2010 review

De Beers led the diamond recovery in 2010, with strong demand and price growth for rough diamonds reflected in a robust recovery in both sales and profitability. This was supported by an unwavering focus on embedding the lower cost base of 2009, maintaining production in line with Sightholder demand, and investing in superior mining assets.

Gahcho Kué exploration site

Mining operations at Venetia

The *Peace in Africa* mining vessel being towed into harbour

Operating Environment

2010 brought an end to two consecutive years of market decline for diamonds. The first half of the year saw a strong recovery in demand for rough diamonds from DTC Sightholders against the low comparisons of the first half of 2009. This continued through the second half with increased demand from retail markets, particularly India and China which showed remarkable rates of growth with polished wholesale prices of 31% and 25%, respectively (in local currencies). Further confidence was driven by a strong US Christmas sales season, up by approximately 7% from the previous year.

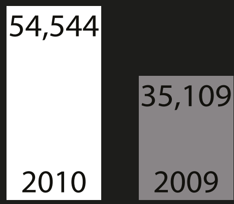
Leading the Diamond Recovery

The steps taken in 2009 in response to the global recession positioned De Beers to lead the diamond recovery in 2010. Having embedded the production and operating costs savings from 2009, the company was able to benefit fully from steadily increasing prices for rough diamonds. Strong price recovery was driven by improved demand from Sightholders as global economic growth, especially in emerging economies, saw an increase in consumer demand for diamond jewellery. De Beers continued to produce in line with demand from Sightholders, and looked to secure future supply through capital investments in superior mining assets, commencing the Cut-8 extension to Jwaneng mine, and investing in potential future capital projects at Venetia mine in South Africa and Gahcho Kué in Canada.

Key performance indicators

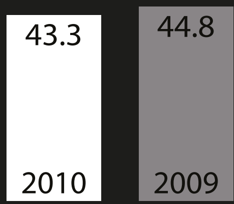
Full year

Tonnes Treated (000s)



50% increase

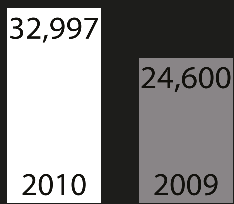
Exploration expenditure (US$m)



US$43.3m

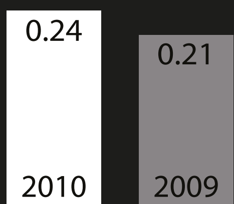
2009: US$44.8m

Carats recovered (000s)



34% increase

LTIFR*



0.24

2009: 0.21

* Lost time injury frequency rate

Leading the Diamond Recovery

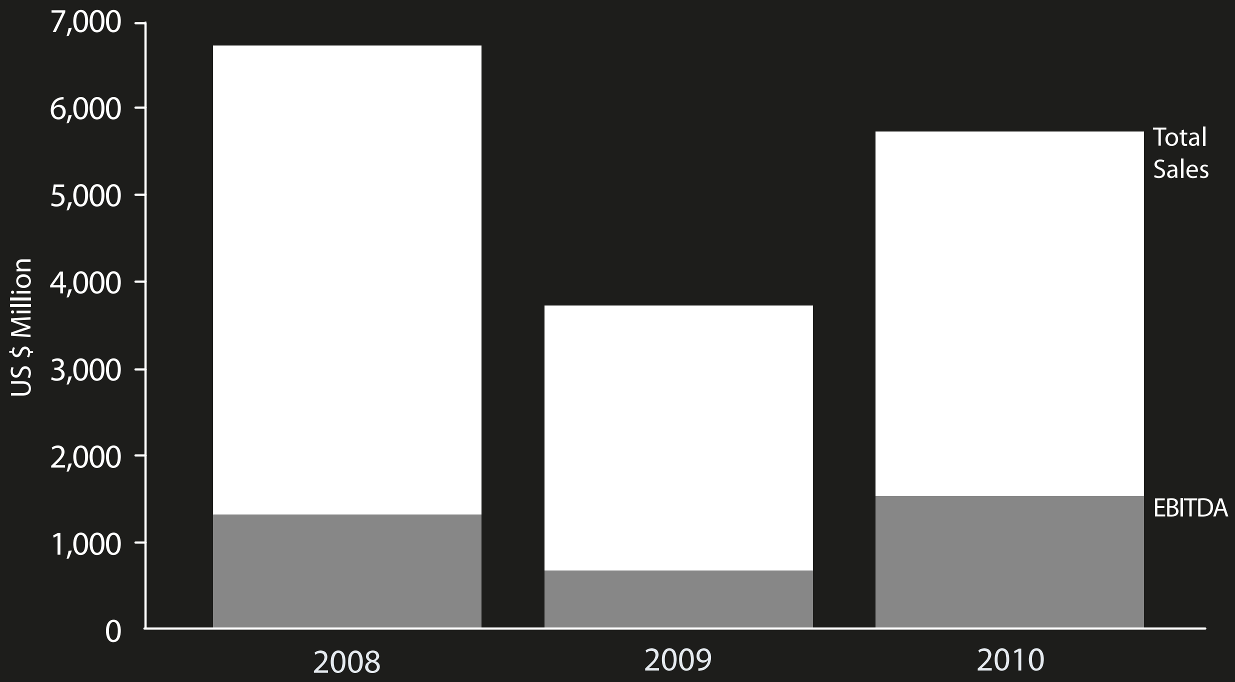
1. Exceptional profit growth

EBITDA grew to US$1.43 billion in 2010, an increase of 118% over 2009 (US$654 million). This exceptional growth was driven by a 53% increase in total sales by the De Beers Group for the full year compared with 2009, at US$5.88 billion. Sales of rough diamonds by the DTC were US$5.08 billion (2009: US$3.23 billion). By the end of 2010, DTC rough diamond prices, on average, equalled June 2008 pre-recession highs. While costs necessarily rose commensurate with increased production throughout 2010, a focus on maintaining the low cost base achieved during 2009 resulted in these higher margins.

Tonnes treated and tonnes mined increased by 50% and 59% respectively, comparing favourably to a 42% increase in production costs. This cost containment was partly offset by strong Canadian and southern African currencies.

In March 2010, after a US$1 billion pro rata equity investment from shareholders by way of a rights offer, De Beers successfully refinanced all of its international and South African debt. The tenor of all debt facilities was extended to August 2013. At the end of 2010, net debt amounted to US$1.76 billion compared with US$3.20 billion at the end of 2009, excluding amounts due by De Beers to its shareholders. The restructuring actions undertaken during 2009 have now yielded an improved debt position and a lower overall cost-base, with De Beers achieving normalisation two years ahead of schedule.

EBITDA as a proportion of total sales 2008-2010 (US$m)

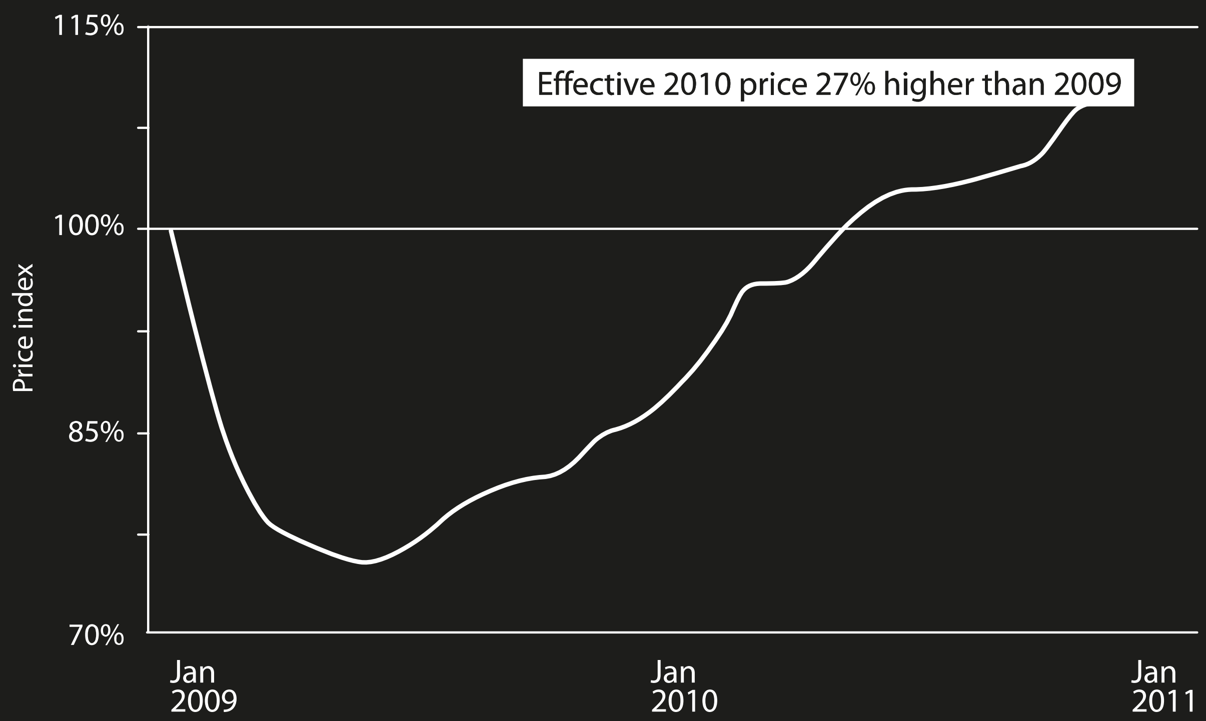


Leading the Diamond Recovery continued

2. Strong price recovery

2010 saw a 27% average increase in rough diamond prices, to levels surpassing pre-recession highs of 2008. The exceptional price growth was driven by retailer restocking and strong global demand growth, particularly in China and India.

DTC rough diamond price index
(set at Dec 31 2008)



Leading the Diamond Recovery continued

3. Investing in capital projects

In 2010 the Cut-8 extension commenced at Debswana's Jwaneng mine, the world's flagship diamond mine. With a capital investment of US$500 million, and an estimated total project investment of US$3 billion to 2015, Cut-8 represents the largest single investment in Botswana.

Cut-8 will extend the life of Jwaneng to at least 2025, and is expected to create more than 1,000 jobs at the peak of the project. The extension will provide access to a further 100 million carats of mainly high quality diamonds, which could be worth in excess of US$15 billion over the life of the mine.

The scale of the extension is vast, requiring the removal of around 700 million tonnes of waste material, with the open pit almost doubling in depth from 330 metres to 650 metres. To achieve this, the rate of annual waste removal at Jwaneng will triple to approximately 120 million tonnes per annum.

By 2017, approximately 91 million tonnes of ore will be available for processing, and the mine will be able to maintain a minimum flow of 10 million tonnes of ore a year through its treatment plant.

Cross-section and aerial view of Jwaneng mine in Botswana illustrating the scale of 'Cut-8'. A US$500m capital investment, this latest extension will turn the world's richest diamond mine into a 'super-pit'.