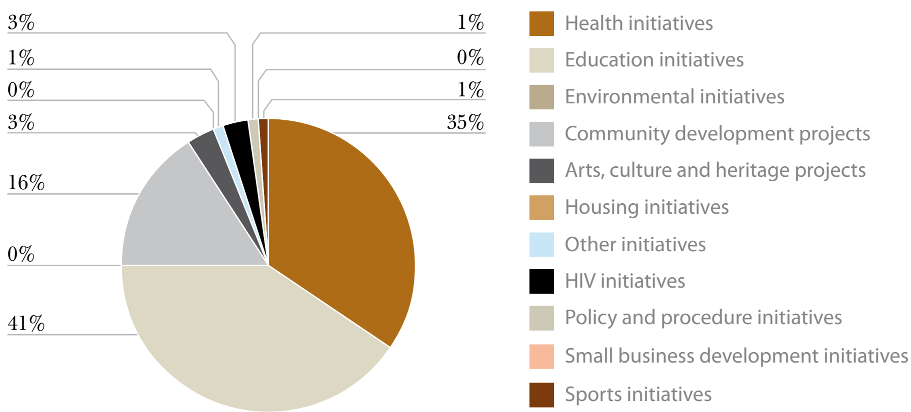


Figure 5-2: Social investment spend by project type, 2009



[1] Calculations presented in Figure 5-1 and Figure 5-2 include broader social investment activities such as the running of mine hospitals shared by local communities in both Botswana and Namibia

Case study: Community care at Jwaneng Hospital

The Jwaneng Hospital, which serves Debswana employees, their families and the local community, is completely funded by Debswana at a cost of P53 million (US$7.6 million) annually. In 2009, the hospital received a Council for Health Services Accreditation of Southern Africa (COHSASA) accreditation score of 97%, confirming its reputation as one of the best hospitals in Botswana. All 172 health workers (including 10 doctors) are employed by Debswana. With 89 beds, the hospital provides health services for an estimated 20,000 people per annum. Overall, it is estimated that 50% of outpatients and 90% of inpatients are local community members.

As the main district hospital, Jwaneng Hospital's official catchment area covers about 30,000 people. In reality, however, it is believed to serve a far larger community that is at least double this size. The hospital's reputation means people often travel from far beyond the catchment area in order to seek treatment.

In addition to district-level hospital care, the Jwaneng Hospital also provides the following:

- A dental clinic
- An Infectious Diseases Care Centre
- Laboratory services support for all clinics and health posts in the district
- Rehabilitation and intensive care
- Community outreach

The Infectious Diseases Care Clinic, which is staffed by Jwaneng Hospital personnel, administers government-funded Anti-Retroviral Treatment to local community members. Since the inception of the clinic, HIV and Aids care has moved from inpatient care to outpatient care. As a result, the occupancy rates of medical wards have dropped from over 100% to about 40%, making a significant difference in improving HIV and Aids treatment within the Jwaneng community.

www.cohsasa.co.za

Dr Thato Moumakwa, Chief Medical Officer at Jwaneng mine, Botswana

5.2.3.1 In-kind community services

The Family of Companies provides a range of in-kind services to local communities. In 2009, we included these services in our community social investment reporting in order to better reflect our actual impact on local communities.

For example, Debswana provides mine schools at both the Orapa and Jwaneng mines. The schools provide subsidised teaching to mine employees and other members of the community, as well as external teaching support, school buildings and learning support for community schools. In 2009, the total cost of supporting these educational services was P43 million (US$6.2 million). In addition, Debswana has debentures in a private primary school in Gaborone, servicing a total of 980 pupils.

Debswana also fully funds mine hospitals at both Orapa and Jwaneng, which work in partnership with Botswana's Ministry of Health. Both serve as district hospitals, providing essential public medical services to both employees as well as community catchment areas covering about 75,000 people. In 2009, the Orapa hospital provided more than 19,000 free consultations to outpatients, and free treatment to more than 7,600 inpatients.

In 2009, the cost of providing these medical services to local communities was P95.1 million (US$13.6 million).

In addition, a number of in-kind initiatives take place at operational level. At the Orapa mine, for example, Debswana employees carry out water monitoring on behalf of the government, local communities and the mine itself (p86-89).

In Namibia, Namdeb provides subsidised schooling and medical services to employees and local community members in Oranjemund.

5.2.3.2 Skills development and capacity building

Community and employee skills development plays a key role in the profitability of our business, as well as our promotion of local economic growth. It helps build the local skills base upon which we can rely, and also contributes to the generation of lasting benefits that will continue post-mining.

We estimate that between 1992 and 2009 Debswana spent in excess of P243 million (US$34.8 million) on scholarships for more than 1,000 current and future Debswana employees to study in Australia, the United Kingdom and South Africa. In 2009, this included a budget of P5.9 million (US$845,539). Students are not required to take up employment at Debswana when they have concluded their studies. As a result, many recipients of the programme have gone into the broader economy, providing valuable skills and experience to other businesses and sectors.

In 2009, DBCM spent R52.8 million (US$6.4 million) on skills development through legally required SLPs (p71).

Externally, our skills development programmes focus on:

- The provision of educational services to local communities
- Preferential procurement from local suppliers (p20)
- Targeted enterprise development within local communities (p21)

In 2009, De Beers Canada spent C$1.8 million (US$1.6 million) or 47.1% of its entire community social investment budget on education and youth literacy. This excludes spending under our IBAs.

In Namibia, De Beers Namibia is a longstanding supporter of the Namibia Institute of Mining and Technology (NIMT) (p76). Through this initiative, we hope to help drive the development of a strong mining and engineering skills base in the country – both for the benefit of the Family of Companies and for Namibia's long-term economic development.

In South Africa, the De Beers Fund supports a range of local education initiatives. One of the most important of these is the Limpopo Rural Schools Programme, which it jointly supports with the Limpopo Department of Education. The programme focuses on the development of schools around the Venetia mine. Since 2004, the ongoing partnership has invested a total of R32 million (US$3.9 million) on educational infrastructure.

Together, we believe these programmes help establish the foundations for long-term economic growth and development.

www.limpopo.gov.za

"This partnership has helped the Department to address some of the challenges like shortage of classrooms, need for ablution facilities, need for clean water and other educational resources, much earlier than it would have been if it had to do it alone."

Limpopo Province Education Development Trust on the Limpopo Schools Programme

Case study: Laxmi Diamond social programmes in India

Laxmi Diamond

Laxmi Diamond is a Diamond Trading Company (DTC) Sightholder. The group has offices in India, the United States, Belgium and Hong Kong, with manufacturing units in India and jewellery units in India and Thailand. In 1993, Laxmi established the Shantaben Haribhai Gajera charitable trust, which aims to uplift poor and vulnerable communities in India. The trust has established two schools (Shaikshanik Sankul and Gajera Vidyabhavan) as well as a home for orphaned children and the aged (Vatsalya Dam).

Shaikshanik Sankul was established in Amreli in a remote area of Sankul. The school provides kindergarten to college level education for 7,000 disadvantaged girls in rural areas. The facility is situated on 105 acres of grounds and includes 10 school buildings, three hostels, an open air theatre, canteen and sports playground. The school has a five-star rating and is considered one of the best in Gujarat.

Gajera Vidyabhavan was established in 1999 and began with 583 students from pre-primary to senior levels. The school has now expanded to educate more than 12,256 students and is one of the most prestigious schools in Surat. Facilities at the ISO 9001-2000 certified school include a 10,000 book library, a gymnasium and conference facilities.

Vatsalya Dam was established in 2006 as a centre to house a total of 321 aged people and orphaned children in Surat. Facilities include a hostel, school, garden, playground and prayer hall. The institution provides food, clothing, medicine and shelter to orphaned children, as well as higher education and professional training, leading to secure employment. The centre provides a home for the aged, who co-exist with the children and share their talents, wisdom and experience.

www.laxmidiamond.com

Figure 5-3: Distribution of current and planned SLP spending[2]

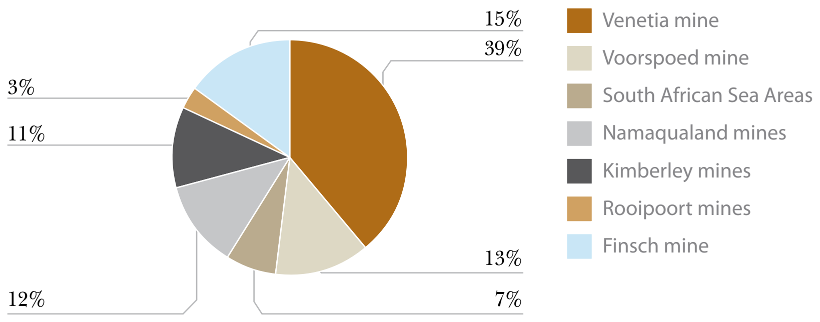


Figure 5-4: Current and planned SLP spending on Local Economic Development (US$ millions)[2]

	2007	2008	2009	2010	2011	2012	Total	%
Infrastructure development	0.10	3.10	0.93	0.36	0.25	0.01	4.73	38%
Community development	0.85	1.10	1.00	0.69	0.67	0.58	4.85	39%
Poverty eradication	0.17	1.20	0.57	0.43	0.29	0.20	2.83	23%
Total	**1.12**	**5.30**	**2.51**	**1.49**	**1.21**	**0.78**	**12.41**	**100%**

[2] Due to the nature of Local Economic Development projects, planned and actual expenditure may vary significantly in any one year. Nonetheless, total spend over the course of each SLP will remain the same

HIV and Aids programmes

High HIV prevalence rates in our southern African countries of operation pose a serious challenge to the sustainability of our business (p60). UNAIDS estimates prevalence rates to be as high as 23.9% in Botswana, 18.1% in South Africa and 15.3% in Namibia (2007 latest figures). This threatens the health and productivity of our employees, as well as the very fabric of the communities in which we work and interact.

In addition to our internal HIV and Aids management programmes (p60-64), the Family of Companies seeks to promote healthy and productive communities by helping mitigate the impact of the epidemic. Our community HIV and Aids programmes assist in preserving the socio-economic integrity of local communities and the skills base in our countries of operation. It is in the clear commercial and moral interest of our business to do so.

Initiatives include:

- Support for HIV and Aids education and awareness building initiatives
- Outreach and training support in the community
- Home-based care support

Care in many cases includes providing access to doctors, pathology testing, nutritional supplements and access to Anti-Retroviral Treatment through company hospitals. This includes, for example, our mine hospitals at Orapa and Jwaneng in Botswana (p73).

In response to the recession, the Family of Companies reorganised how it addresses HIV and Aids in the community. This was in order to ensure the continued delivery of core services to community beneficiaries, whilst at the same time focusing our expenditure on the most effective measures. In South Africa, for example, our De Beers Community HIV/Aids Partnership Programme (DBCHAPP) was incorporated into the De Beers Fund. In addition, DBCM focused on the direct provision of community HIV and Aids programmes, reducing its reliance on third party service providers such as Soul City. During 2009, the De Beers Fund spent approximately R2.4 million (US$290,990) on HIV and Aids programmes. This compares to an average of R10 million (US$1.2 million) spent each year by DBCHAPP between July 2006 and July 2009. Despite this reduction, the De Beers Fund has better focused its spending on the most effective of interventions.

Case study: Trau Bros "Diamond Namibia Employee Wellness Programme"

TRAU BROS

Based in Windhoek, Trau Bros is one of 11 NDTC Sightholders in Namibia. In partnership with the Namibia Coalition on Aids and UNAIDS, the Trau Bros Employee Wellness Programme promotes awareness of life-threatening illnesses including, but not limited to, HIV and Aids. The programme was developed shortly after the Windhoek-based factory started operations in 2007 and will remain active until HIV and Aids is no longer a threat to employees.

The programme aims to reduce HIV and Aids fatalities by 50% in 2010. Goals include:

- Building awareness of activities that increase HIV and Aids transmission risks among employees
- Decreasing real and perceived barriers to HIV testing

Activities undertaken through the programme include:

- Development of a customised corporate HIV and Aids policy, addressing issues of discrimination, confidentiality and premature retirement
- Appointment of an HIV and Aids coordinator to ensure programme implementation
- Training of employees as peer educators (PEs) to spread awareness and encourage voluntary counselling and testing (VCT)
- Conducting lectures and workshops to promote awareness and prevention
- Distributing free male and female condoms
- Adoption of the Blue Diamond Medical Aid Scheme, offering extensive Anti-Retroviral Treatment to employees

During 2009, the success of the programme was apparent, with employee VCT doubling from 10% in 2008 to more than 21% . Based on initial testing registration, it is likely that this figure will exceed 40% in 2010. During 2010, the programme will prioritise the following activities:

- Expanding training to other life-threatening illnesses, such as tuberculosis
- Offering rewards, such as a day off, for employees who undertake VCT
- Expanding the number of PEs

www.nabcoa.org
www.unaids.org
www.traubros.com

Case study: Bhavani Gems and the Lathi Dam

Bhavani Gems

In 2001 DTC Sightholder Bhavani Gems initiated a major project to develop a 7 km long dam on the Gagadia River near Lathi in Saurashtra, India. Bhavani Gems provided a total of US$1.5 million in financial support to the three year project.

Prior to the construction of the dam, the area around Lathi, the home town of the company's chairman, Manjibhai Dholakia, experienced acute water shortages due to irregular rainfall. This had a significant impact on the local agricultural economy and resulted in increased migration from the area. Almost 10 years on, the positive impact of the dam remains significant. Its storage of the monsoon rains has boosted the local economy by increasing the number of possible harvests a year from one to three. The dam has also provided a reliable source of running water for about 125,000 people – enhancing local health, sanitation and standards of living.

Bhavani Gems continues to provide about US$50,000 a year in financial support, so that the dam can be maintained in good order by qualified civil architects.

Key projects and activities relating to community HIV and Aids programmes in 2009 include support for:

- Women in Action, a Botswana-based NGO that provides support to vulnerable women and children living with HIV and Aids
- The National Association of Child Care Workers' "Isibinidi" programme in South Africa to support children living in households affected by HIV and Aids
- Soul City communication initiatives in South Africa relating to health, development and HIV and Aids

www.naccw.org.za
www.soulcity.org.za

5.2.3.4 Investment as part of SLPs

Under DBCM's SLPs, planned expenditure on Local Economic Development for 2009 was R20.1 million (US2.5 million) (p71). Components included:

- Infrastructure development
- Community development
- Poverty eradication

Some SLP projects were deferred to 2010 due to the restructuring of DBCM. These include, for example, the development of waste-water plants in Kimberley and Lucerne cultivation at the Finsch mine. Nonetheless, SLPs have ensured a high level of continuity in our overall social spend in South Africa, despite the short-term reduction in our philanthropic spend in 2009.

www.dme.gov.za

5.2.3.5 Impact Benefit Agreements

De Beers Canada has seven IBAs in place with First Nations groups in the vicinity of the Victor and Snap Lake mines (p70). In 2009, a total of C$4.8 million (US$4.2 million) was spent on a range of programmes (2008: US$4.8 million) under these IBAs. This is in addition to conventional community social investment spending. The continuity of social investment payments are guaranteed under IBAs.

5.2.3.6 Strategic philanthropy

Strategic philanthropy includes cash and in-kind support for small- and large-scale development projects, including those relating to education, health, youth development, environment and cultural programmes including sports development. This is generally managed through dedicated social investment vehicles such as the De Beers Fund in South Africa, De Beers Fund Namibia and the Diamond Trust in Botswana (p76).

Case study: The Ponahalo De Beers Trusts

The Ponahalo De Beers Trusts (Trusts) were established in 2006 as part of a Black Economic Empowerment agreement that saw the sale of a 26% equity interest in DBCM to Ponahalo Holdings. The three Trusts are specifically aimed at supporting communities, women and people with disabilities.

The Trusts receive about R5 million (US$606,230) a year via their equity interests in Ponahalo Capital, which in turn has a 50% holding in Ponahalo Holdings. Trustees include two representatives from DBCM, two from Ponahalo Capital and one independent representative.

Where possible, the Trusts work in partnership with DBCM mines to promote independent development within local communities. It does so by supporting projects aligned with the mine's business needs, for example in the areas of employment and procurement. Key projects active in 2009 include:

- An initiative with the Voorspoed mine that made 20 employment positions available for people with disabilities, including the development of a specialist recruitment centre in Turnahole
- Planning for the establishment of an adult basic education and training project for people with disabilities in Kroonstad
- Funding of a business support centre to help local small businesses tender for new procurement opportunities at the Voorspoed mine and to help DBCM's traditional suppliers take on new partners from disadvantaged communities
- Initiation of a women's paper making cooperative in Viljoenskroon to supply gifts, jewellery boxes and cards to the mining industry

Trustee visit to the Viljoenskroon paper making cooperative

5.2.4 Community social investment vehicles

5.2.4.1 De Beers Fund

In South Africa, much of our social investment is carried out through the De Beers Fund. In 2009, the Fund disbursed R18.8 million (US$2.3 million) excluding SLP funding, to more than 59 different projects (2008: US$3.1 million through 213 projects). This reflected a decision to focus on maintaining support for existing projects and commitments as a result of diminished funds. Approximately 70% of De Beers Fund expenditure was focused in the vicinity of our mining operations.

The De Beers Fund is independently managed by Tshikululu Social Investments, a leading social fund manager in South Africa.

5.2.4.2 Debswana and the Diamond Trust

In Botswana, social investment is carried out directly by Debswana and by the Diamond Trust. Like the De Beers Fund, and reflecting the impacts of recession on the availability of funds for community initiatives, Debswana suspended the approval of any new projects in 2009. It also focused on the maintenance of support for existing initiatives in order to minimise the impact on its community partners.

The Diamond Trust is jointly funded by Debswana and De Beers to support large community projects. In May 2009, the Diamond Trust signed a five year, P10 million (US$1.4 million) agreement with the Letloa Trust to cover the cost of community projects in the vicinity of the Tsodilo Hills UNESCO World Heritage Site (p77).

In September 2009, De Beers Botswana held an NGO workshop on "Building Relationships with Donors". This was aimed at facilitating positive relations between the Family of Companies and NGOs, to demonstrate our commitment to cooperating with NGOs in community matters and to aid relationship building with donors.

whc.unesco.or

5.2.4.3 Namdeb Social Fund and the De Beers Namibia Fund

In Namibia, much of our social investment is carried out through the Namdeb Social Fund and the De Beers Namibia Fund. In 2009, the De Beers Namibia Fund built on our support for the Namibia Institute of Mining and Technology (NIMT) by opening a new NIMT campus in Keetmanshoop in the Karas region. Funding was supplied and accounted for in 2008.

NIMT is an autonomous technical institution subsidised by the Namibian government. 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. In November 2007, De Beers provided financial support for NIMT to acquire property for the establishment of its Northern and Southern campus in Tsumeb and Keetmanshoop respectively.

In addition, the Oshipe Development Fund is playing a key role in supporting post-mining development in Oranjemund, through the promotion of sustainable local enterprises (p21).

"Skills development plays a vital role in our business, which is why we feel so strongly about investing in and nurturing what NIMT is doing. Skills development, among its citizens, is critical for Namibia's future, and is an important part of achieving Namibia's Vision 2030 goals"

Nicky Oppenheimer, Chairman of De Beers

Case study: Tsodilo Hills Integrated Management Plan

In 2009, De Beers and Debswana's Diamond Trust signed a P10 million (US$1.4 million) agreement with the Letloa Trust for the implementation of the Tsodilo Hills World Heritage Site Integrated Management Plan. Once implemented, the plan will make a meaningful contribution to job creation and community development. Over the next five years, the funding will support the development of eco-tourism in the 16,000 hectares (ha) surrounding the Tsodilo Hills. The area has over 4,500 paintings, one of the highest concentrations in the world. The project aims to expand the archaeological, cultural and wildlife tourism potential of the area.

The project will provide the following benefit to local communities:

- Career opportunities in hospitality and related services
- Training and skill development
- Opportunities to share cultural and traditional knowledge with visitors

A Tsodilo Management Authority manager and 10 community escort guides have been appointed from local communities. The guides received training in the use and conservation of national monuments, interpretation of rock paintings and archaeological aspects by the Department of National Museum, Monuments and Art Gallery. They also received international accreditation through the Botswana Training Authority on business aspects of tourism and professional safari guide training.

The project was launched by Botswana's Minister of Environment, Wildlife and Tourism, the Honourable Kitso Mokaila on 19 November 2009. In a reflection of the collaborative nature of the project, the launch was attended by local communities, government officials, local authorities and the CEO of De Beers Botswana. In preparation for the launch, a local company was contracted to print and produce the Tsodilo booklets, brochure and banners.

"I applaud the Diamond Trust for realising the importance of synergies and partnerships between the government, communities and the private sector in rural development and conservation"

The Honourable Kitso Mokaila, Minister of Environment, Wildlife and Tourism, Botswana

Traditional dancing at the launch of the Tsodilo Hills World Heritage Site Intergrated Management Plan

5.2.5 The future

In 2009, we focused efforts on deriving maximum impact from community social investment, in order to ensure that we continue to deliver core benefits to local communities. This is in line with our broader company strategy of "doing more with less".

5.2.5.1 Strategy

The new constraints imposed by the global recession mean that the Family of Companies will be required to maintain a risk-based approach that targets social investment on projects and initiatives that directly relate to:

- Stakeholder concerns
- Our social licence to operate
- Our legal obligations

Our stakeholder engagement tools (such as the Anglo American Socio-Economic Assessment Toolbox) and activities are likely to play an important part in this process (p69). Capacity building amongst our own employees as well as local communities will also enable them to play a more proactive role in our social investment process.

This revised approach involves concentrating our community social investment on our mines. In Debswana, for example, only about a third of community social investment has been directly linked to our operations. In future this proportion is expected to increase to about 50%, whilst at the same time continuing support for core national programmes.

As part of this "bottom-up" strategy, greater emphasis will be placed on empowering Local Area Committees (LACs) at each of our operations in South Africa to take a greater role in guiding social investment. LACs are made up of employees, as well as an outside representative (for example from government or an NGO) and a representative from our External and Corporate Affairs function.

The LACs will also concentrate on helping build the capacity of community-level NGOs to develop effective funding proposals. This, along with enhanced stakeholder engagement, will ensure local communities continue to be at the heart of the social investment decision-making process.

5.2.5.2 Longer-term community risks

In addition to the ultimate closure of mines (p78), the Family of Companies has identified climate change as a key long-term risk to our local communities in southern Africa. This global challenge is likely to have serious long-term consequences in terms of the availability of water, the viability of local agriculture and the availability of biodiversity assets.

Furthermore, climate change has the potential to impact upon our logistics in Canada, where our operations are highly reliant on seasonal ice roads for their supplies (p86). Where these fail, our operations must rely on resupply by air at significant cost.

We can play a role in combating the effects of climate change in two ways. The first is to mitigate the effect of our own water consumption on the availability of water to local communities (p86-89). The second is to invest in initiatives to help communities adapt to changing climatic conditions. As a result, future social investment initiatives are likely to focus on issues such as water conservation, biodiversity conservation and water infrastructure.

5.3 Social impact of closures, shutdowns or cutbacks

Risk: The effective management and mitigation of the socio-economic impacts of mine closure depends to a large extent on a mining operation's ability to generate consistent local value throughout the productive lifespan of the mine. The need for mining operations to adapt to variable economic conditions, as was the case in 2009, can impact on their ability to do so.

The finite nature of mining projects and the cyclical nature of the global diamond market have the potential to significantly impact the sustainability of our local communities.

Aside from social investment (p72-77), enterprise development (p21) and preferential procurement (p20), our mines make an important contribution to local communities by means of:

- The generation of employment and capacity building opportunities
- Employee spending with third parties
- Mine utilisation of local products and services, from food suppliers to contractors

As a result of short-term production holidays and mine suspensions during 2009 these contributions were reduced relative to previous years (p23, p51).

The foreseeable nature of mine closure means we are able to plan early in order to mitigate any negative community impacts and maximise positive ones. This helps ensure our operations act as a catalyst for sustained community development once mining ends and facilitate the smooth transition to a post-mining economy.

5.3.1 Short-term disruptions to production

Production suspensions and shutdowns were imposed across the Family of Companies during 2009 in order to align production to diminished demand (p23, p51). Nonetheless, these measures were not uniform. They ranged, for example, from six week production holidays at the Snap Lake and Victor mines, to the closure of the Damtshaa mine in Botswana for much of the year (Figure 5-5). This was due to a range of factors including the commercial and technical suitability of particular operations for continued production during a time of limited demand.

Despite initial fears about the effect of these disruptions on our local communities, the actual short-term economic impact was less severe than anticipated. This was partly due to the fact that we continued to pay employees during production suspensions in southern Africa and concentrated on "intermediary measures" instead of involuntary redundancies. Doing so helped ensure that employee salaries and local employee spending was maintained in most locations. Likewise, the fact that production was reduced across the Family of Companies meant the impact of reduced diamond demand was "spread" over multiple locations rather than being concentrated on a small number of severely affected locations.

It is too early to identify what the longer-term impacts of retrenchment will be (p52-53). These impacts are likely to have been "disguised" during 2009 by our payment of retrenchment packages that are in excess of national norms. Over the course of 2010, it is likely to become more apparent how such retrenchments affect communities, and the degree to which mitigation initiatives, such as the retraining of employees and investment in enterprise development, have been successful.

5.3.2 Late lifecycle mines

The three operations that are considered to be at the latest stage of their lifecycle include Namdeb's land operations, Debswana's Letlhakane mine and DBCM's Finsch mine. This does not necessarily mean, however, that these mines will be closed in the near future.

Where viable, the Family of Companies has sold late lifecycle mines to smaller operators with a demonstrable ability to extend their productive life. Examples include the sale of both the Williamson mine in Tanzania and Cullinan mine in South Africa to Petra Diamonds in 2008.

In addition, reduced production in 2009 across all of our operations is likely to affect forecasted closure dates. In 2009, for example, DBCM saw a reduction in production of 60%, Namdeb of 56% and Debswana of 45% (p23). This is likely to influence the life of our mines.

The Oaks mine in South Africa was formally closed in early 2009. Although social and environmental mitigation programmes are still in effect, no outstanding social legacy issues have been identified at the site.

www.petradiamonds.com

Figure 5-5: Production reduction measures across the Family of Companies, 2009

Business unit	Production measures
De Beers Canada	Six week production holiday at Snap Lake mine
	Six week production holiday at Victor mine with reallocation of under-utilised resources to carry out repair work and waste stripping
DBCM	Revision of production schedule and reallocation of under-utilised resources to non-production projects such as waste stripping at Venetia Mine
Debswana	Production holiday across all mines from the end of December 2008 to mid-April 2009
	Damtshaa mine closed for the duration of the year
Namdeb	Four month production holiday at land operations and realignment of employee shift patterns
	Two month production holiday at sea operations
	Operational suspension of the Grand Banks vessel and relinquishment of lease on the Ya Toivo vessel

5.3.3 Managing social impacts of closure

Our Community Policy requires us to apply the highest standards of social impact assessment during each stage of the mining lifecycle including closure. This includes:

- Thorough stakeholder engagement
- Development of robust socio-economic closure plans
- The regular review of closure plans as projects evolve

5.3.3.1 Closure planning

The Family of Companies develops provisional closure plans at the evaluation stage of all new operations. These are reviewed throughout the lifetime of the mine in close cooperation with our employees and other stakeholders such as government, unions, local communities and relevant civil society organisations. Where possible, we also carry out concurrent rehabilitation as we operate. This helps limit post-closure environmental and social liabilities from the start.

At a minimum, closure plans must ensure legal compliance and the remediation of environmental impacts. All of our mines currently have closure plans covering the physical and environmental aspects of closure.

Integrated environmental and social closure plans that also include employee and socio-economic community impacts have been established at many of our operations (Figure 5-6). Integrated plans cover a range of issues including:

- Labour transition
- Employee skills training
- Enterprise development
- Social investment
- Rehabilitation

Stakeholder engagement plays a vital role in the development of mine closure plans. The Family of Companies identifies and addresses the socio-economic impacts of mine closure using:

- The ICMM and Anglo American Closure Toolbox
- The Anglo American Socio-Economic Assessment Toolbox (SEAT)

We also use our community social investment vehicles to support socio-economic mitigation measures, including strategic social investment programmes such as the Living Edge of Africa Project (p82-83), as well as training and enterprise development initiatives (p21).

In 2010, we plan to conduct a gap analysis of all of our closure plans against the Responsible Jewellery Council Mining Standard requirements (p47), as well as the Anglo American Standard. We also plan to concentrate our efforts on securing a positive and lasting socio-economic closure legacy for all Debswana mining operations.

www.responsiblejewellery.com

5.3.3.2 Divestment

The Family of Companies seeks to implement formal agreements that ensure purchasers of our mining assets fulfil relevant closure requirements. In some cases, our monitoring of impacts on stakeholders will continue after sale or closure, as demonstrated in the case of the Cullinan mine in South Africa (Report to Society 2008, p31).

Where the Family of Companies sells a mine, we jointly prepare a status report with the purchaser. This is in order to identify potential liabilities relating to closure planning requirements and legislation. Particular focus is placed on physical and environmental criteria. The cost of addressing these liabilities is integrated into the price of sale of the relevant operation.

The diamond recovery plant at the Venetia mine, South Africa

5.3.4 Mine closure activity

5.3.4.1 Namibia

Namdeb's closure activities centre on the rehabilitation of its land-based operations (p98-99) and the development of a viable post-mining economy in the Karas region. As part of this process, Namdeb is in continuing discussions with Namibia's Inter-Ministerial Committee to secure the proclamation of the town of Oranjemund. Once secured, proclamation will open up this "closed" town to outside economic investment and development, supplementing existing efforts by Namdeb to promote local enterprises.

As part of Namdeb's efforts, the Oshipe Development Fund was relocated from Windhoek to Oranjemund, in order to better drive local economic development (p21). Namdeb is also exploring enhanced consultation regarding the social impacts of closure on labour sending areas.

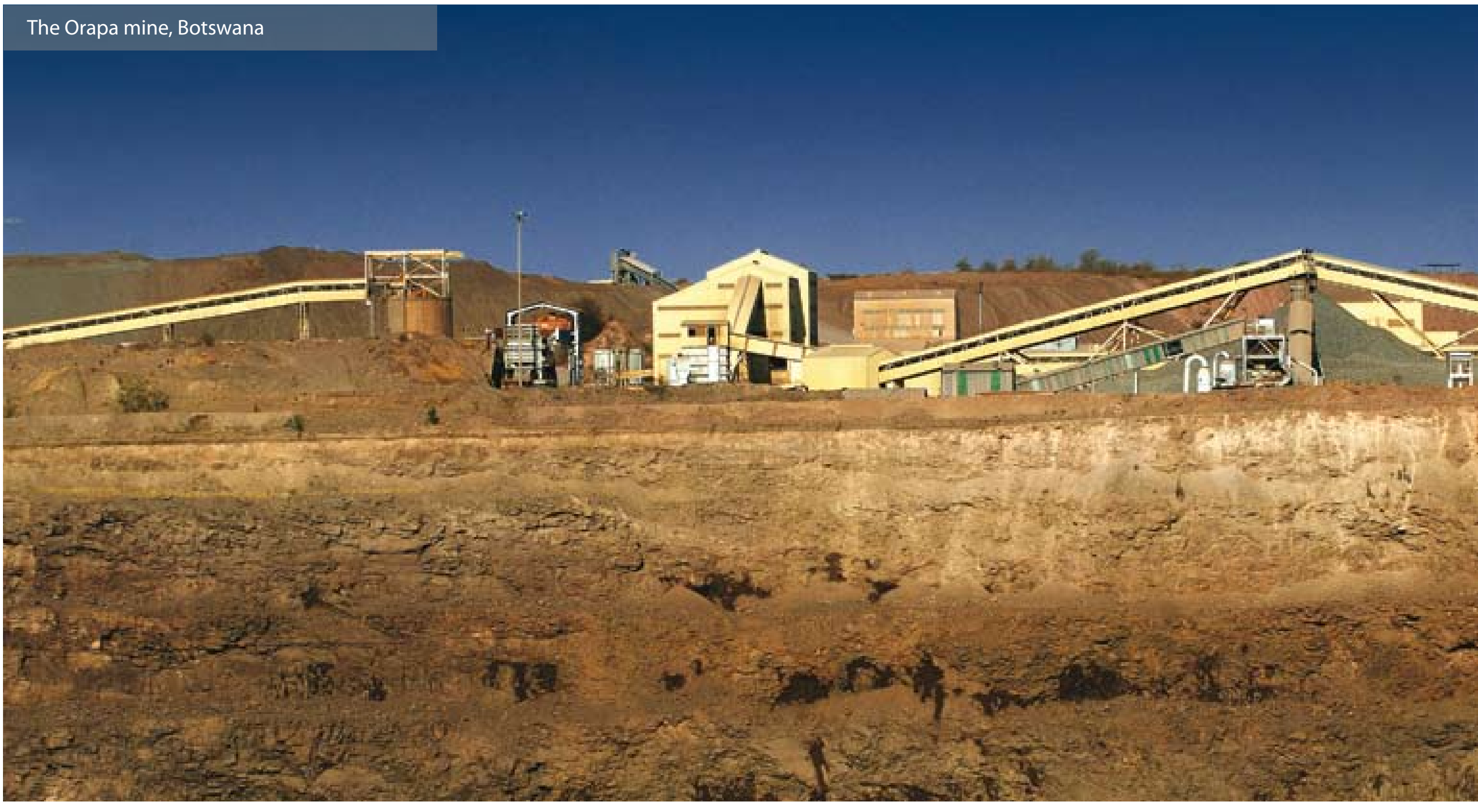
Figure 5-6: Status of social elements of closure planning at business unit level, 2009

Name	Status	Description
DBCM	In place	Social elements are addressed at all mining operations as part of their SLPs. Formal integrated closure plans are expected to be in place in 2010
De Beers Canada	In place	Social closure planning is addressed through original licence commitments. These are subject to one or three year review depending on activities
Debswana	Pending	Social elements have not yet been included in existing closure plans
Namdeb	In place	Social closure planning for land operations developed in 2007 and now underway

5.3.4.2 South Africa

In Namaqualand, DBCM is promoting a range of initiatives to secure a sustainable and environmentally friendly future for the area (p82-83). As part of this process, DBCM is working to increase outside investment in the region through the proclamation of the mining towns of Kleinzee and Koingnaas as public towns. At the time of writing, Namaqualand mines were awaiting an "in-principle" decision from the Executive Committee of the Northern Cape Provincial Government on this issue.

During 2009, DBCM further developed closure plans for the Finsch mine. This included an examination of options for final land use, including the integration of mine housing into the local municipality, brick and tile manufacturing from residue deposits, a retirement village and golf estate, intensive agriculture and grazing. This process identified some instances of non-alignment between the mine's closure plan and its SLP. Plans are in place to correct these in 2010.


The Orapa mine, Botswana

In Kimberley, DBCM continued to work on securing a sustainable future based on heritage, tourism and biodiversity. A closure plan update is planned for late 2010.

SEAT was used to help further develop the closure plan at Venetia mine. It was also used to address aspects of the closure process for the Oaks mine.

In a demonstration of early closure planning, DBCM held a Mine Closure Planning Workshop for the Voorspoed mine – one of the newest mines in the Family of Companies – in August 2009. This set out a closure vision exploring opportunities around future agricultural use, eco-tourism, biofuel production and reuse of mine infrastructure. It also explored the alignment between mine closure and the Local Economic Development component of Voorspoed's SLP. A preliminary mine closure plan was subsequently developed in September 2009.

www.northern-cape.gov.za

Questions from stakeholders:

How does the Family of Companies define the scope of its development role in producer countries?

Although our primary purpose is to generate profits for our shareholders – including the Government of the Republic of Botswana – this needs to be balanced against the role we can and do play in helping drive local and national development.

This role of the Family of Companies is particularly important in Botswana, and to a lesser degree Namibia, which are relatively dependent on diamond revenues. Even in Canada and South Africa, we can have a significant positive impact at a local level, due to the fact that our mines are often in remote locations that otherwise have limited access to development opportunities.

Whilst performing this role, there are two key issues to be considered. The first is the finite nature of diamond resources. This means that all of our community programmes need to be planned and executed in such a way that they deliver lasting benefits that will endure beyond the lives of our mines.

The second is the need to draw a clear line between our delivery of tangible and lasting socio-economic benefits to local communities, and work that lies within the proper remit of government. This ensures we do not undermine the role and influence of government in certain areas, and that our actions are of a sustainable nature. Nonetheless, we seek to align our community programmes with government policy and to target them in such a way that they help achieve national development objectives. These include relevant strategic national development programmes in Botswana, Namibia and South Africa.

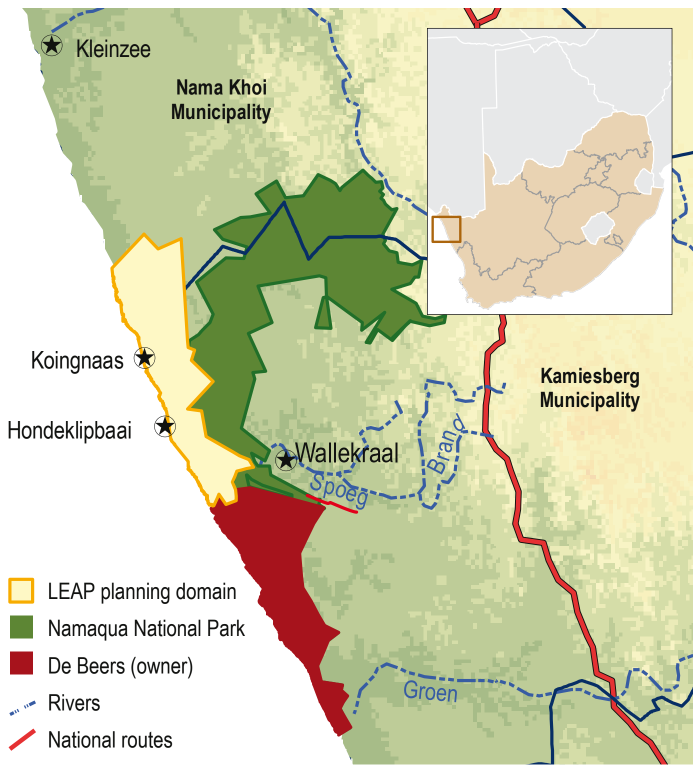
Ultimately, however, our main development role is to generate sufficient diamond revenues and profits to enable our government partners to pursue their own development agendas and to invest in the long-term development of their citizens.

Sustainability Initiatives in Namaqualand

The economic downturn resulted in some mines suspending or reducing production during 2009. Namaqualand Mines in South Africa took this opportunity to divert mining equipment and skills to conduct extensive rehabilitation across the mining area and make significant progress in addressing the rehabilitation legacy from many decades of mining. As diamond mining draws to a close in the region, our aim is to foster a new sustainable economy that will create jobs, generate taxes and ensure sustained economic opportunities for Namaqualand.

"It's been my dream to empower local people from Namaqualand, by providing opportunities to become owners of fully functional businesses that provide much needed services, and generate their livelihoods from the incredible biodiversity of Namaqualand's unique ecosystem."

Dr Peter Carrick, Ecologist, University of Cape Town



The area

- The De Beers Namaqualand mines are situated along a 180 km long stretch of the Atlantic Coast of South Africa
- The area borders the Namaqua National Park, which was expanded in November 2008, when De Beers provided 40,000 ha of pristine coastline to SANParks on a 99 year lease
- The site includes the mining towns of Koingnaas and Kleinzee

Mining background

- The Namaqualand mines started operation in 1928 and currently consist of the Koingnaas Complex, the Buffels Inland Complex and the Buffels Marine Complex
- Diamonds are concentrated in alluvial or "placer" deposits comprising old gravel beaches and river channels
- Deposits have been extracted through open-cast mining to a depth of 40 metres, as well as surf zone mining

Rehabilitation initiatives

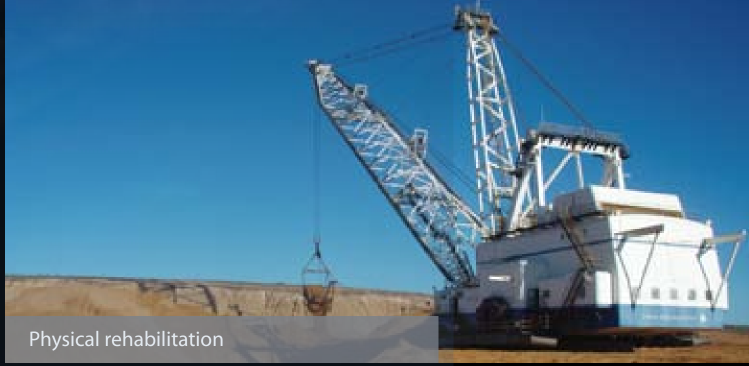
Rehabilitation comprises two distinct parts – physical rehabilitation (getting the landscape right) and ecological restoration (getting the biodiversity right). The sound principle has been adopted of first defining the required ecologically sustainable end-state and ecosystem services, and then determining the appropriate landscape profile. Dr Peter Carrick, specialist ecologist from the University of Cape Town working under the "Namaqualand Restoration Initiative" (NRI), was contracted to advise on our efforts to ensure a solid scientific basis for ecological restoration.

As part of the land forming process, a total of 210 ha were profiled and our large dragline moved 8 million m^3 of material to flatten large dumps and fill voids. The ecological restoration process included soil testing, as well as the selection of appropriate seed species for restoration packs, transplant species and netting requirements. Two teams of local people trained by the NRI conducted the restoration activities. As a result, excellent progress was made during the year.

Socio-economic initiatives

In addition, the integrated (social and environmental) closure planning process at Namaqualand advanced, with post-mining land-use projects either already underway or in the planning stage. As mining is nearing the end of its life in the region, it is important to manage and mitigate the impact this is likely to have on local communities. As a result, De Beers has been consulting extensively with the local government and other key stakeholders for a number of years regarding the promotion of new socio-economic activity. This includes the desired proclamation of the mining towns of Kleinzee and Koingnaas as open municipal towns. This would make housing and facilities available to the public, and would also act as a trigger for a number of sustainable economic development projects.

During the course of the year construction was completed on two mariculture projects; a new abalone farm and the expansion of an oyster farm. The Living Edge of Africa Project (LEAP) also completed its pre-feasibility investigation of restoration and socio-economic opportunities. Options being taken forward into the feasibility phase include a wind farm, seawater greenhouses, restoration mapping, land art, tourism, a visitor centre and the "greening" of the town of Koingnaas. The possibility of a Kleinzee Public Private Correctional Services Facility, which would generate a number of employment opportunities, is also under discussion.


Physical rehabilitation


Ecological rehabilitation


Rehabilitation training


The mining town of Koingnaas


Mariculture


Tourism

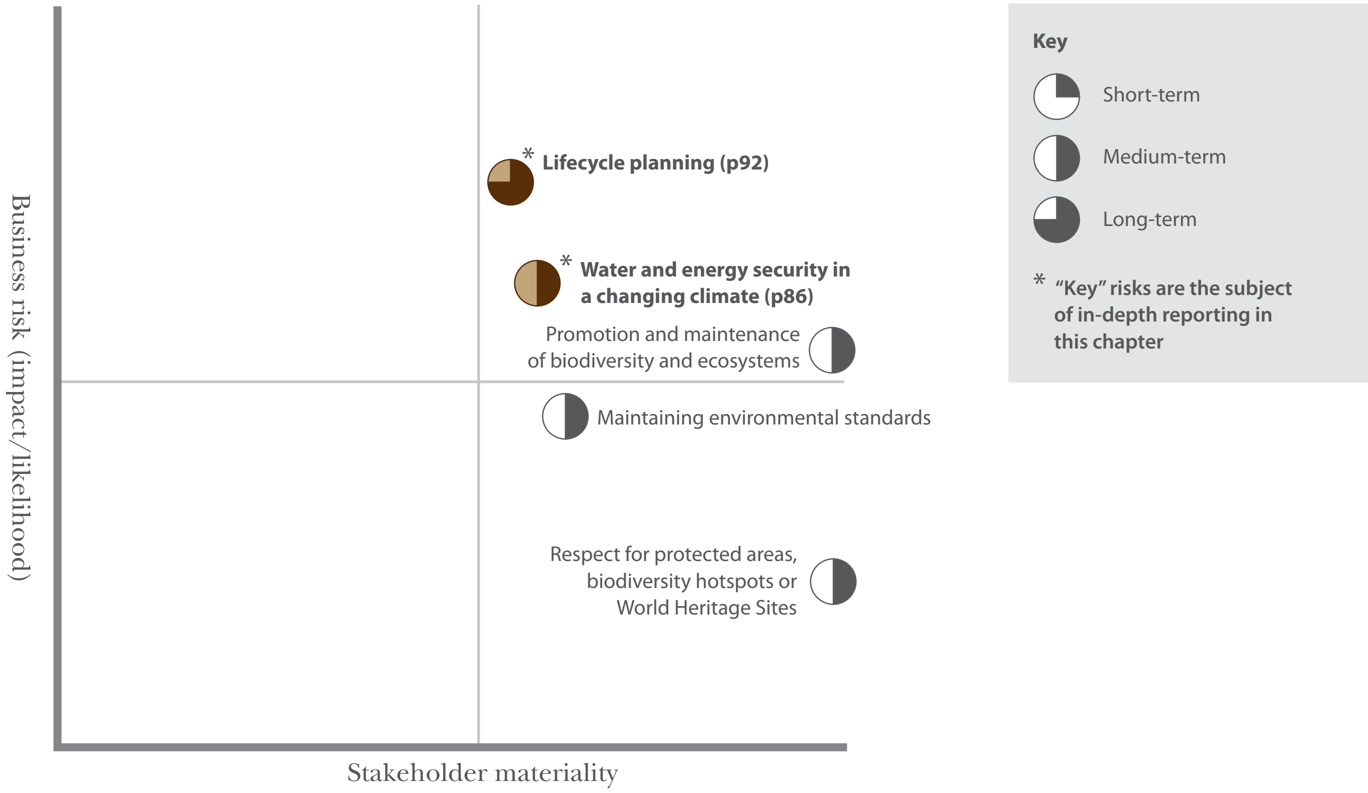
6 Environment

Our commitment to good environmental stewardship is shaped firstly by the need to respond appropriately to global imperatives concerning climate change, biodiversity conservation, energy use and water security; and secondly by our belief that the sustainable management of the natural environment is key to the future prosperity of all the countries where we operate.

Our approach to managing environmental issues is built on the effective integration of the environment discipline into our core business and the development of appropriate policies and tools to aid implementation. This process is underpinned by our ISO 14001 compliant management systems. Within this framework we develop holistic management solutions individually tailored to the environmental, social and economic contexts of each of our operations. This in turn means that we are sensitive to local needs and place particular emphasis on forging strategic partnerships with governments, local communities and non-governmental organisations to find creative solutions to environmental challenges wherever we operate.

In addition to our focus on developing effective management systems, our ongoing investment in building the capability of the environment discipline across the Family of Companies has also enabled us to respond to environmental challenges beyond the traditional mining focus area of land rehabilitation. Biodiversity, energy and water management are now specific areas of discipline expertise within the Family of Companies.

Key environmental risks



Risks

* Water and energy security in a changing climate (p86)

Our mines in Africa are located in water stressed environments. Shifting rainfall patterns and consequent water shortages present a challenge to sustained water access for both our business and local communities.

* Lifecycle planning (p92)

We seek to mitigate potential environmental impacts when planning, designing and implementing exploration, mining and related activities. This is motivated both by local regulation and our goal to remain the "operator of choice" for host governments, communities and peers.

Promotion and maintenance of biodiversity and ecosystems

Biodiversity – along with the connected issues of climate change and water – is one of the most significant environmental issues that we face. Managing biodiversity is rarely straightforward, and a responsible approach demands that we take a similarly sophisticated approach to its management. This means recognising the important links between biodiversity, climate change and water. It also means taking an ecosystems-based approach that recognises the complexity and interconnectedness of the fauna and flora around us.

Maintaining environmental standards

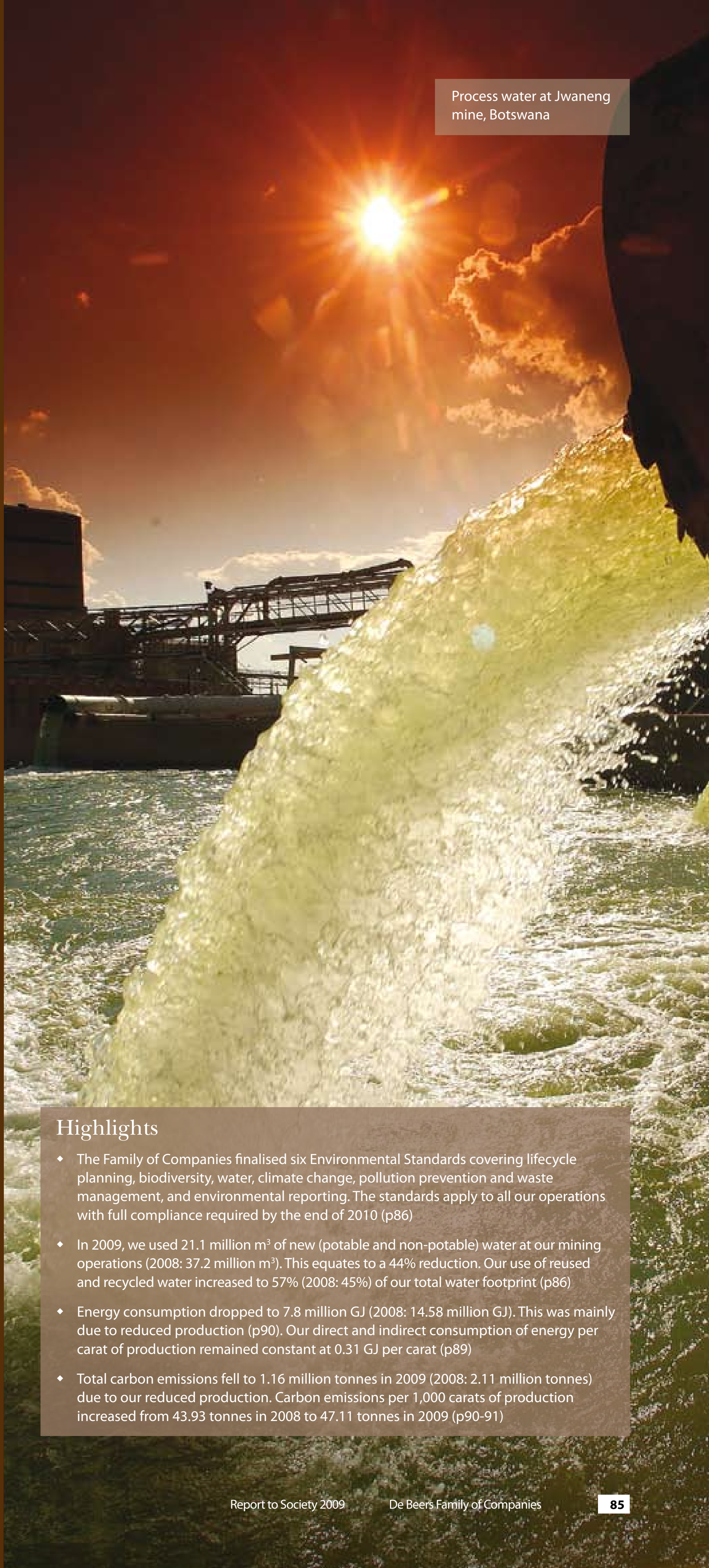
We are committed to aligning our environmental policies, systems, programmes, resourcing and training with those of the world's leading mining companies. This requires long-term commitment and sustained effort, regardless of short-term circumstances.

Respect for protected areas, biodiversity hotspots or World Heritage Sites

Our reputation, culture and regulatory responsibilities demand that we respect legally designated Protected Areas and World Heritage Sites and seek to minimise the disturbance of ecosystems through responsible planning and biodiversity stewardship – from exploration through to post-mining.

** Further information presented in this report*

Note: Data for 2008 presented in this report may be different to that contained in the Report to Society 2008. This is due to recently revised and updated environmental accounting



Process water at Jwaneng mine, Botswana

Highlights

- The Family of Companies finalised six Environmental Standards covering lifecycle planning, biodiversity, water, climate change, pollution prevention and waste management, and environmental reporting. The standards apply to all our operations with full compliance required by the end of 2010 (p86)
- In 2009, we used 21.1 million m^3 of new (potable and non-potable) water at our mining operations (2008: 37.2 million m^3). This equates to a 44% reduction. Our use of reused and recycled water increased to 57% (2008: 45%) of our total water footprint (p86)
- Energy consumption dropped to 7.8 million GJ (2008: 14.58 million GJ). This was mainly due to reduced production (p90). Our direct and indirect consumption of energy per carat of production remained constant at 0.31 GJ per carat (p89)
- Total carbon emissions fell to 1.16 million tonnes in 2009 (2008: 2.11 million tonnes) due to our reduced production. Carbon emissions per 1,000 carats of production increased from 43.93 tonnes in 2008 to 47.11 tonnes in 2009 (p90-91)

6.1 Water and energy security in a changing climate

Risk: Our mines in Africa are located in water stressed environments. Shifting rainfall patterns and consequent water shortages present a challenge to sustained water access for both our business and local communities.

6.1.1 A challenge for the Family of Companies

Climate change presents a direct and multi-faceted threat to the sustainability of our business. While these risks are often "predicted" rather than "occurring" they are most likely to manifest themselves in water scarcity, extreme weather events and rising temperatures in the vicinity of our operations. For example:

- With 95% of our rough diamond production originating from arid regions across southern Africa, a reduction in rainfall and consequent drop in regional water availability has the potential to seriously impact our production capacity
- The onset of climate change has been directly linked to the occurrence of extreme weather events. Were an event of this nature to take place off the west coast of southern Africa, where our operations are already impacted by challenging seas, it would pose a significant safety risk to our employees and the marine mining vessels on which they work
- Rising temperatures have the potential to disrupt our reliance on ice roads to supply our two mines in Canada. Both the Snap Lake and Victor mines are in remote locations. If these ice roads are rendered inaccessible all year round, our mines would have to place greater reliance on costly supply by air freight, undermining the commercial viability of each operation

The increased prominence of climate change in the public and political agenda influences our strategy of meeting and mitigating climate-related impacts. Our membership of the United Nations Global Compact, our ISO 14001 certifications, as well as our own Principles, Environment Policy and Climate Change Standard, commit the Family of Companies to progressive reductions in emissions, as well as water and energy use. This is not only "the right thing to do", it also makes good commercial sense.

6.1.2 Efficient and sustainable water use

In 2009, the Family of Companies finalised six Environmental Standards covering lifecycle planning, biodiversity, water, climate change, pollution prevention, waste management and environmental reporting. These Environmental Standards, which apply across the Family of Companies, enable the effective implementation of our Environmental Policy and will be used to benchmark our performance against that of other leading mining companies. Full compliance is required by the end of 2010.

Our Water Standard commits us to:

- Manage water supply and demand across all operations
- Ensure that all operations minimise and mitigate the pollution of water resources

The Water Standard defines requirements for all aspects of water management. Water Steering Committees ensure the alignment of our water strategies with best practices and legislation in addition to providing leadership on water conservation and demand management.

Inge Zaamwani-Kamwi, CEO, Namdeb

It is widely acknowledged that poor nations will suffer most from the effects of climate change. This vulnerability stems partly from geographic location but also as a result of a diminished capacity to cope owing to limited financial resources, skills and technologies and high levels of poverty. Countries such as Namibia are heavily reliant on climate-sensitive sectors such as agriculture, fishing and mining, a reality that poses a unique threat to the development of the nation. Where once land-based diamond mining provided the mainstay of operations, the future, to a large extent, lies in marine extraction. Climate change models are already indicating an increased prevalence of extreme weather events globally. Storm activity, more frequent heatwaves and heavy precipitation events are likely to have a material impact on the safety of marine operations and the time period in which employees can operate in some of the world's roughest seas.

NAMDEB
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6.1.2.1 Reducing our water consumption

In 2009, we used 21.1 million m^3 of new (potable and non-potable) water at our mining operations (2008: 37.2 million m^3). This equates to a reduction of 44% from 2008 (Figure 6-1) and is mainly due to the 49% reduction in production due to recessionary pressures (p23). Decreased production also resulted in reduced water efficiency per carat of production (Figure 6-2). This is mainly because of the need to keep full plant water processes operational, resulting in increased use per unit, less efficient water recovery and a reduction in overall efficiency.

Significant steps were taken to increase the use of reused/recycled water. As a result, reused/recycled water use increased to 57% (2008: 45%) of our total freshwater consumption. In 2009, we used 21.7 million m^3 of seawater at our west coast operations and vessels in southern Africa (2008: 45.6 million m^3).

All mines continued to investigate new technologies to improve water efficiency. These include:

- The amendment of ore treatment processes to enable the use of saline water
- Reduced groundwater use due to the installation of facilities for the capturing of storm water from urban areas
- Electro-kinetic dewatering, which uses electric fields to extract the last remnants of water from thickened slime or slurry[1]

6.1.2.2 DBCM

De Beers Consolidated Mines (DBCM) accounts for 31% of our water use and has a relatively low consumption per carat (1.36 litres). The company has set a water reduction target of 15% by 2015 using a 2007 base year.

As part of our efforts to meet this target:

- The Kimberley and Finsch mines have reduced their consumption by 8% and 12% respectively
- The Voorspoed mine continues to operate a largely closed water circuit, reusing most of its treatment process water from on-site dams

[1] Dewatering and other paste thickening research is a central part of our water conservation strategy. While this dewatering results in increased water efficiency, it does have significant energy costs

Case study: The impacts of climate change

The Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Synthesis Report was used to support our 2008 Climate Change Risk Assessment. This identified the following key risks to our operations:

Increased temperatures

The IPCC predicts a 0.2°C per decade temperature increase. This will be most significant over land and at high northern latitudes – including our Canadian operations. In permafrost regions, contraction in snow cover and widespread increases in thaw depth will lead to increased run-off and earlier spring peak discharge from glacier and snow-fed rivers. In addition to reduced access to ice roads, our Canadian mining operations will need to mitigate excessive water collection in the mine pit, which may result in increased removal costs.

Reduced water security

Water is critical to diamond mining due to its extensive role in the ore treatment process, as well as its use in industrial processes and the cooling of underground mines. Its growing scarcity is a risk for all of our southern African land-based operations. Subtle climatic changes can have significant impacts on both the quantity and seasonality of water resources. Reductions in available surface water mean we will need to rely on less economical sources such as groundwater or increased use of on-site treated waste water.

Biodiversity loss and ecosystems

Over the next 50 to 100 years, more frequent extreme weather events and associated resource security issues could result in a 35-55% reduction in the current number of plant and animal species worldwide. In southern Africa, indigenous vegetation could be altered, with grasslands being transformed into savannah and marine ecosystems affected due to sea level rises and temperature change.

Rural communities and disease

Impacts on communities in the vicinity of our operations will mainly be linked to food and water security. In southern Africa, drought and lower crop productivity could result in a 50% decrease in food availability by 2020. Associated health risks include increased heat stress and tropical diseases including malaria, which is already a challenge for our exploration activities in Africa .

Figure 6-1: Fresh water use (million m^3)[2]

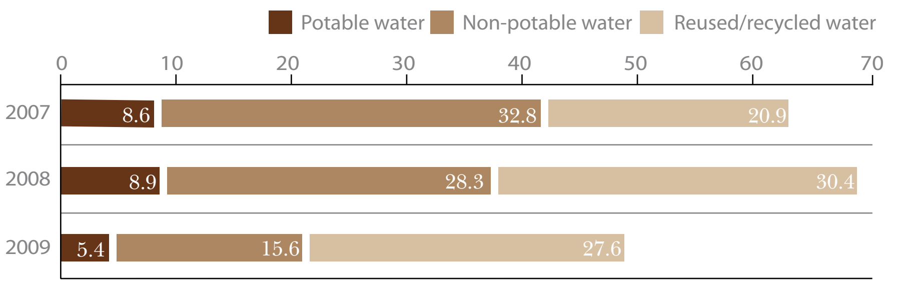
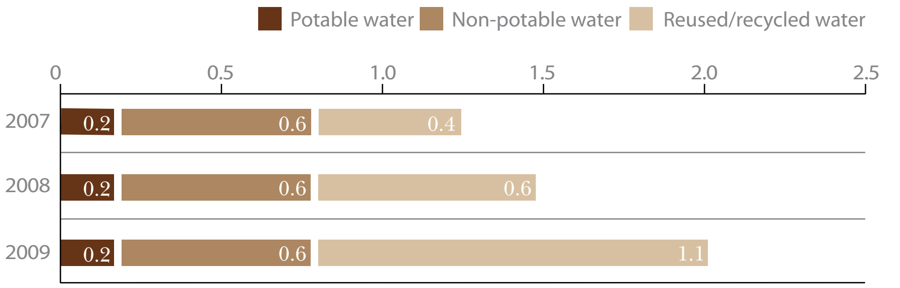


Figure 6-2: Fresh water use (m^3 per carat production)



[2] Excludes water collected at Victor from dewatering, which is not used in the mine treatment process


Water treatment at Letlhakane mine, Botswana

Governance and water management

Since 2006, our DBCM operations have conducted annual water assurance audits through the central technical function. As the process has matured, accountability has shifted progressively to the operations themselves, which are now conducting self-assessments through the on-mine Steering Committees and compiling action plans to address gaps. In 2009, self-assessments were completed at site-level to assess compliance to the newly approved Water Standard. A milestone of full compliance is set for the end of 2010.

Water Use License Applications

All of our South African operations are required by the Department of Water Affairs and Environment (DWE) to obtain water user licences through the submission of Integrated Water Use License Applications (IWULAs). By the end of 2009, all DBCM mines had submitted their IWULAs. Licences have already been granted for Mannels Vley in Namaqualand, as well as for certain uses at Voorspoed.

Water management partnerships

In 2010, DBCM will initiate a three year water management programme in the Limpopo region of South Africa, as part of the WWF Sanlam Living Waters Partnership. In collaboration with government and local stakeholders, the programme will contribute to water security in the region by enhancing water catchment management and water conservation. DBCM is a relatively small water user in the Limpopo region, where multiple users compete for common water resources. New mines proposed by other companies for the region are also likely to place greater pressure on water resources and water quality.

www.dwaf.gov.za
www.panda.org.za

6.1.2.3 Debswana

Debswana has the largest water footprint in the Family of Companies. In 2009, it accounted for 43% of our total water usage. Debswana also has the lowest per-carat water use at just 0.8 litres. This reflects its high carat output, as well as a historical focus on water efficiency.

In 2003, Debswana set an ambitious target of 50% reduction in water use by 2008. By 2008, Debswana's consumption had been reduced by 35%, largely as a result of increased use of rainfall and storm water runoff, improved slimes recycling and thickening, and reduced wastage. All Debswana mines have identified water scarcity as a significant risk and are setting new water reduction targets. Debswana is also investigating the use of non-potable saline groundwater, which will reduce possible water competition with neighbouring communities.

Blackie Marole, CEO, Debswana

Recent discussions on the world stage have made it clear that water is likely to play an increasingly central role in many of the planet's most pressing issues, among them climate change, energy security and the need to spur economic growth. In Africa it is anticipated that by 2020, 75-250 million people will be exposed to heightened water stress and hence there will be competition for water resources. As CEO of Debswana, and as a citizen of Botswana, I firmly believe that we have a duty to act now if we are to protect our future. Our longstanding investment into reducing water content of "slimes" has, for example, already yielded significant reductions in the consumption of water in the extraction process. Our goal, however, is to ensure that this progress does not come at the expense of additional energy use – a tough balance must be struck, to which I feel personally accountable.

DEBSWANA

Figure 6-3: Projected energy demand and available sources for Debswana (MW)

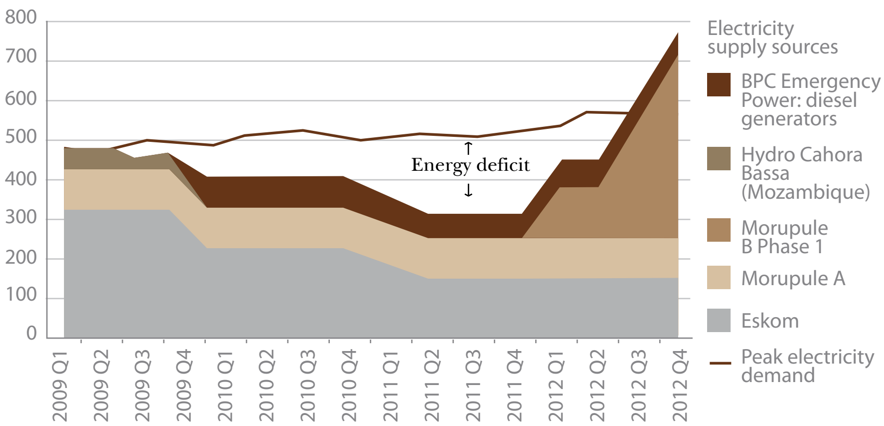
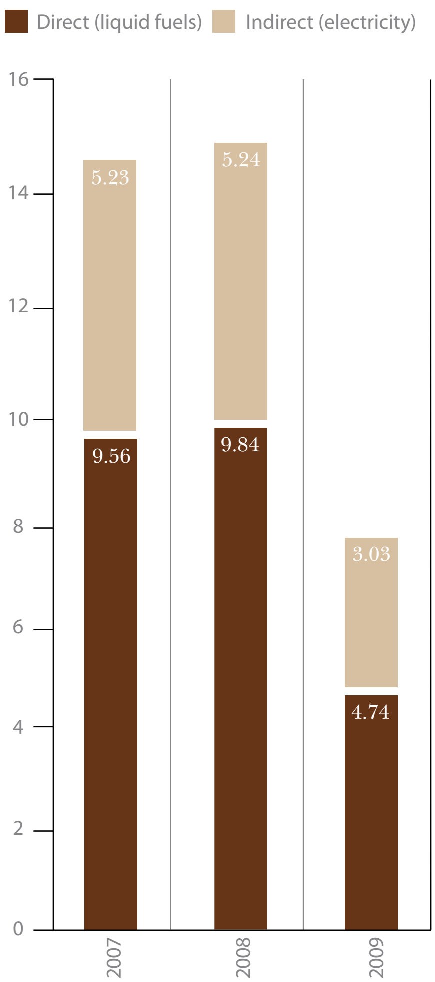


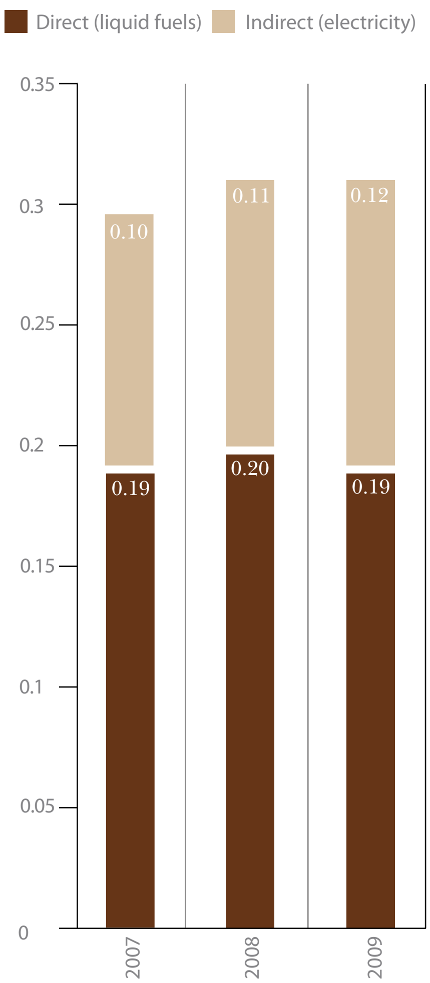
Figure 6-4: Direct and indirect energy consumption (millions GJ)



Collaboration on a national water management plan

Debswana also continues to work with the Government of the Republic of Botswana (GRB) and the United Nations Development Programme (UNDP) to promote long-term, integrated water resource planning throughout Botswana. This ongoing collaboration is intended to produce a new integrated water resources management plan for the country.

Figure 6-5: Direct and indirect energy consumption (GJ per carat production)



Engagement with local communities

In 2009, the local community near Orapa mine raised concerns that water flows to Debswana's Mopipi Dam had negatively affected the Boteti River and impacted local fish supplies. Investigations by Debswana found that water used at Orapa was not linked to the water table at Mopipi Dam, which has not been in use since 1983. Studies also found the Boteti River to be recharged by water sourced from the Okavango Delta and not underground seepage from Mopipi. Nonetheless, Debswana elected to remove the dam at a cost of P3 million (US$430,000), restoring the flow regime to its original form.

www.gov.bw
www.undp.org

6.1.3 Energy efficiency and emissions reductions

The Family of Companies is committed to being a responsible energy user and to contribute towards combating climate change. We plan to achieve this by:

- Promoting the efficient and sustainable use of energy through the principles of reduction, recovery, reuse and recycling
- Reducing greenhouse gas emissions and participating in climate change initiatives.

Our approach to energy management is aligned with the parameters of the Greenhouse Gas Protocol, the setting of energy targets, the implementation of energy efficiency measures and the stringent assessment of energy requirements for capital projects.

www.ghgprotocol.org

6.1.3.1 Energy security in southern Africa

Energy security poses a growing risk to our operations in southern Africa. Between 2001 and 2005, half of all sub-Saharan African countries achieved annual GDP growth rates greater than 4.5%. Demand for energy matched this growth, yet capacity has expanded by only 1.2% annually. According to a 2009 joint study undertaken by the International Bank for Reconstruction and Development and the World Bank, only one-fifth of the population of sub-Saharan Africa has access to electricity, compared with one-half in South Asia and more than four-fifths in Latin America. The region also faces a power sector financing gap of approximately US$23 billion a year, spending only a quarter annually of what is needed on power.

South Africa

The South African energy crisis illustrates the implications of this situation. State-owned electricity company Eskom provides 70% of electricity in sub-Saharan Africa. Shortages began in 2008 when delays in infrastructure investment and contracting of long-term coal supplies reduced the availability of energy in the national grid. This resulted in periodic power cuts (or "load shedding"), which are estimated to have cost an equivalent of 5% of South Africa's GDP in 2008. Many neighbouring countries, including Namibia and Botswana, were impacted by the power crisis due to their reliance on South African electricity exports.

The costs associated with the South African energy crisis underline the importance of enhancing our energy security through improved efficiency and the diversification of electricity supplies. This includes sourcing electricity from alternate suppliers and investing in alternative energy sources such as wind and solar (p82-83, p91).

web.worldbank.org
www.eskom.co.za

Jim Gowans, CEO and President, De Beers Canada (2009)

Back in July 2008 we opened De Beers first diamond mines outside of Africa; Snap Lake, located 220 km north east of Yellowknife and Victor in the James Bay Lowlands of Northern Ontario, approximately 90 km west of the coastal community of Attawapiskat First Nation. Our mines have already accomplished a tremendous amount in their few years of construction and operation. While we can and will overcome the economic challenges of today to position ourselves for a strong and long-term future in Canada, the threat of climate change poses a mixed long-term dynamic for us. Snap Lake, located within the Arctic Circle, carries out a substantial resupply of the mine each year through a seasonal ice road. Already, we have noticed a decline in the consistency of the 8 to 10 week window in which this road can remain safely accessible. As a consequence, the need for careful logistical planning has never been greater. Conversely, unseasonably mild conditions at Snap Lake in 2009 led to reduced fuel consumption for mine air heating purposes, providing an economic advantage as the mine began to ramp up operations.

De Beers
CANADA

Figure 6-6: Our direct (liquid fuels) energy use profile, 2009

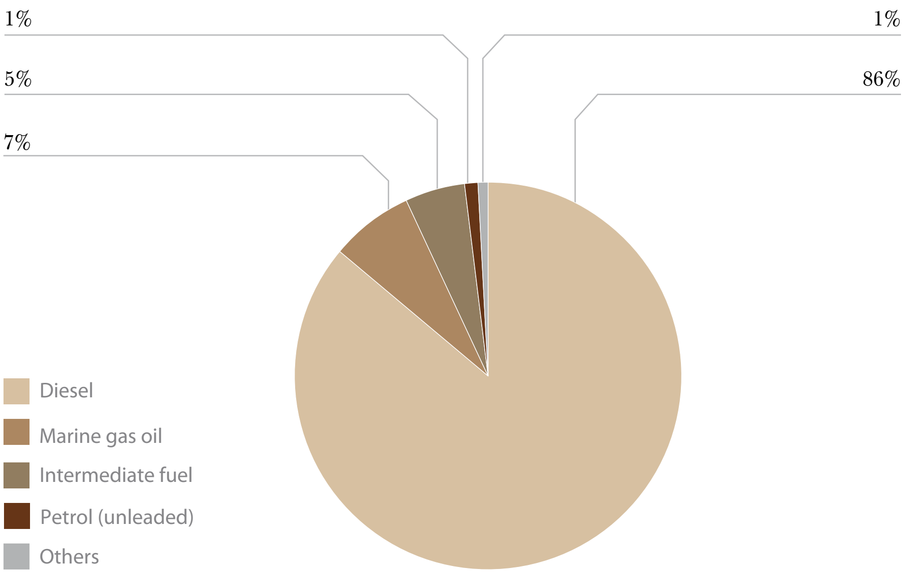


Figure 6-7: CO_2 equivalent emissions (million tonnes)

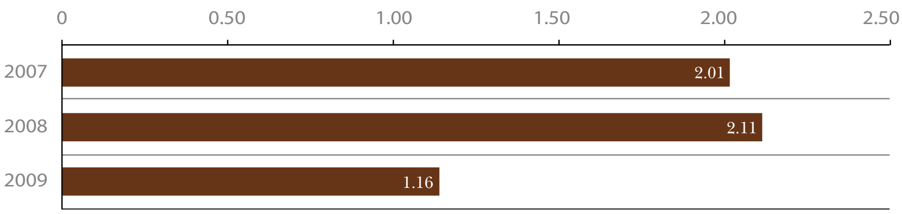
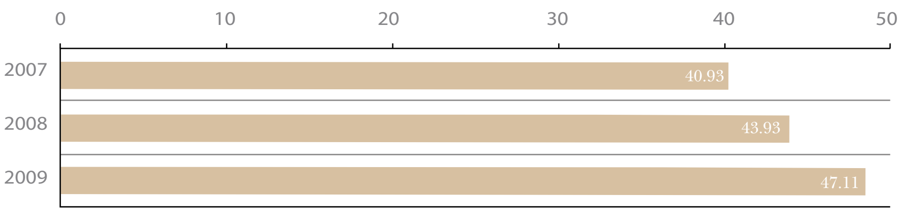


Figure 6-8: CO_2 equivalent emissions (tonnes per 1,000 carat production)



Charles Skinner, Head of Group Exploration

In 2008, we carried out a burden of disease study on malaria prevalence in our exploration team in Angola and assessed the utility of the rapid diagnostic test for P.falciparum malaria. The study, designed by De Beers, the National Institute for Communicable Diseases and the South African National Institute for Occupational Health, identified potential improvements for malaria prevention and in-country diagnosis. In 2009, a five point plan to combat malaria was developed and implemented by the exploration team. The value of this work is likely to become increasingly important as the negative impact of climate change on water borne diseases such as malaria becomes ever more apparent. Contemporary studies indicate that there will be a fourfold increase in the size of the population at risk of malaria within the next decade. This problem will prove costly in terms of immediate treatment costs to our staff, reduced productivity at our operations and, on a national scale, the loss of those individuals' contribution to the economies in which diamonds are found.

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Botswana

Eskom is progressively reducing its power supply to the Botswana Power Corporation (BPC). This will impact Debswana's ability to access energy from the Botswana national grid. To address this reduced supply, BPC is building a 600 MW coal-powered power station, Morupule B. Coal for the power station will be supplied from Debswana's Morupule coal mine, which is being expanded to meet the projected increase in demand. Once complete, coal production will increase from 1 million tonnes a year to 3.2 million tonnes. The Morupule B power station will only come online by the end of 2012, leaving a significant electricity supply deficit to Debswana's operations over the next three years (Figure 6-3).

In order to help address this projected deficit between 2009 and 2013, Debswana has installed 90 MW of diesel generation capacity at the Orapa mine. In the longer-term, Debswana plans to replace these generators with gas turbines fed by gas fields to the north of the mine. This is expected to cost a total of about P850 million (US$121.8 million).

6.1.3.2 Energy consumption and efficiency measures

In 2009, our direct and indirect energy consumption amounted to 7.8 million GJ (2008: 14.6 million GJ), a 46.5% reduction from 2008 levels. This reduction was due to the significant fall in production across our operations (p23). Despite this reduced production, our direct and indirect consumption per carat of production remained constant at 0.31 GJ per carat (Figure 6-5). Direct energy in its hydrocarbon form (including diesel) accounted for 61% of our energy profile (Figure 6-4). Indirect energy in the form of electricity accounted for the remaining 39%.

DBCM is a signatory to South Africa's Energy Efficiency Accord and has set an energy reduction target of 15% by 2015, from a 2005 base level. All DBCM operations have also agreed in principle to electricity consumption targets as part of the anticipated National Energy Conservation Program. In 2009, DBCM was well on track to meet these targets, although this was largely due to reduced production levels. Once production normalises, the following initiatives will be prioritised to reduce energy consumption:

- The introduction of high efficiency motors on a replacement basis
- Implementation of a motor repair programme improving engine efficiency
- A pilot project at Venetia on new approaches to load shedding, demand control and tariff optimisation
- Diesel energy monitoring programmes to assess the effect of road conditions on fuel consumption

Figure 6-9: SO_2 emissions from direct (liquid fuels) energy (tonnes)

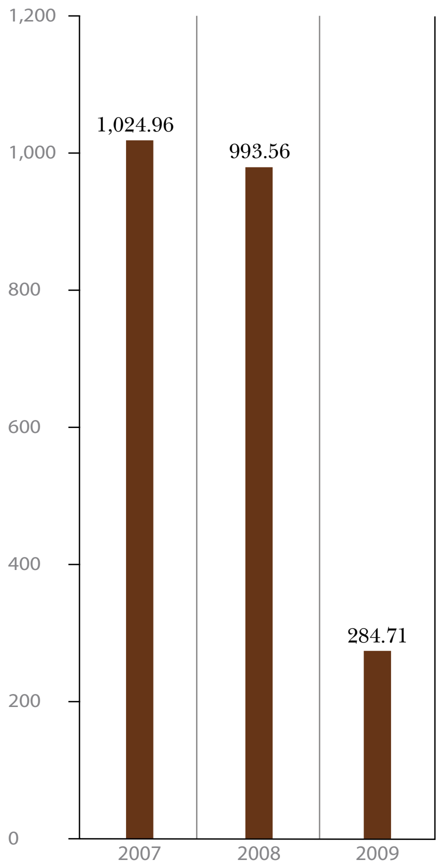
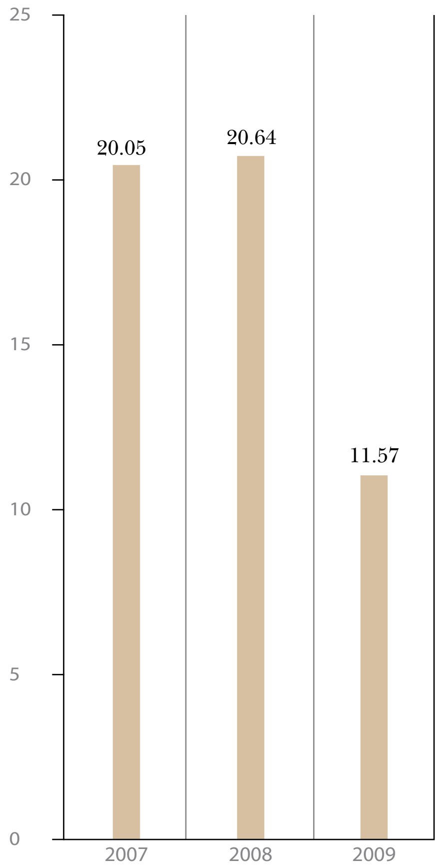


Figure 6-10: SO_2 emissions from direct (liquid fuels) energy (tonnes) per million carat production



The Family of Companies is continuing to investigate alternative energy options, including hydropower, solar power and biofuels. DBCM is evaluating wind power projects in Namaqualand, as well as a solar energy project in the Kimberley region. Likewise, De Beers Canada has tested wind power in Canada, which was found to offer significant reductions in fuel costs.

6.1.3.3 Carbon emissions

Our total CO_2e (carbon dioxide equivalent) emissions amounted to 1.16 million tonnes in 2009 (2008: 2.11 million tonnes) (Figure 6-7). Almost 70% of these emissions are associated with the electricity we purchase from national providers. These indirect emissions amounted to 0.8 million tonnes (2008: 1.28 million tonnes). Direct emissions from hydrocarbons (mainly diesel) amounted to 0.3 million tonnes (2008: 0.68 million tonnes). As with our energy consumption (p88-89), the reduction in our carbon emissions was due to reduced production during 2009. CO_2e emissions per 1,000 carats of production increased from 43.93 tonnes in 2008 to 47.11 tonnes in 2009 (Figure 6-8).

6.1.3.4 Other air emissions

Our sulphur emissions relate almost exclusively to energy use. As a result, any reductions in emissions are linked to reductions in our energy consumption. SO^2 (sulphur dioxide) emissions from liquid fuels used by the Family of Companies amounted to 285 tonnes in 2009 (2008: 994 tonnes) (Figure 6-9). SO^2 emissions from direct (liquid fuels) per million carats of production fell from 20.64 tonnes in 2008 to 11.57 in 2009 (Figure 6-10). Marine gas oil contributed 51% of SO_2 emissions, compared to 73.4% in 2008, due to reduced marine mining activity and the particularly sulphurous nature of marine fuel.

6.1.4 The future

In order to achieve compliance with our new Climate Change and Water Standards, we plan to prioritise the following activities during 2010:

- Development of local-level risk assessments for all business units and facilities in order to identify climate change risks and mitigation projects
- Development of integrated water management plans for all mining operations, including the setting of targets for all water stressed areas
- Active engagement with local government partners to ensure long-term water resource planning goals are implemented in dialogue with local communities
- Establishment of complete, accurate and repeatable data on energy consumption by type, as well as public reporting in accordance with the Greenhouse Gas Protocol (Scope 1 (direct emissions) and 2 (indirect emissions))
- Further energy efficiency interventions and, where possible, research and implementation of renewable energy options
- Setting of carbon emission and energy reduction targets at all mining operations
- Inclusion of energy efficiency requirements into the design of all projects and confirmation of compliance during investment assurance reviews

Patti Wickens, Group Environmental Principal

The far reaching impact of climate change on South Africa presents a troubling picture for our future. Changes in marine and terrestrial ecosystems are to have profound impacts on mining, forestry, agriculture and fisheries, as well as on biodiversity and hydrology. Within 50 -100 years thousands of indigenous species may disappear with only the hardiest surviving. The Succulent Karoo and our west coast is likely to be hardest hit. More frequent fires could also disrupt the relationships between plants and animals. Ultimately the complexities of climate change are such that only through multi-lateral partnership, thorough consultation and information sharing can we realistically prepare for the future.

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6.2 Lifecycle planning

Risk: We seek to mitigate potential environmental impacts when planning, designing and implementing exploration, mining and related activities. This is motivated both by local regulation and our goal to remain the "operator of choice" for host governments, communities and peers.

We recognise that our activities can have significant impacts on the environment. We are committed to understanding the extent of these impacts and implementing measures to mitigate them at every stage of the mining lifecycle. Much of our mining footprint includes sensitive, biologically diverse environments. As a result, we place particular focus on biodiversity in our environmental planning and impact mitigation efforts.

In 2009, we rolled out a Lifecycle Planning Standard, which outlines the two desired outcomes of our lifecycle planning processes:

- All phases of the mining lifecycle (environmental planning, implementation and management) should contribute towards a positive environmental and social legacy
- All operations should have environmental management systems and resources to address environmental risks from operational life through to closure (Figure 6-11)

6.2.1 Exploration and acquisitions

De Beers Exploration is committed to maintaining the wellbeing of the communities and environments in which it operates. It is guided in doing so by the Family of Companies Exploration Environment, Community, Occupational Hygiene, Health and Safety (ECOHS) Guidelines.

A risk assessment process is conducted in the early stages of exploration. This includes an assessment of the environment within which exploration will occur, as well as closure planning. If exploration advances towards project implementation, a social and environmental baseline study is also undertaken. This documents the current social and environmental status of the broader region and identifies possible risks both to the company and the environment.

Where projects or mines are acquired, a due diligence assessment is undertaken to identify, evaluate and report upon environmental and social issues related to the current and historical use of the site.

Exploration in Angola

Figure 6-11: Assessment conducted during the project phase of the mining lifecycle

Assessments	Phase	Objective
Environmental and social screening	Conceptual	To confirm which aspects of the proposed project have the potential to generate significant or unacceptable environmental or social impacts
Scoping	Pre-feasibility	To gather and evaluate information to focus the ESIA on significant issues or impacts
Environmental and Social Impact Assessment (ESIA) or Environmental Impact Assessment (EIA)	Feasibility	To identify, qualify and quantify project impacts on the biophysical, socio-economic, heritage, aesthetic and cultural environments
Environmental and Social Management Plan (ESMP) or Environmental Management Plan (EMP)	Feasibility	To document and detail future monitoring and management requirements outlined in the ESIA
Preliminary closure plans	Construction or commissioning	To detail the environmental closure and remediation costs of the project (p95-96). Preliminary closure plans are developed during the feasibility phase and are implemented on commissioning once project designs are confirmed

6.2.2 Projects

Projects are required to complete a range of assessments, depending on their stage in the mining lifecycle (Figure 6-11). In 2009, Debswana engaged with relevant stakeholders to complete Environmental and Social Impact Assessments (ESIA) for the Jwaneng Cut-8 project and its modular treatment plant (p69). Both assessments were submitted for approval to the Ministry of Environment, Wildlife and Tourism (MEWT).

In addition, an Environmental Impact Assessment (EIA) was approved for the Morupule Colliery expansion project (p90). Further EIAs for the Caprivi Exploration project and Environmental Management Plans (EMPs) for the marine 'Midwater' areas mined by De Beers Marine Namibia were completed and submitted to the Ministry of Environment and Tourism.

6.2.3 Operations

The management of environmental impacts during the operational phase of mining is guided by a Environmental Management System (EMS) developed for each mine.

6.2.3.1 Environmental management systems

ISO 14001 compliant EMSs are in place at all of our diamond mining operations. These are developed during the construction/ commissioning phase, with certification taking place during the operational phase. An ISO 14001 certified EMS enables us to:

- Identify and control the environmental impact of activities, products or services
- Continually improve our environmental performance
- Implement a systematic approach to setting and evaluating environmental objectives and targets

Correcting non-conformances

In March 2009, a detailed surveillance audit of our Venetia mine found 15 critical non-conformances, 40 non-conformances and 11 remarks. As a result, Venetia's certification was placed at risk. Over a three month period, Venetia made significant improvement to its EMS, managing to clear its non-conformances and retain certification. In addition, the mine's Environmental Department was reviewed and restructured to ensure the ongoing effectiveness and sustainability of its EMS. A significant number of non-conformances were identified at Orapa, which prompted the mine along with Debswana Head Office to address these issues. Morupule coal mine is preparing for ISO 14001 certification in 2010.

Case Study: Securing a positive environmental legacy for South Africa through the Diamond Route

The De Beers Diamond Route links nine conservation areas across the northern regions of South Africa in an integrated tourism route. These include:

- Brenthurst Gardens in Johannesburg
- The Ezemvelo Nature reserve near Johannesburg
- Kimberley
- Dronfield
- The Rooiport Nature Reserve
- Namaqualand
- The Tswalu Kalahari Reserve near the Korannaberg Mountains
- The Venetia Limpopo Nature Reserve
- Benfontein

Through the project, we have opened up 250,000 ha of ecologically protected land to the public. This demonstrates our commitment to protecting biodiversity-rich land in South Africa, and sharing the natural assets under our care with the broader population.

The Diamond Route is home to more than half of southern Africa's bird species (500 species in total), including 40 endemic species and 69 species on the International Union for Conservation of Nature Red Data List. Two properties are also listed in the definitive Important Bird Areas of Southern Africa Directory. Over 50 different mammal species make the Diamond Route their home, including the White Rhino, Wild Dog, Sable and Roan Antelope. Cultural and heritage characteristics have also been developed and preserved at each site, including restored buildings in the historic diamond-mining capital of Kimberley.

Several shared social development opportunities have been realised through the project, such as the Ezemvelo-Maharishi education programme. This promotes conservation-related education through the development of a rural eco-campus on the 4,500 ha Ezemvelo Reserve.

The Diamond Route concept was initiated in 2004 through a memorandum of understanding between De Beers, Ernest Oppenheimer & Sons, and Birdlife South Africa. Over the last five years, accommodation and facilities have been upgraded; new 4x4 and hiking trails developed; and new signage displayed at all sites. A total of 14 bird guides and five cultural guides have been trained through this project.

In 2009, a Diamond Route pledge and associated standards were agreed to at all sites. The pledge commits each site to nine values that showcase how the Family of Companies is "living up to diamonds." The values are supported by outcome standards against which the sites will be measured.

www.diamondroute.co.za
www.birdlife.org.za
www.iucnredlist.org

"The Diamond Route holistically pulls together the properties owned by the Oppenheimer family and De Beers. Each property is unique and adds something special to the entire route, together they are truly magnificent. The Route works on the concept, the whole is greater than the part."

Strilli Oppenheimer

Case Study: Biodiversity Action Plan for the South African Seas Areas

In 2009, De Beers Marine developed a Biodiversity Action Plan (BAP) for the South African Seas Areas (SASA) mining licence area. The SASA mining licence area is located 500 km north of Cape Town on the South African west coast and falls within the Namaqua bioregion. The licence area covers 8,816 km^2, but due to the patchy distribution of diamond deposits, the planned mining footprint is limited to 29 km^2 (0.33% of the licence area). Mining activities in the area include prospecting through acoustic surveys, as well as sampling and mining of the seabed.

The BAP helps identify biodiversity concerns and management priorities, as well as actions for monitoring and reviewing activities and impacts. In addition, it acts as a stakeholder consultation tool for those with biodiversity interests in the area. The BAP identified two key biodiversity risks to the SASA mining licence area.

The first is a lack of biodiversity knowledge, with existing data limited largely to that already collected by De Beers. In particular, there is a need for greater information on:

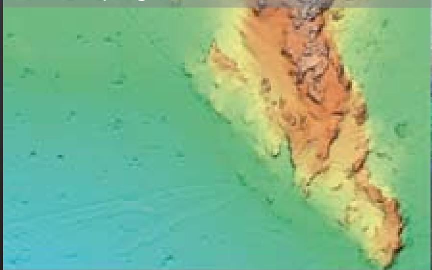
- The extent of habitat types
- The location, extent and nature of rocky outcrop habitats
- The sensitivity of rocky outcrop biodiversity to mining impacts

The second is an absence of marine protected areas in the Namaqua bioregion.

To address these risks, De Beers Marine has partnered with the WWF and the South African National Biodiversity Institute (SANBI). The research partnership will share information, expertise and tools to address the significant volume of benthic biodiversity knowledge in the Namaqua bioregion. Within its own areas of operations, De Beers is working with these partners to identify areas for protection.

www.wwf.org
www.sanbi.org

Bathymetry image showing cluster of SASA drill sampling holes



Deployment of benthic grab sampler

Sea Anemone

Sea Cucumber

Commitment to pollution prevention

All our operations are committed to the minimisation of pollution and the responsible management of waste. Our new Environmental Standard for pollution prevention and waste management (p86) commits us to:

- Replace high risk hazardous substances with non-hazardous or less hazardous alternatives
- Manage effluents, wastes, emissions and hazardous substances to prevent pollution

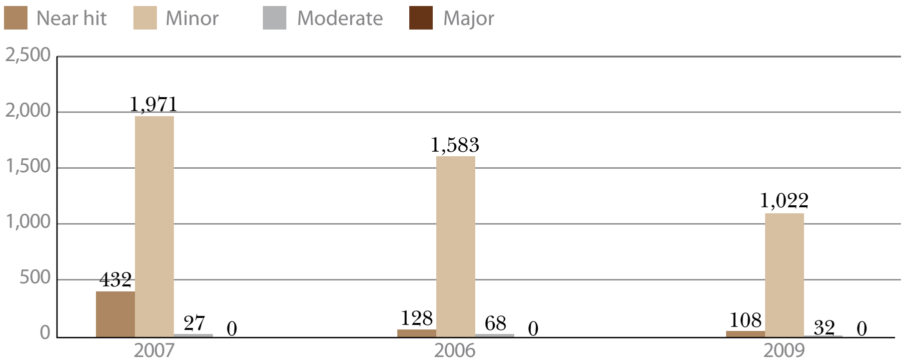
Managing Hydrofluoric Acid risks

The use of Hydrofluoric Acid (HF) has been identified as one of the most important environmental risks for exploration (p59). HF has been used by the Family of Companies since 1987 to dissolve kimberlite and recover microdiamonds, as well as in the diamond cleaning process. In 2009, a survey across the Family of Companies found that quantities of HF stored on site varied from 15,000 litres at the Kimberley Micro-Diamond Laboratory and 400 litres at the DTC in Kimberley. All facilities are ISO 14001 certified, while three were OHSAS 18001 certified. An HF working group was established in 2009 to further reduce the risks associated with HF use and to share information on existing management strategies (p55).

6.2.3.2 Environmental incidents

No major environmental incidents were reported during 2009 (Figure 6-12). Moderate environmental incidents included diesel spillages at Orapa and Letlhakane, as well as community vandalism of a water pipeline outside of a Debswana mine lease area. In 2009, the Environmental Peer Group completed a review of our incident reporting system. This system currently categorises incidents into "major", "moderate", "minor" and "near-hit". From 2010, the Family of Companies will include an additional categorisation that splits the "minor" category. This is mainly to ensure more accurate reporting around "insignificant" versus "minor" incidents and to build greater alignment with our group-wide risk matrix categories.

Figure 6-12: Environmental incidents[3]



[3] There is no industry standard for the categorisation of environmental incidents. Incidents are currently reported in these four categories as per the Environmental Reporting Standard. In particular, this requires that "major" incidents are immediately reportable by operations to the business unit, De Beers Group Services and ECOHS Committee

6.2.4 Closure and disposal

The finite nature of diamond mining means that all new and recent projects are undertaken by the Family of Companies with closure in mind. Older mines have rehabilitation programmes retrospectively applied. Our new Environmental Standard on lifecycle planning seeks to establish initial and final closure plans (p86).

Preliminary closure plans are required during the project planning phases. These are then evolved as the project progresses, moving from a preliminary closure plan, to a draft closure plan and then a detailed closure plan. As the mine nears closure, a final closure plan is developed. The costs of closure are reviewed and refined throughout this evolution.

6.2.4.1 DBCM

A rapid Strategic Environmental Assessment (SEA) has been undertaken for most operations as part of the preliminary mine closure planning. The SEA promotes sustainability through the integration of environmental considerations into strategic decision-making. In 2009, most of DBCM's operations commissioned a third party to facilitate on-mine discussions and to compile a preliminary closure plan in line with the Anglo American Closure Toolbox (p69, p79). Significant work has also been done to improve the level of detail in each operation's respective closure plan and to increase confidence in estimates for scheduled and unscheduled closure liabilities.

In 2009, mine closure planning workshops were held for our Finsch, Oaks and Voorspoed mines, as well as at Kimberley. The workshops provided an opportunity to understand mine closure processes, assess progress and identify opportunities for synergies and learning between operations. A key part of these workshops involved sharing lessons on how to rehabilitate mined areas.

6.2.4.2 De Beers Canada

In accordance with Canadian regulations, both the Victor and Snap Lake mines were required to obtain approval of their closure plans before operations commenced. Detailed cost estimates for closures are calculated every one to three years to reflect any additional rehabilitation requirements that may influence the plan.

6.2.4.3 Debswana

The three mines at Orapa have estimated closure costs from an inventory of the rehabilitation footprint and removal of infrastructure, but are still to develop integrated (environmental and social) closure plans.

6.2.4.4 Namdeb

An integrated social and environmental closure plan has been completed for Namdeb, including a detailed rehabilitation plan (p98-99). The plan takes account of Nambeb's new status within the Sperrgebiet National Park, and is designed to restore native landscapes to their original form.

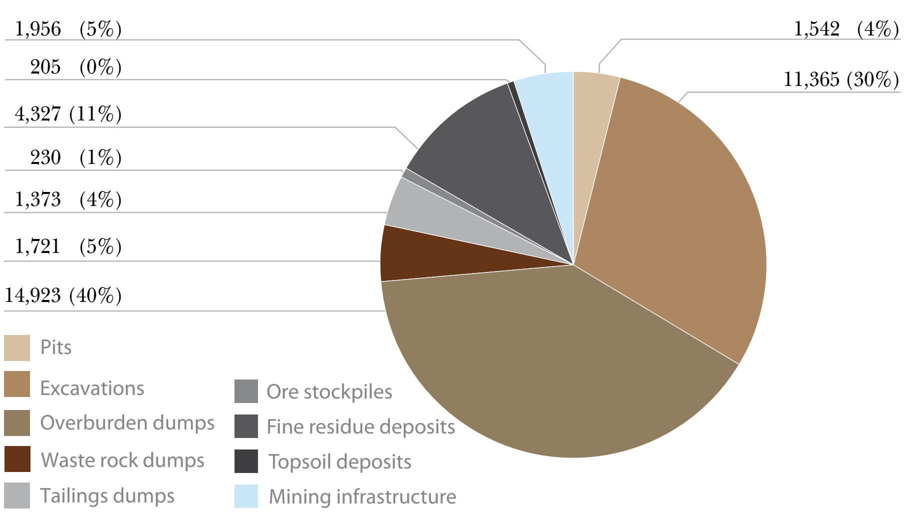
6.2.5 Rehabilitation

Rehabilitation is an ongoing process at all mines, but is especially pertinent at Namdeb and Namaqualand which are nearing closure.

6.2.5.1 Namdeb

In 2009, rehabilitation plans continued to move forward at Namdeb. The plans seek to address the legacy of 100 years of mining, much of which was prior to any form of environmental management. The plan addresses four key issues: pollution, infrastructure, landscape and biodiversity. Part of the rehabilitation costs are funded by the sale of scrap metal from legacy mining areas. In 2009, more than 40,100 tonnes of scrap was removed from Mining Area 1, leaving three scrap yards rehabilitated. Other areas that were rehabilitated included abandoned contractor sites in the Northern Coastal areas. These were signed-off as completed by the Ministry of Environment and Tourism as well as the Ministry of Mines and Energy in 2009. The rehabilitation plan makes provision for the reshaping of landforms on 24% of Namdeb's footprint, as well as active re-vegetation of 7% of its footprint (p98-99).

Figure 6-13: Our mining footprint in 2009 (ha)



6.2.5.2 Namaqualand

Extensive rehabilitation has been undertaken in the Namaqualand region of South Africa over the past few years. Expert scientific input was provided by Dr Peter Carrick, a specialist ecologist from the University of Cape Town. Alternative land-uses are being considered in place of rehabilitation. These include tourism and mariculture projects, wind power generation and the expansion of oyster and abalone farming. It is hoped that the two mining towns of Kleinzee and Koingaas will achieve proclamation. This will allow them to become open municipal towns, making housing and facilities available to the public and increasing opportunities for alternative economic development. Some of these initiatives are being completed under the Living Edge of Africa Project (LEAP), in partnership with Conservation International (CI). LEAP builds on the positive legacy created by diamond mining by combining restoration of the area with the promotion of enterprise development and job creation. De Beers has also entered into a research partnership with the WWF and the South African National Biodiversity Institute to support biodiversity conservation in the Namaqua bioregion.

6.2.5.3 Marine

Rehabilitation of the marine environment relies on natural recovery processes. The return of processed sediments during mining results in some degree of backfilling of mined areas. In addition, mined areas are subject to a natural refilling by fine sediments over time. This is followed by gradual recolonisation of the fine sediments by marine organisms. De Beers Marine and De Beers Marine Namibia conduct pre-mining baseline surveys, as well as post-mining monitoring surveys to demonstrate recovery. Depending on water depths, the proximity to sediment inputs and other local conditions, recovery usually takes place within 4 to 15 years.

- www.conservation.org
- www.uct.ac.za
- www.wwf.org
- www.sanbi.org

6.2.6 Biodiversity assessments

More than 221,000 ha of our owned and managed property is currently set aside as conservation areas or nature reserves. This includes properties leased in February 2009 to extend the Namaqua National Park, as well as areas that form part of the South African Diamond Route, an initiative that maximises research opportunities and biodiversity conservation on properties belonging to the Oppenheimer family and De Beers (p93). This 221,000 ha is more than five times the 37,641 ha (or 4%) of our total land-based licensed area of 943,552 ha that is disturbed by mining activities.

6.2.6.1 Biodiversity Action Plans

Biodiversity is considered in all aspects of the mining process and is arguably our most significant environmental issue. Risks to biodiversity are identified during exploration and are included in all EIAs and EMPs during project planning and operation phases. During 2009, we focused on the development of Biodiversity Action Plans (BAPs) across all of our operations. BAPs are used to develop a coordinated approach to biodiversity stewardship, supported by management objectives and actions. The BAPs provide a clear framework for defining actions and monitoring and reviewing impacts that affect biodiversity. They provide opportunities to improve communication and cooperation with stakeholders, including NGOs, and strengthen our strategic contribution towards biodiversity conservation.

6.2.6.2 South African Seas Areas

In 2009, a BAP was developed for the South African Seas Areas (SASA) mining licence area. The plan provides information on biodiversity concerns and management priorities in the concession area, which lies within the sub-photic (below the depth of light penetration) continental shelf zone of the Namaqua Bioregion.

Key biodiversity challenges for 2010 include:

- Risks associated with the impact of operations on cold water biodiversity areas
- A lack of biodiversity-zone information
- The achievement of environmental requirements for our new marine gold mining joint venture with AngloGold Ashanti (p97)

July 2009 saw the launch of the new International Union for Conservation of Nature (IUCN) Category IV Marine Protected Area (MPA), which covers the northern part of Namdeb's Inner Shelf Project area. It was primarily designed to protect the foraging habitats and breeding colonies of seabirds, as well as the spawning and nursery grounds of Rock Lobster. In 2010, we will continue with our extensive marine monitoring programme, which examines our impacts on, and rehabilitation of, sandy beaches, rocky shores and sub-tidal environments within the MPA.

6.2.6.3 Biodiversity Overlap Assessments

In order to assess and manage the high-level risks of our activities on biodiversity, we completed country-level Biodiversity Overlap Assessments (BOAs) at each of our business units. The BOAs identify the extent to which our operating areas overlap with protected areas, key biodiversity areas and World Heritage Sites. The assessment makes use of access to up-to-date biodiversity information from the Integrated Biodiversity Assessment Tool for Business (IBAT). IBAT is provided by a partnership of NGOs including BirdLife International, CI, IUCN and the United Nations Environment Programme (UNEP) World Conservation Monitoring Centre.

Mesembryanthemum flowers of the Northern Cape, South Africa

De Beers was the first mining company to apply the IBAT tool across all of its mining and prospecting sites. During 2009, this assessment was externally reviewed and approved by CI. The BOA found that the Family of Companies does not mine in any known IUCN Category I–IV protected areas. Our Venetia mine does, however, have water abstraction points and a water pipeline that runs through a section of the Mapungubwe National Park and Cultural Landscape. The EIA and infrastructure developments were completed before the proclamation of the National Park and World Heritage Site, however. Nonetheless, due diligence of the sensitivity of the region has been taken into consideration. Some exploration licences overlap with portions of known IUCN Category I–IV Protected Areas in South Africa, Namibia, Angola and India. In most cases, due either to the protected status of the land or the location of sites of interest (from an exploration perspective), prospecting activities are not conducted on these overlap areas.

www.iucn.org
www.ibatforbusiness.org
www.birdlife.org
www.conservation.org
www.unep-wcmc.org

6.2.7 The future

Our strategy and overall environmental goal is to be aligned to the best environmental practices of leading mining companies by 2010 and to be recognised for our contribution to biodiversity conservation. In order to deliver on this goal, and in order to become compliant to our new environmental standards, we plan to focus on the following activities in 2010:

- Obtaining and retaining ISO 14001 certification at all of our operations, including the Morupule coal mine
- Developing integrated closure plans (environmental and social) at all mining operations, at an appropriate level of resolution
- Developing BAPs for all relevant mining operations
- Developing waste management plans for each operation in line with our Environmental Standards on pollution prevention and waste management

Questions from stakeholders:

Does De Beers participate in climate-related advocacy?

As a global business leader, De Beers also plays a role in urging governments to agree on climate-related goals. In 2009, De Beers signed the Prince of Wales Copenhagen Communiqué on climate change. This initiative called for an effective climate agreement at the United Nations (UN) Climate Change Conference. De Beers also supported "Seal the Deal", a UN worldwide campaign on climate change. In September 2009, Gareth Penny presented at the water security session of the UN Leadership Forum on Climate Change. During the session he outlined our commitment to climate change mitigation and adaptation, both for our operations and local communities.

De Beers is also a signatory to the UN Global Compact's CEO Water Mandate, a partnership between business leaders and the international community to coordinate water management efforts. This mandate commits the Family of Companies to take action, where appropriate, in the following areas:

- Our own direct operations (including water-use assessments, conservation and waste water targets, and technology-use)
- Supply chain and watershed management (including improved water management by suppliers, capacity building, promotion of water-use assessments and sharing of good practice)
- Collective action (including partnerships with civil society and governments, the development and use of new technologies and support for existing water initiatives involving private sector)
- Public policy (including input into the formulation of government regulation, advocacy and support of policy orientated bodies and frameworks)
- Community engagement (including understanding community impacts, undertaking water-resource education and support for infrastructure development)
- Transparency (including identification of actions and investments undertaken in relation to the CEO Water Mandate and the reporting of water strategy)

www.unglobalcompact.org

Questions from stakeholders:

How will the Family of Companies manage the potentially significant environmental impacts of its marine gold mining deal with AngloGold Ashanti on the south west coast of southern Africa, New Zealand and Chile?

In 2009, De Beers Group and AngloGold Ashanti agreed to form a joint venture to explore for and develop marine placer deposits of gold (as well as other metals and minerals) off continental shelves worldwide.

The project will use our existing marine prospecting technology, which includes non-destructive acoustic survey methods, as well as seabed sampling tools for the collection of sediment. All project activities will comply with De Beers and AngloGold Ashanti environmental standards.

Assessments by independent experts have found that acoustic surveys are unlikely to result in significant negative impacts on marine mammals. Nonetheless, De Beers Marine has implemented precautionary mitigation measures, including visual scans for nearby mammals, the ceasing of operation if mammals demonstrate affected behaviour and "soft starts" or gradually increasing volume for loud equipment.

Should the project prove economically viable, it is not envisaged that any chemicals would be used in the recovery process. As placer gold occurs in the form of loose articles, it can be recovered using similar mechanical processes as used in marine diamond mining. This currently involves the removal of unconsolidated sediments from the sea floor using drill or crawler technologies. Sediments are then brought to the surface for onboard processing in which chemicals are not required. Tailings are then returned to the mined area. Although seabed disturbance does occur, research has demonstrated recovery of seabed communities to a stable state within 4 to 15 years depending on local conditions.

West Coast Rehabilitation

Since the discovery of Namibia's first diamond near Kolmasnkop in 1908, prospecting and mining rights have been granted for about 300 km of Namibia's coastline, from the Orange River in the south to the Kunene River in the north. Although diamond mining is confined to a narrow diamondiferous strip along the coastline and Orange River, public access to the entire licence area is restricted. Diamond-related security has therefore contributed to the preservation of Namibia's unique coastal environment. As onshore diamond production declines, the Family of Companies is rehabilitating the 2% (195 km^2) of the licence area that has been disturbed through mining activities.

Approach to rehabilitation

In 2009, Namdeb's Rehabilitation Plan was approved by the relevant ministries of the Government of the Republic of Namibia (GRN). The approach to rehabilitation was developed through extensive research in partnership with the Namibian Botanical Research Institute (NBRI) and the Millennium Seed Bank Project (MSBP) at Kew Gardens in the United Kingdom, and was designed in consultation with the future end land user, namely the Ministry of Environment and Tourism (MET).

Rehabilitation of pocket beaches at Site 2 approved by the MET and the Ministry of Mines and Energy (MME)

The scrap removal project removed 40,100 tonnes from MA1 in 2009. A proposal to establish a dedicated asbestos disposal site has been submitted to the GRN

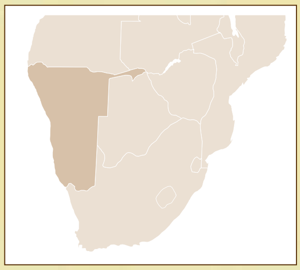
One of seven pilot rehabilitation projects completed at Skilpadberg. The Skilpadberg project helped formulate the overall West Coast rehabilitation method

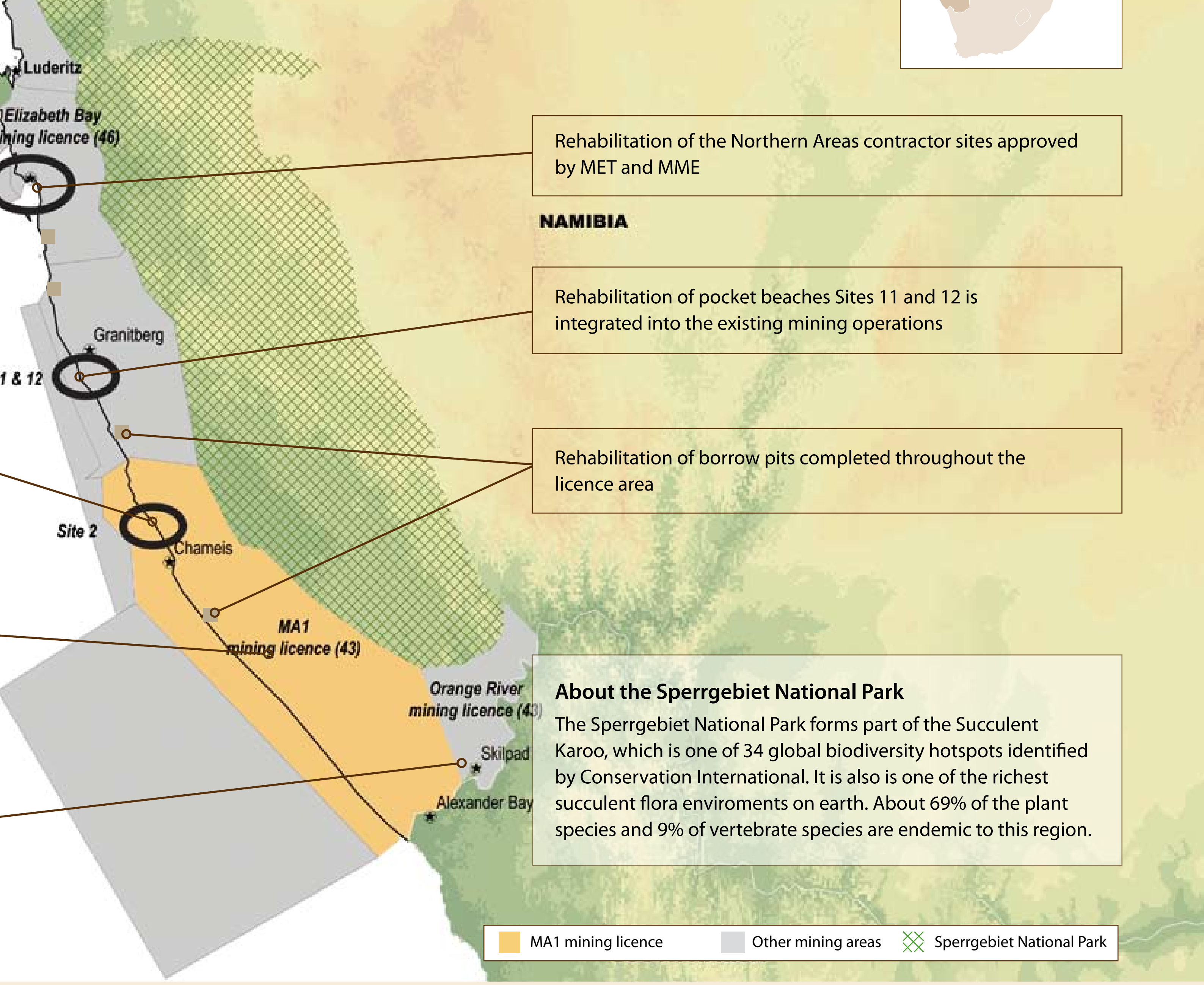
The rehabilitation plan involves the following steps

1. All pollution waste and scrap is removed

2. Any infrastructure not required for future use is removed

in Namibia





About the Sperrgebiet National Park

The Sperrgebiet National Park forms part of the Succulent Karoo, which is one of 34 global biodiversity hotspots identified by Conservation International. It is also is one of the richest succulent flora environments on earth. About 69% of the plant species and 9% of vertebrate species are endemic to this region.

3. Where necessary, existing landforms are reshaped to their original structures. Current planning estimates that this will be required in 24% of the disturbed area

4. Where necessary, the area is revegetated. Current planning estimates this will be required in 7% of the disturbed area

7 Assurance

7.1 First party: on internal audit and risk management

Statement from De Beers Internal Audit on selected material issues including internal auditing, the Best Practice Principles, the Assurance Programme for the Principles, the Kimberley Process and anti-money laundering

DE BEERS
A DIAMOND IS FOREVER

Internal Audit statement

De Beers Internal Audit (DBIA) is an independent, objective assurance and consulting activity designed to add value and improve the operations of the De Beers Family of Companies. DBIA has been mandated by the Board Audit Committee, a sub-committee of the Board of De Beers Société Anonyme (DBsa), to ensure that the major risks facing the Family of Companies are identified and given appropriate audit focus. Risk management, internal control and governance processes are systematically reviewed to help the Family of Companies accomplish its objectives. DBIA submits an annual report to the Board Audit Committee on the status of governance, internal control and the appropriateness of risk management.

All DBIA reviews are performed in accordance with the International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (IIA). Our Quality Assurance and Improvement Programme (introduced in accordance with IIA Standard 1300) found DBIA to be "generally compliant" with the IIA Standards, the highest rating on the degree of conformity scale.

Risk-based internal auditing

DBIA follows a prescriptive, documented risk-based audit methodology that culminates in its annual report on risk management, the internal control environment and governance to the Audit Committee. The audit plan is derived from the De Beers Enterprise Risk Management system.

The Group Risk Champion consults on and assists with the facilitating risk management workshops at all levels to ensure a complete and appropriate risk management system. The risk management process collates information from value centres and offices globally to business units and ultimately to enterprise level. Audit work includes a thorough review of internal systems, procedures and programmes of work for each business function and area of major business risk. DBIA also collates reports from managers on the integrity of internal controls, the safeguarding of assets and risk management, as well as ethical, social and environmental matters. It also considers reports produced by external assurance providers.

The DBIA annual report to the DBsa Audit Committee, which was submitted in February 2010, included the following opinion:

"I can confirm that in my opinion the internal controls are adequate to ensure that the financial records may be relied on for preparing the reports to directors and shareholders, and for maintaining accountability for assets and liabilities.

In my opinion, in all material instances, assets are adequately protected and used as intended with appropriate authorisation and all significant business risks have been identified and appropriate mitigating strategies are in place.

No matters have come to my attention during the year ended 31 December 2009 that indicate any breakdown of such magnitude has occurred in the functioning of these internal controls, procedures and system of the Group, which in my opinion, would affect the fairness of presentation of such reporting, and therefore financial decisions based thereon."

Best Practice Principles

In 2009, the scope of DBIA's review of the Best Practice Principles (BPP) Assurance Programme was focused on ensuring that the programme continued to be supported by good governance. The scope also provided for selected, detailed, on-site verification reviews of BPP workbooks to supplement the review work conducted by SGS. The specific objective of the reviews was to verify responses within the BPP workbooks. No material breaches were identified during such reviews and improvement opportunities have been agreed with management.

The 2010 review is in the planning stage and the scope will provide for a review to ensure that due diligence has been applied in completion of the BPP workbooks submitted to SGS. DBIA are also consulting on the pilot Responsible Jewellery Council (RJC) and BPP integration reviews.

Principles Committee

DBIA participates on the Principles Committee to ensure that good governance and risk management is appropriately applied.

Note on Kimberley Process compliance

The Kimberley Process is a joint government, diamond industry and civil society initiative that requires participants to certify diamond shipments are conflict free. Compliance with the Kimberley Process is a legal requirement for participating countries.

A review of the fact-finding reports, issued by independent auditors, confirms that relevant business units comply with the requirements for De Beers to have its compliance with the Kimberley Process externally assessed.

These reviews sought to assess De Beers compliance with respect to the Kimberley Process Certification Scheme (KPCS) on the international trade in rough diamonds, in accordance with European Council Regulation (EC) No 1574/2005. The assessments related to the period commencing 1 January 2009 and ending 31 December 2009.

The major Kimberley Process compliance criteria are also reviewed as part of the third party verified BPP Assurance Programme. No material breaches or non-compliance with the Kimberley Process were identified in the 2009 BPP assurance cycle.

Implementation of the Anti-Money Laundering Policy

In 2006, De Beers developed and communicated a policy on Anti-Money Laundering and Combating the Financing of Terrorism. The policy reflects the deep-seated commitment of the Family of Companies to maintaining the continued confidence of its stakeholders and the integrity of its product.

DBIA's 2009 review of the implementation and progress of the policy highlighted that all business units, applicable group functions, and shared services have implemented the policy.

Brian Cleak
Group Manager: Internal Audit
De Beers Corporate Headquarters
Johannesburg, South Africa,15 April 2010

7.2 Second party: on reporting

Statement from Maplecroft on the reporting process, including the reporting methodology, the AA 1000 Principles and recommendations for future reporting

maplecroft™

Background

This statement is intended to provide insight into the reporting process. Maplecroft professionals involved in the reporting process are experts in their respective disciplines and are trained auditors in accordance with the ISO 14001, ISO 14064 and SA 8000 standards. Maplecroft recognises that it is not an independent party by virtue of its consulting work for De Beers.

Maplecroft has worked with the Family of Companies since 2000. This included input into the development and implementation of the Best Practice Principles (BPPs) as well as the Assurance Programme for the Principles (APPs) and facilitation of the Diamond Dialogues. Maplecroft also advised on the development of policies including anti-corruption, political donations, security services and human rights, and draft guidelines on stakeholder engagement. Maplecroft has worked on the Report to Society since 2005.

This statement is an account of:

- Our experience compiling content, analysing and processing data, writing and designing this report
- Our facilitation of the Multi-Stakeholder Forum and the Diamond Dialogues in London, as well as the writing of reports summarising discussions at each event
- Our engagement with discipline experts, the Principles Management Committee and other relevant De Beers employees, both in person at De Beers facilities and through telephone interviews and other correspondence

Methodology

Maplecroft worked closely with relevant De Beers discipline experts in the compilation, analysis and review of data across the economic, ethical, employee, community and environmental domains. The validity of the original data was not checked at source by Maplecroft. Whilst we completed rigorous peer review within Maplecroft to ensure the accurate and comprehensive representation of original data, any anomalies or gaps in data that could not be resolved by Maplecroft were referred back to relevant employees within De Beers for clarification.

Maplecroft supplemented primary data with extensive interviews in Botswana, South Africa and the United Kingdom, as well as the review of articles, agendas, minutes, presentations and other documents. Maplecroft was given a high degree of access to discipline experts for the purpose of information gathering, clarification and review. We also prepared drafts of all text and worked closely with discipline experts in the refinement of report content to ensure the information presented is fair, accurate and in line with the expectations of stakeholders.

All work completed by Maplecroft is informed by best practice initiatives and standards. These include the United Nations Millennium Development Goals, the United Nations Global Compact, the Global Reporting Initiative (GRI) G3 Guidelines and the AA 1000 assurance standard.

AA 1000 principles

We believe De Beers has made significant progress with respect to being fully compliant with the AA 1000 principles of materiality, completeness and responsiveness.

Materiality

This report presents a coherent framework for identifying and analysing sustainability issues that pose a risk to the business and which are relevant and material to stakeholders. Maplecroft can verify that the Diamond Dialogues and the Multi-Stakeholder Forum were critical in identifying and prioritising many of the issues presented in this report. Most notably, however, is the adoption of a risk-based approach to reporting. The 13 risks and risk matrices (p8-9) discussed in this report were identified and elaborated in direct response to stakeholder feedback. Questions posed to De Beers at these events were answered frankly and transparently. Our work with De Beers supports the accuracy of relevant statements presented in this report. This includes the answers provided in the "questions from stakeholders" panels.

Our role in the reporting process enables us to confirm that De Beers reports on some of the issues that previous assurance statements and stakeholder reviews identified as needing to be addressed in future reports. This includes better alignment of data between Community Social Investment (CSI) and expenditure on Social and Labour Plans in South Africa (p72-74). The report provides information on a number of key events during 2009 that have implications for the Family of Companies and its stakeholders. These include the impact of global recession on:

- Economic contributions to host countries (p18-25)
- The ongoing success of beneficiation (p28-31)
- Employees, retrenchments and capacity building (p50-53)
- Health and safety performance (p54-59)
- CSI contributions to the communities in which it operates (p72-77)

The report also focuses on a range of mitigating measures taken by the Family of Companies to limit the impact of a fall in rough diamond demand in late 2008 and 2009. These include production holidays (p23, p51), support for Sightholders (p31), intermediary cost-cutting measures to minimise involuntary retrenchments (p51) and ongoing prioritisation of health and safety performance (p54).

Completeness
Our inspection of documents and engagement with discipline experts did not identify any material shortfalls with respect to completeness of reporting. In our view, De Beers was proactive in seeking comment on, and promoting discussion of, potentially challenging and sensitive issues including:

- Improvement opportunities identified by SGS in the 2009 BPP cycle (p6)
- Challenges posed to the credibility of the Kimberley Process during 2009 (p34-35)
- Responsible management of employee retrenchment (p52)
- Management of the dispute between De Beers Canada and elements of the Attawapiskat First Nation (p70)
- Management of water scarcity and use in southern Africa (p86-89)
- Energy security challenges in southern Africa (p89-91)

Responsiveness
De Beers honoured its commitment to engage the Multi-Stakeholder Forum in future reporting cycles, and it is our view that participant recommendations have significantly influenced the content and form of this report. This includes the adoption of a risk-based approach, longer time horizons and a more forward looking strategy, the movement of standard reporting requirements to an online library and an enhanced appreciation/discussion of the link between sustainability issues.

Recommendations

Key areas for improvement:

Dynamic online content
The use of a risk-based approach to reporting has resulted in a more "flexible" integration of GRI-specific information. Where necessary, such information has been included in a separate, online GRI table. We believe there is potential for the extension of online reporting services, including real-time reporting of quarterly data and performance updates, as well as increased depth of supporting content (e.g. the results of Diamond Dialogues, white papers on key issues etc.). As De Beers has already demonstrated with its Operating and Financial Review 2009 microsite (www.debeersgroup.com/ofr2009), this will ensure a more dynamic, responsive reporting experience and easy access by stakeholders to the views and performance of De Beers on issues that are important to stakeholders.

Improved objectives and targets
There remains significant room for improvement relating to the identification of clear, quantitative performance targets. Whilst the report includes "Objectives" for 2009 and beyond (p14-15), the identification of measurable targets for each discipline, BPP and Principle would enhance benchmarking, comparability and measurability of performance. The Family of Companies should focus on setting relevant long-term targets on carbon emissions, water and other strategic or material issues.

Evidence of local stakeholder engagement
Whilst the report currently provides a good overview of "group-level" stakeholder engagement, it would benefit from further details of local-level engagement and frameworks. This includes evidence of engagement, outcomes and responses. Whilst workforce disruption may have presented some challenges in gathering this information, the Family of Companies should nonetheless continue in its efforts to improve action and reporting in this area.

Adapting data templates
Whilst it is highly relevant in Africa due to Black Economic Empowerment (BEE) requirements, a significant number of employees in the United Kingdom decline to identify their ethnicity in employee surveys. The current data templates mean such employees are often excluded from aggregate results (e.g. p20). We recommend a review of the data templates used by human resources, as well as relevant methodology, to ensure continued accuracy and relevance of analysed and presented data.

Organisational disruption
We received enthusiastic and proactive support from discipline leads across the Family of Companies in the production of this report. The impact of the recession and retrenchments however, has resulted in significant disruption including partial loss of institutional memory and management systems, as well as reduced availability of a "group-level" overview. We recommend a systematic review, identification and re-engagement with responsible and accountable individuals across the Family of Companies for the 2010 reporting cycle. This includes the clear identification of individuals who will provide assurance on compliance with the Principles.

We believe this report presents a relevant and complete statement of the sustainability performance of the Family of Companies. In our view, the De Beers statement that it has applied the GRI G3 guidelines at level A+ is also fairly stated.

Alyson Warhurst

Professor Alyson Warhurst
Dr Kevin Franklin
Gus Macfarlane
Maplecroft, United Kingdom
7 May 2010
www.maplecroft.com

7.3 Third party: on the BPP Assurance Programme

Statement from SGS on the De Beers Group 2009 cycle of the De Beers Best Practice Principles (BPPs), including scope, work undertaken, the BPP programme, verification methodology, key findings and recommendations

SGS

Role of SGS in the BPP Programme

Appointment of SGS

Following a tender process beginning in April 2003, SGS was invited to present their proposal and following responses to additional information were advised of their selection as the verification partner in July 2003.

SGS is the world's largest independent verification and certification organisation and has no commercial interests. As in previous years, SGS has undertaken a contract review and put safeguards in place to ensure that no consultancy or related services is provided to any parties involved in the BPP programme so as to ensure that this strict independence is maintained at all times.

Scope of work and evolution of programme

2009 saw the introduction of a SMART workbook tool with questions asked based on the inherent risk in the country concerned and the activity and size of operation. This tailored approach allowed more emphasis to be placed on issues of potential concern so as to better focus the activities of both the De Beers Family internal compliance teams and the SGS auditors.

The scope of work undertaken by SGS as the BPP verifier for the 2008 cycle comprised the following:

- Desktop review of a sample of the workbooks submitted by Sightholders and all those submitted by the De Beers Family of Companies. This process verifies that all required workbooks have been submitted; that all questions have been answered; that the responses to the questions support the compliance status declared in each case and to test that conclusion by requesting supporting evidence on a random number of questions.
- Verification visits on up to 10% of the declared facilities to check that the original first party assessments have been undertaken thoroughly both by discussing this with the assessor and by seeking first-hand evidence of compliance with the issues concerned.
- An extraordinary audit to review allegations of serious breaches at one of the Sightholder's facilities.
- Provision of information relating to the compliance status of Sightholders' and De Beers' facilities and details of any significant issues. This information is provided in accordance with the confidentiality requirements imposed by the Supplier of Choice Ombudsman.
- Input into a review of the Responsible Jewellery Council requirements and a comparison between this and the BPPs.

Work undertaken on De Beers group facilities

85 workbooks were submitted across all eligible De Beers facilities covering 74 of their own facilities and 11 contractors.

Full reviews were conducted and completed during the cycle and 11 verification visits were undertaken during this cycle including 1 visit to a contractor.

The BPP programme

For 2009 the programme continues to be based on the Best Practice Principles which continues to remain in line with major international standards and accepted Best practice for CSR and business partner evaluation.

The De Beers Family of Companies has continued to set itself a high level of commitment and expectation of compliance, including the investment of resources to complete self-audits and a requirement for corrective action plans to be completed in a timely manner. Contractors have continued to be included, regardless of business levels.

Verification methodology

The verification process is undertaken in 3 stages:

- In the country of operation, workbooks are reviewed by a qualified Social Accountability auditor, cross-trained in Environmental Management and briefed on the requirements of the Best Practice Principles.
- Local reviews are then submitted to a central review point where these are cross-checked to ensure consistency by country and key points.
- A sample of 10% of facilities is selected centrally for onsite verification to check the effectiveness of the 1st party assessments and to evaluate at first hand the situation on the ground.

There were no significant changes to the questions sets or the SGS audit team and this was a consolidating year, concentrating on the completion of corrective actions and ongoing compliance.

Key findings

Workbooks were all received within the required timescales. There were a number of changes in key personnel within the De Beers companies which led to some delays in providing responses to queries raised and in a small number of cases verification had to be based on the business' declarations.

The facilities to visit were selected to cover the whole range of operations but also taking into account both the inherent risks described above, performance in previous cycles and the levels of activity at the locations.

Most infringements in the De Beers facilities found in the course of previous cycles have been rectified with evidence of implementation verified either on site or through the workbooks. Most notably evidence has now been received that action has been taken to tackle the Major Breach outstanding since 2007. Ongoing compliance for this issue will be specifically followed up in the next cycle. Corrective action plans have been received for the small number of Minor infringements found.

Overall summary

There were no Material Breaches identified during first or third party assessments.

No Major Breaches were found at De Beers' or contractors' facilities and the corrective action was implemented to close out the one outstanding issue from previous cycles. Minor breaches were found at only 3 facilities bearing witness to the consistent efforts made to implement all BPP requirements.

Significant progress has been made in the last 3 years, both in taking corrective actions to close out Minor and Major Infringements and incorporating BPP requirements into normal working practices so as to also reduce the number of Improvement Opportunities. Continued monitoring is needed to ensure that issues found at specific locations are investigated across all facilities and any required corrective actions are applied broadly across the Group.

Recommendations for future development

A number of changes were made to the programme for the 2009 cycle in recognitions of previous experiences and to incorporate a more tailored risk-based approach. This will now be bedded in during the 2010 cycle when all facilities will be subject to the submission of tailored workbooks .

During 2010 it is planned to further review the tailored workbooks and all documentation and procedures to incorporate requirements of the Responsible Jewellery Council (RJC) certification programme.

In preparation for RJC certification, there will also be a number of pilot audits at De Beers facilities to test the extent to which they are already operating in line with any added requirements of that programme.

In addition, following feedback from Sightholders and De Beers audit documentation is being revised to provide greater clarity on findings, recommendations for improvement and the type of sustainable corrective action required. This will be in line with requirements not to provide consultancy to these companies.

Effie Marinos
SGS United Kingdom Ltd
26 April 2010
www.uk.sgs.com

Our Principles

Three guiding Principles define the way we do business, inform our understanding of what is right and wrong, and describe what is important to us. These are supported by an extended set of specific Principles that cover the economic, ethics, employees, community and environment aspects of our activities.

Sustainable development through partnership

The Family of Companies is committed to operating in accordance with national legislation and towards the goal of sustainable development. This means ensuring that we consider and take responsibility for the longer-term economic, social and environmental implications of the decisions we make today – not only for our own business but also for the broader societies in which we operate. We will work with our partners in government to ensure that diamonds, a finite resource, are transformed into economic wealth and improved quality of life and wellbeing for all those stakeholders touched by our business along the diamond pipeline.

Diamond dreams and development

We will work to address the poverty and socio-economic deprivation that affects many of the communities where we operate. We will work with governments to help realise their long-term visions and, through education, training and shared decision-making, to ensure the success of programmes that help build the capabilities of their citizens. In particular, we will partner with our stakeholders to address the priority of HIV and Aids. We will also work meticulously through the Kimberley Process, the industry's System of Warranties, and our Principles to ensure conflict diamonds are eliminated from world diamond flows.

Accountability and "living up to diamonds"

Our ethical conduct is governed by the De Beers Best Practice Principles (BPPs). The BPPs apply to the De Beers Family of Companies, all Diamond Trading Company (DTC) Sightholders and to certain third parties e.g. Sightholder sub-contractors. The BPPs require compliance with law in all areas, as well as further requirements on anti-corruption and anti-money laundering, health and safety, labour standards and environment. The BPPs are supported by a rigorous assurance programme that assesses compliance by all parties. Our Global Mining function coordinates self-assessment and internal assurance on BPP implementation for review by the ECOHS Committee. Compliance with the BPPs is third party verified each year by SGS (Société Générale de Surveillance).

Economics

- Long-term wealth creation through investment in economic development and delivery of enhanced shareholder value
- Transparency in financial payments to governments and relevant and meaningful reporting
- Local procurement and capacity building that contributes to local and national development goals
- Strong relationships with government and constructive participation in policy dialogue relating to mineral development plans
- No political donations to individuals but legitimate support for the democratic process in emerging multi-party democracies in Africa, guided by policy criteria that, on the basis of disclosure, allow exceptional political donations to eligible registered political parties
- Impact assessment, monitoring and management strategies that are comprehensive, involve those affected by our activities and are regularly undertaken, including prior to new projects and mine closure

Ethics

- Good corporate governance and high ethical standards in compliance with legislation and relevant codes of practice, including the United Nations (UN) Global Compact and other UN, Organisation for Economic Co-operation and Development (OECD) and industry agreements
- Free and fair competition and compliance with national and regional competition/ antitrust legislation
- Disclosure of transactions and relationships that could reasonably be expected to give rise to illegalities or conflicts of interest
- Anti-corruption programmes that reject giving or accepting bribes and that require the disclosure of facilitation payments
- Zero tolerance for money laundering plus an active commitment to combat the financing of terrorism
- Compliance with privacy and data protection legislation relating to employees, partners, Sightholders and customers
- Risk mitigation relating to consumer confidence in the diamond pipeline through audited adherence to the Diamond Best Practice Principles and the "System of Warranties", as well as audited adherence to, and support for, the Kimberley Process to prevent conflict diamonds
- Transparent relationships with consumers based on adherence by the Diamond Trading Company and its Sightholders to the accurate description of diamonds, the full disclosure of any treatments to diamonds and full disclosure in respect of synthetics and simulants
- Respecting the fundamental rights of all peoples as outlined in the Universal Declaration of Human Rights, ensuring there is no complicity if others infringe the rights of our employees or local communities
- Recognising and respecting the legal authority of governments in the countries in which we operate, we believe that we have the right and the responsibility to make our position known to them on any matters that affect our employees, shareholders, Sightholders, customers or local communities

Employees

- Compliance with the core labour standards of the International Labour Organization including freedom of association, the right to collective bargaining, non-discrimination and the responsible prevention of child labour and forced labour within our sphere of influence
- The highest security and human rights standards for employees at our operations and in our exploration activities, ensuring our security services, or those sub-contracted by us, do not violate the human rights of our employees or local communities
- The integration of best practice safety and occupational hygiene standards into planning and management systems to enable a supportive and accident-free safety culture
- Employee health and wellbeing rooted in the moral obligation to "do no harm" and help prevent ill health
- Comprehensive HIV and Aids management programmes in our principal operations where the need exists, and can be provided for in a responsible and sustainable manner, for employees and their life partners based on the principles of education and prevention, care, confidential treatment and support
- The promotion of diversity and inclusiveness; and, in line with our Values, developing the human potential of employees, promoting respect and reciprocity in working relationships and harnessing the richness of different ideas, cultures and perspectives to enable us to better serve the markets and producer countries in which we operate

Community

- Lasting positive contributions to local community livelihoods during and beyond the lifetime of our mines
- Respecting the cultural integrity of all peoples, their spiritual and religious beliefs, their traditions and their traditional knowledge systems
- Treating neighbours with understanding and dignity, taking seriously the issues that concern them to ensure that our operations neither prejudice nor infringe on their rights or interests
- Sensitive to the difficulties encountered by some indigenous or tribal minorities and other vulnerable populations in the areas in which we operate, we aim to be responsive to their needs and concerns
- Stakeholder dialogue to ensure that concerns are treated with respect, actions are taken to address concerns, and that meaningful reporting is undertaken in the public domain
- Social investment programmes to alleviate poverty and address socio-economic deprivation through capacity building and enterprise development, harnessing the passion of employees to "show we care"
- Partnering with relevant stakeholders where we can to deliver or support comprehensive community health management programmes and facilities, such as those for HIV and Aids, including a focus on prevention and access to treatment, as well as on vulnerable groups such as women and children
- Partnerships to help transform small-scale informal diamond digging activities, where feasible, into flourishing sustainable businesses that benefit diggers and their families by alleviating poverty and accelerating sustainable socio-economic development around diamond mining areas

Environment

- Proficient and responsible environmental management integrated into all aspects of the business and supported by management systems, impact assessments and risk management programmes
- Responding proactively to emerging societal concerns by developing systematic ways to prevent or minimise the negative impacts of our operations
- Efficient use and management of energy resources and emissions that contribute to climate change, and the use of market-based emission reduction mechanisms where appropriate
- Stewardship of terrestrial and aquatic ecosystems, and of resources on land that we own, lease or manage
- Programmes to conserve biodiversity, protect endangered fauna and flora and promote sustainable use of the ecosystems that we manage in partnership with, and for the shared benefit of, our stakeholders

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Environmental information

Printed on Revive 50:50 made from 25% de-inked post consumer waste, 25% pre-consumer waste and 50% virgin fibre. All pulps are Elemental Chlorine Free and the manufacturing mill is ISO 14001 certified. Use of the Forest Stewardship Council (FSC) logo identifies products that contain wood from well-managed forests certified in accordance with FSC rules.

Acknowledgments

Prepared and produced by the De Beers Family of Companies in partnership with Maplecroft.
Design: Maplecroft
Printing: Taylor Bloxham

Acronyms

AP	Assurance Programme
ART	Anti-Retroviral Treatment
BEE	Black Economic Empowerment
BPPs	De Beers Best Practice Principles
DBCM	De Beers Consolidated Mines
DBDJ	De Beers Diamond Jewellers
DBIA	De Beers Internal Audit
DDI	Diamond Development Initiative
DTC	Diamond Trading Company
DTCB	Diamond Trading Company Botswana
ECOHS	Environment, Community, Occupational Hygiene, Health and Safety
HDN	Historically Disadvantaged Namibian
HDSA	Historically Disadvantaged South African
KPCS	Kimberley Process Certification Scheme
LTIFR	Lost Time Injury Frequency Rate
LTISR	Lost Time Injury Severity Rate
NDTC	Namibia Diamond Trading Company
NIHL	Noise Induced Hearing Loss
NWT	Northwest Territories (Canada)
OIFR	Occupational Illness Frequency Rate
OFR	Operating and Financial Review
RTS	Report to Society
SASA	South African Sea Areas
SEAT	Socio-Economic Assessment Toolbox
SHE	Safety, Health and Environment
SLP	Social and Labour Plan
SoW	System of Warranties
VCT	Voluntary Counselling and Testing

Whistle blowing hotline

Any person wishing to use our whistle blowing hotline may do so in the following manner.

By telephone

By telephone to the applicable tip-off anonymous country toll free number:

De Beers – South Africa	0800 003 518
De Beers – Namibia	0800 003 518 or 061 309058
De Beers – Botswana	71119753 (Mascom)
De Beers – United Kingdom	0808 234 2168
De Beers – Canada	18664511590
De Beers – Israel	1809455111
De Beers – Japan	00531270008
De Beers – Belgium	080075977
De Beers – Angola	+27 (0) 31 571 5772
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In writing

In writing with details regarding the background and history of the information being disclosed, giving names, dates and places where possible.

Disclosures made in writing should be posted to:

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Email, website and fax

Written disclosures may also be submitted via:

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