

# De Beers Overview

## Anglo American Analyst Presentation

13 April 2010

**1. Industry Overview & De Beers Introduction**

**Gareth Penny**

*(CEO)*

**2. 2009 Operating & Financial Review**

**Stuart Brown**

*(CFO)*

**3. 2010 & Beyond**

**Gareth Penny**

*(CEO)*

**4. Venetia Overview**

**Martin Preece**

*(GM – Venetia Mine)*

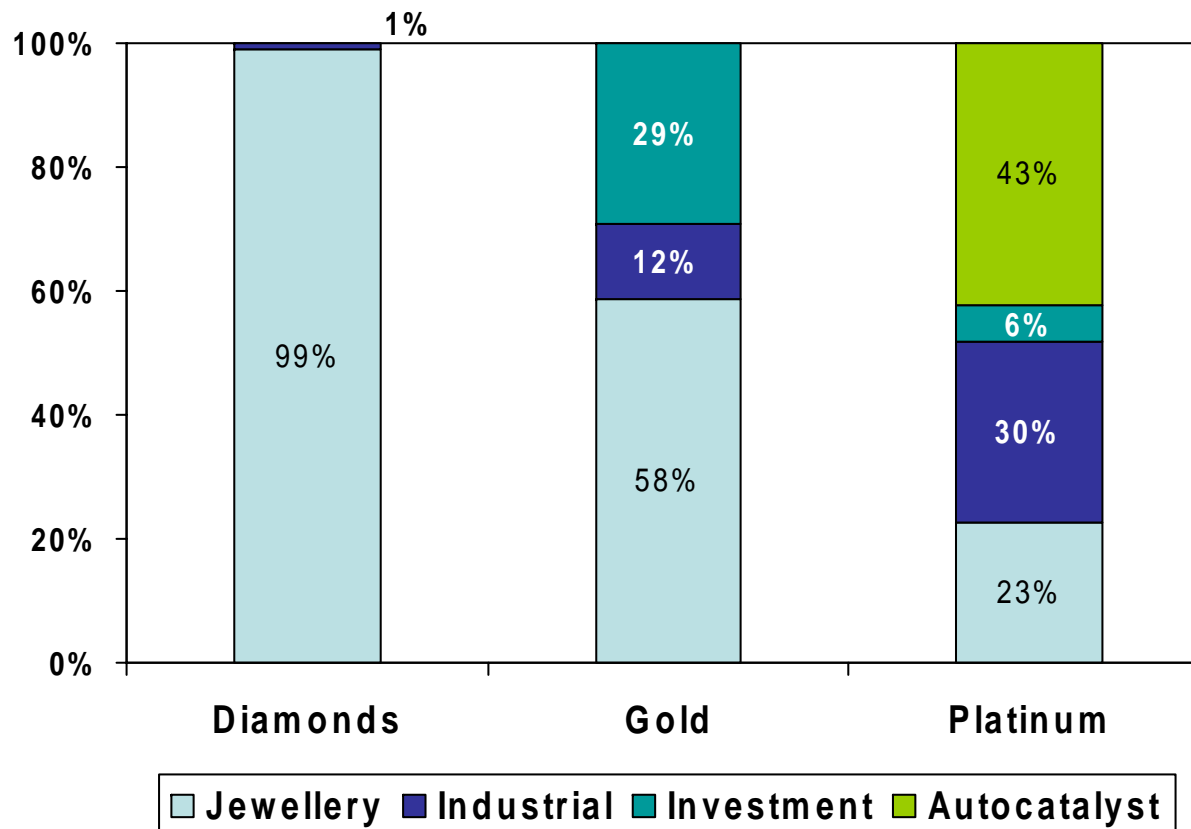
**Q&A**

# Diamonds are a luxury product

1. Diamonds are a luxury product with unique attributes which are very distinct from the commodities
2. Whilst also a natural resource, diamonds are the main feature of an end consumer product, as distinct from more fungible commodities
3. From a consumer perspective, diamonds have both emotional and physical attributes which influence purchase behaviour
4. Diamond jewellery competes with other discretionary services and products for the share of consumers wallet
5. Because of their aspirational and discretionary nature, diamonds are more vulnerable to reputation threats than other raw materials



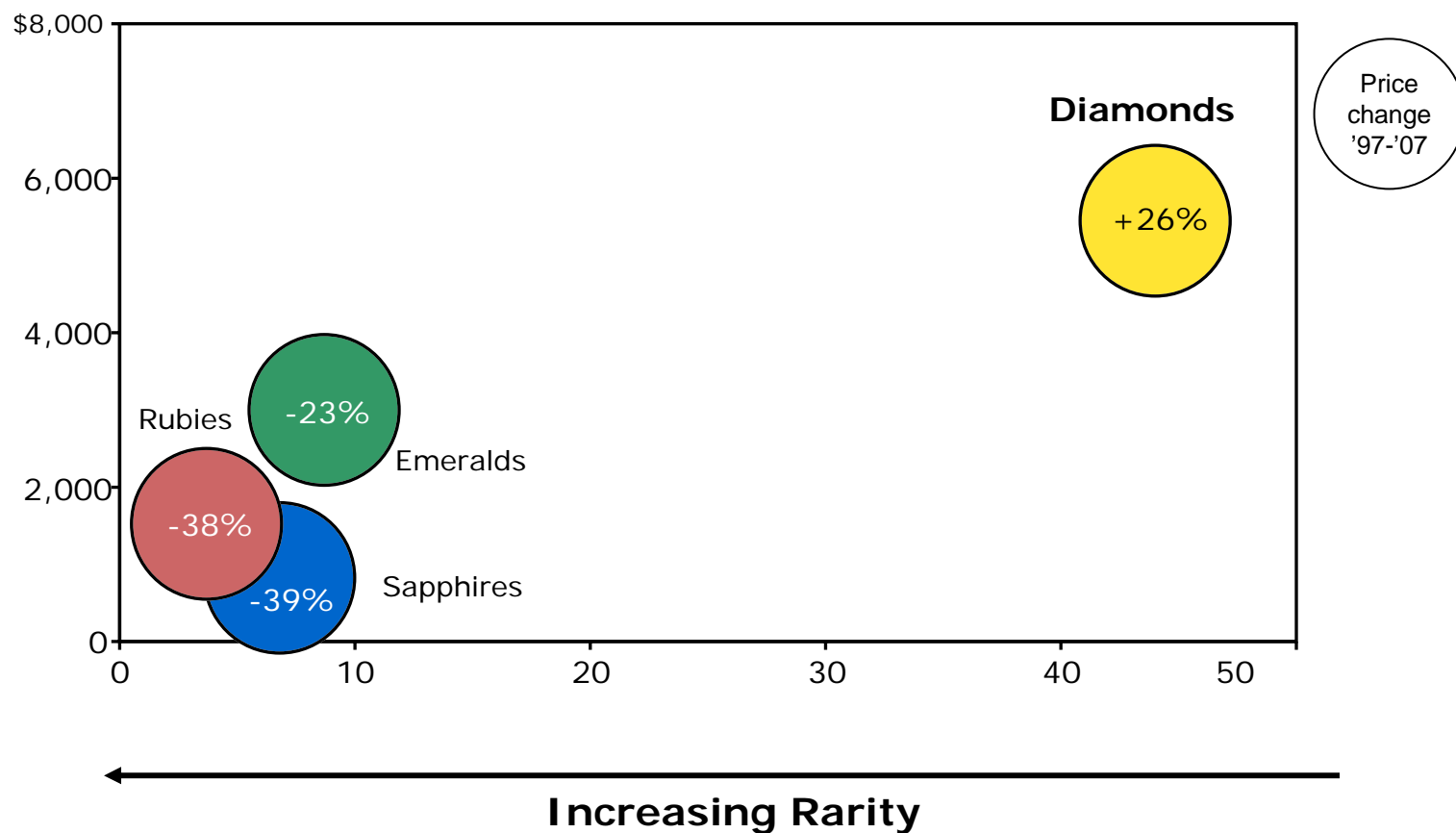
Demand sources for Diamonds, Gold and Platinum - 2008



Source: De Beers Group analysis; World Gold Council Gold Demand Trends, February 2009; Angloplat 2008 Annual Report, page 20.

# Marketing and distribution is key to driving value

Price per carat in 2007 (polished stones)



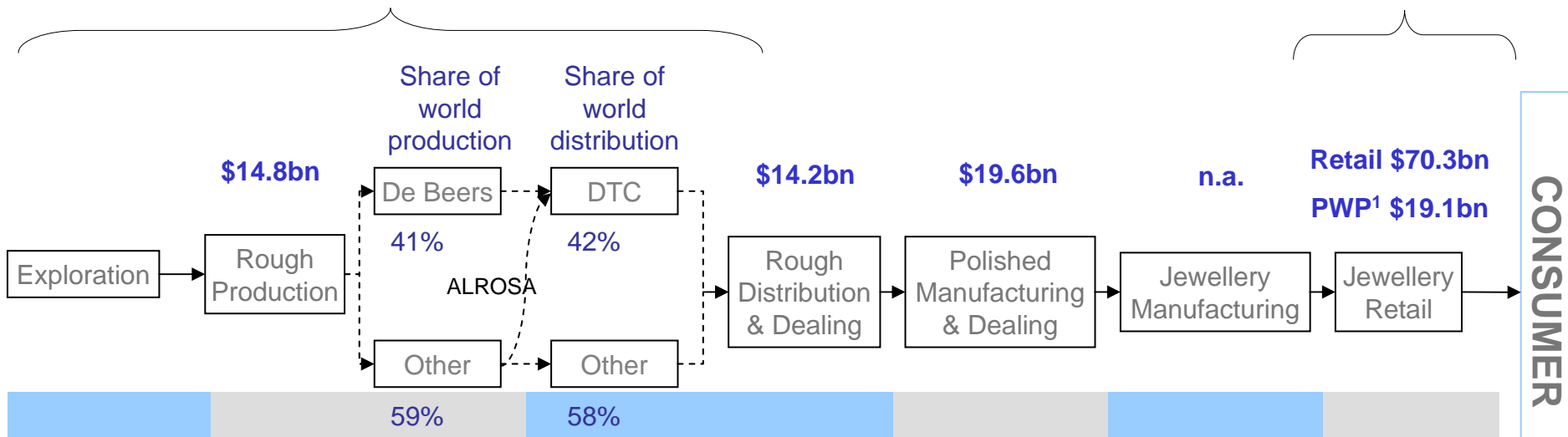
Note: Data is for the USA – world's largest gemstone market; Prices are for 1-carat stones  
Source: US Geological Survey; The Guide (Prices); DTC (volume)

# Diamond value chain

## 2008 Diamond Pipeline

De Beers as market leader

De Beers as participant



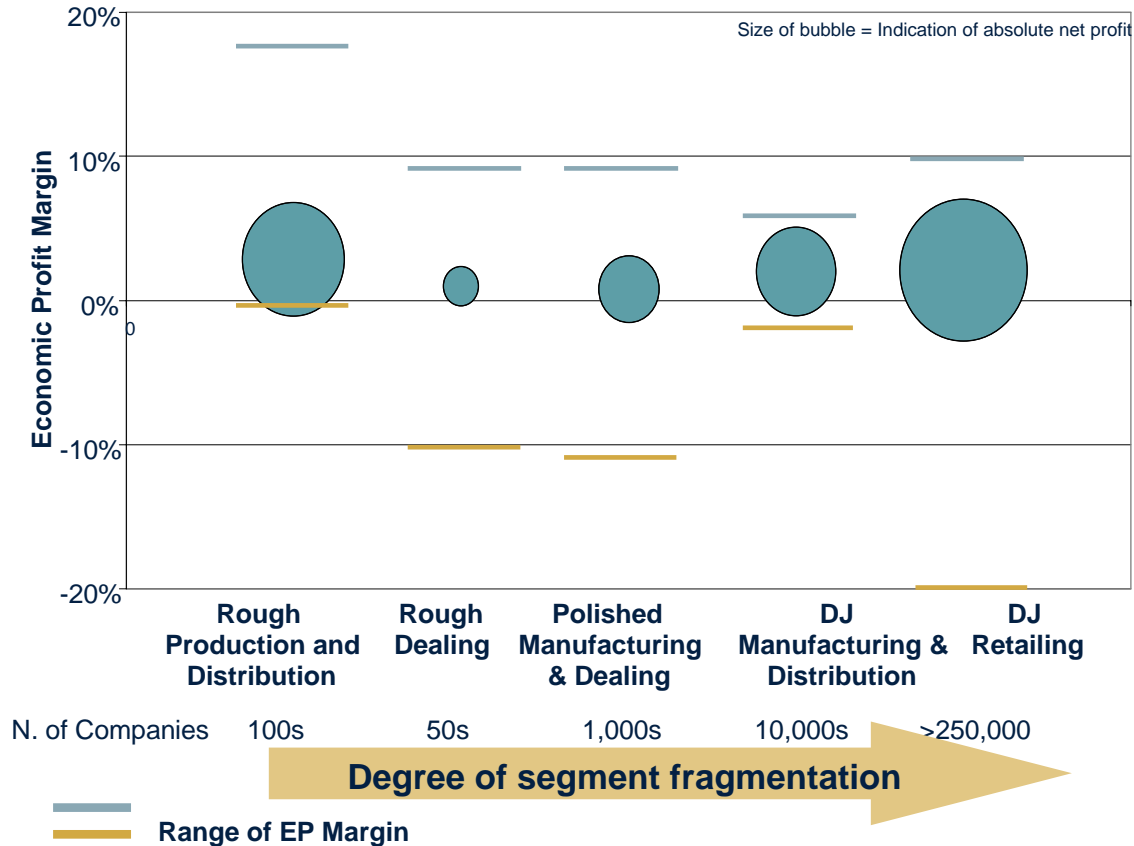
### Description

- Finding new deposits of diamondiferous kimberlites that can be mined economically
- Carats recovered through mining
- Rough Distributor – selling rough diamonds purchased from primary source
- Rough Dealer – trades diamonds purchased from rough distributors or other rough dealers
- Cutting and polishing rough diamonds ready for inclusion into jewellery
- Crafting jewellery which incorporates polished diamonds
- Selling diamond jewellery to end consumers

Note 1: PWP is the price of a polished diamond at Cutting Centre before any additional mark-ups. It denotes the diamond content of a piece of diamond jewellery sold at retail. Source: DB Group Strategy estimates.

# Diamond pipeline profitability

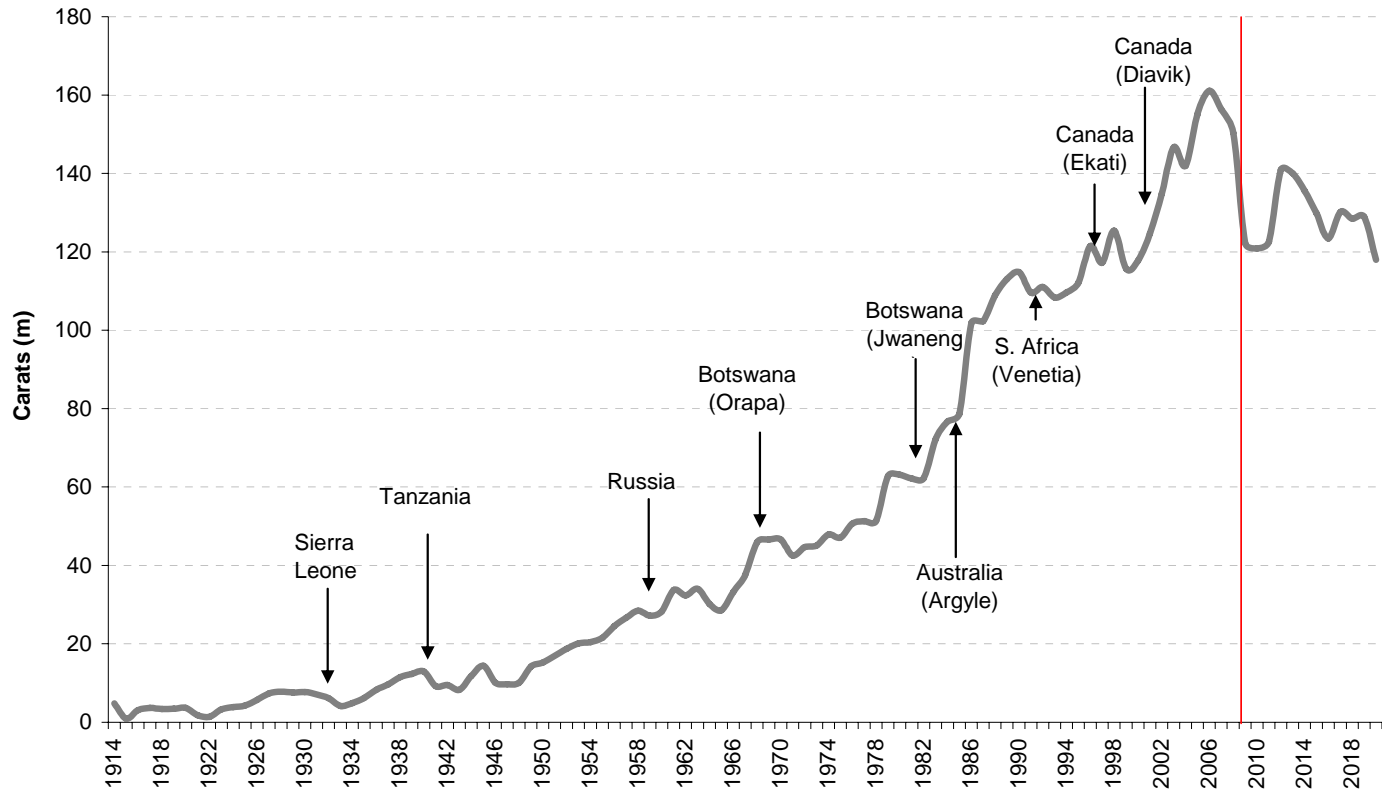
## Estimated pipeline profitability



- Rough production and distribution and diamond jewellery retail produce the largest profit pools in the pipeline
- However, in retail:
  - Profit margins are variable (reflecting different business models and risks)
  - Profit pool is shared by a highly fragmented base (est. 250,000+ retailers globally)

Source DB estimates 2007

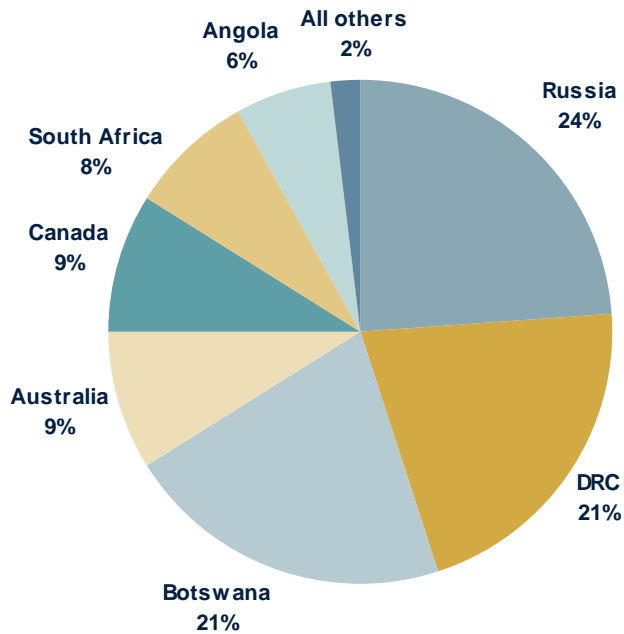
# World Production Growth



No new material production is expected to come online in the near future

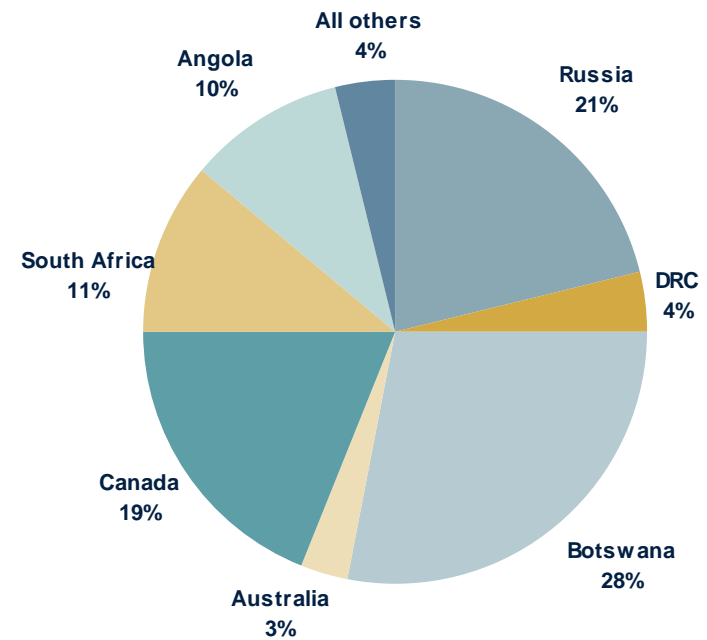
*Botswana is the largest producer of rough diamonds globally*

Gem diamond production by country (volume)



Total 150mcts

Gem diamond production by country (value)



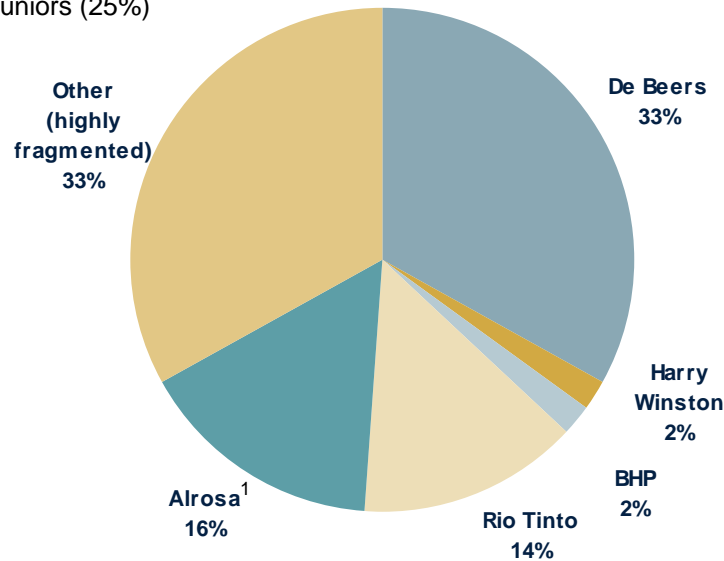
Total US\$14.8bn

Sources: Kimberley Process 2008 Statistics; De Beers Group Strategy

De Beers share of global gem diamond production is estimated at c.40% by value

Gem diamond production (carats)

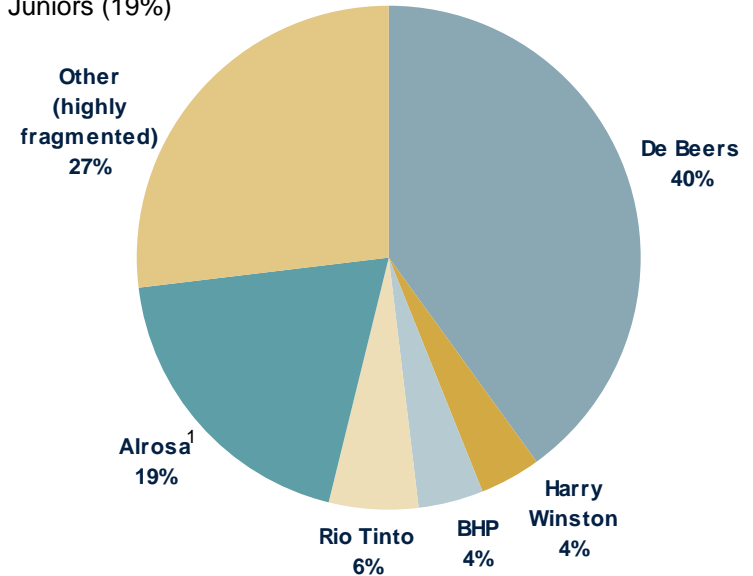
Other (fragmented) includes:  
Artisanal & Illicit (8%)  
Juniors (25%)



Total 150mcts

Gem diamond production (value)

Other (fragmented) includes:  
Artisanal & Illicit (8%)  
Juniors (19%)

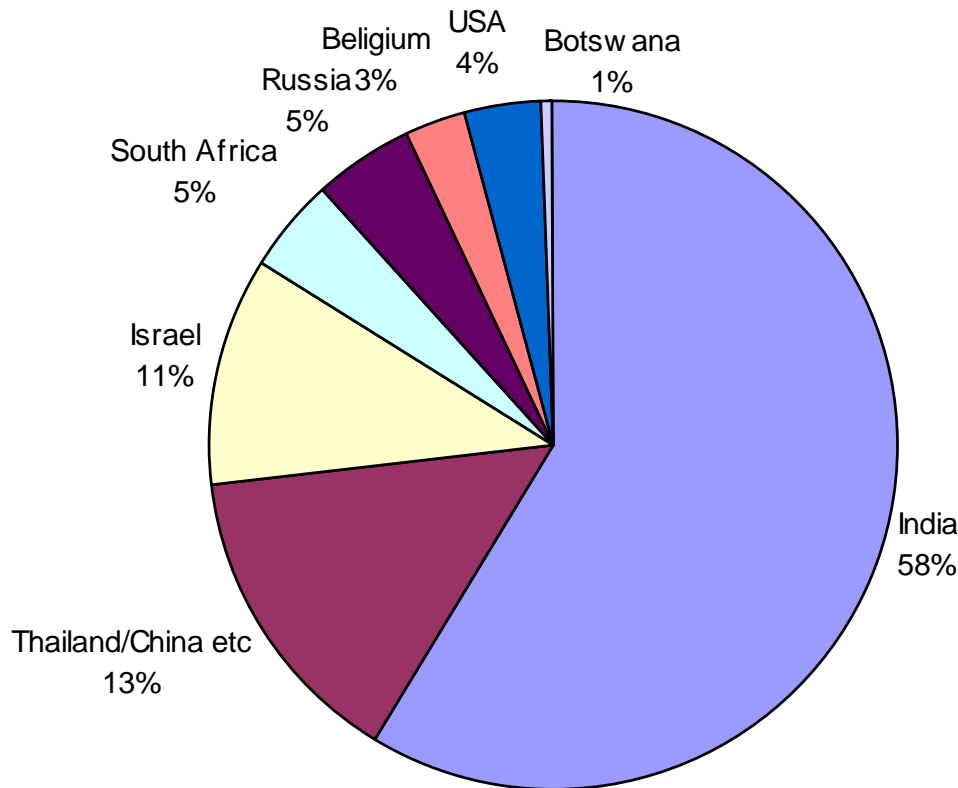


Total US\$14.8bn

- The five largest producers contribute over two-thirds of global diamond production
- De Beers and Alrosa contribute c.60% of global production by value

India is the largest cutting centre by value and number of employees

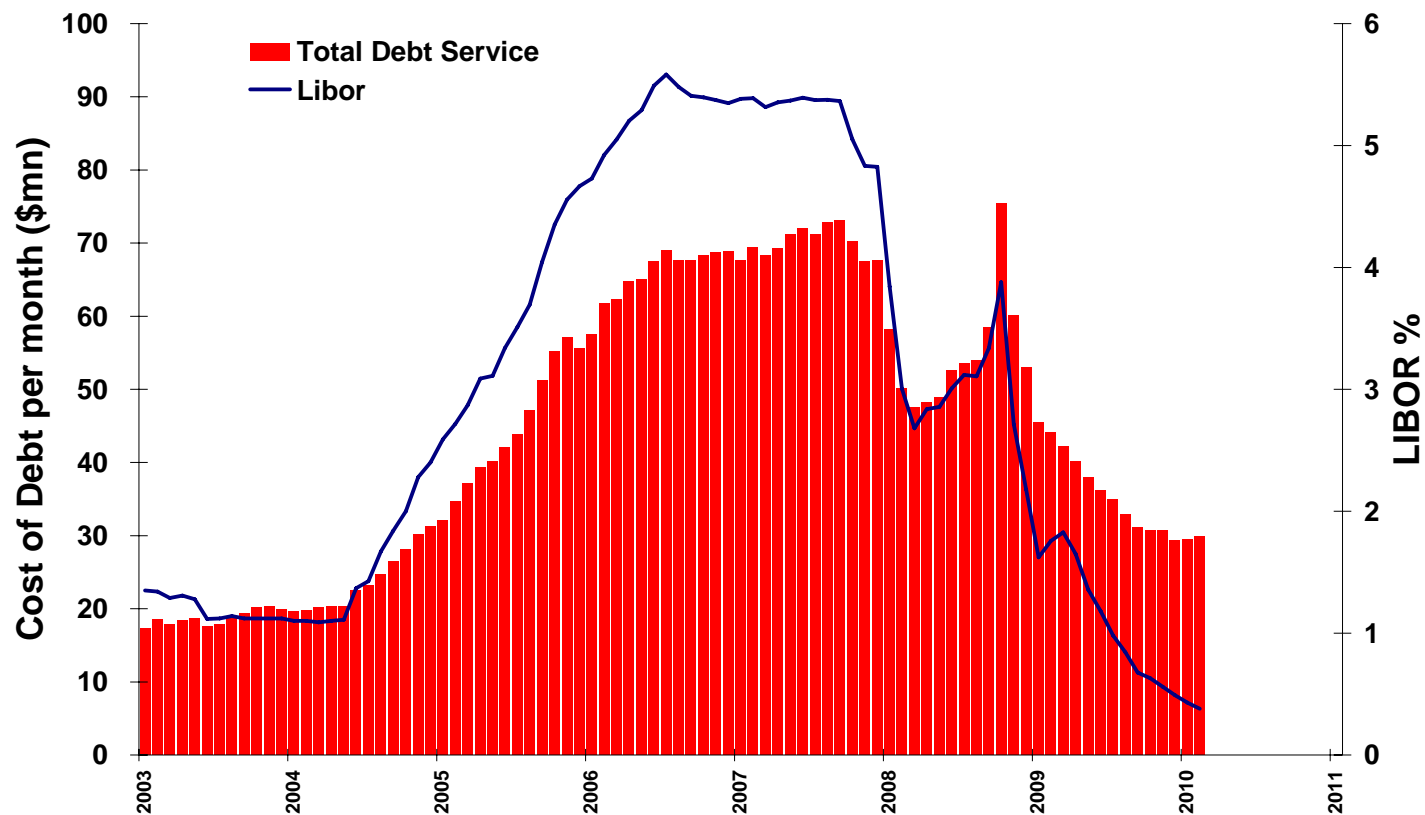
Share of Cutting Value by Country



Cutting Centre	Workforce	Average Manufacturing Cost
India	850,000	6-50
China/Thailand	29,000	15-35
Israel	2,000	50
South Africa	1,800	75
Belgium	1,000	75

Source: De Beers 2008 Estimates

# Cutting Centre Debt Levels



Source: DTC Estimates

# De Beers Activities

DE BEERS  
A DIAMOND IS FOREVER

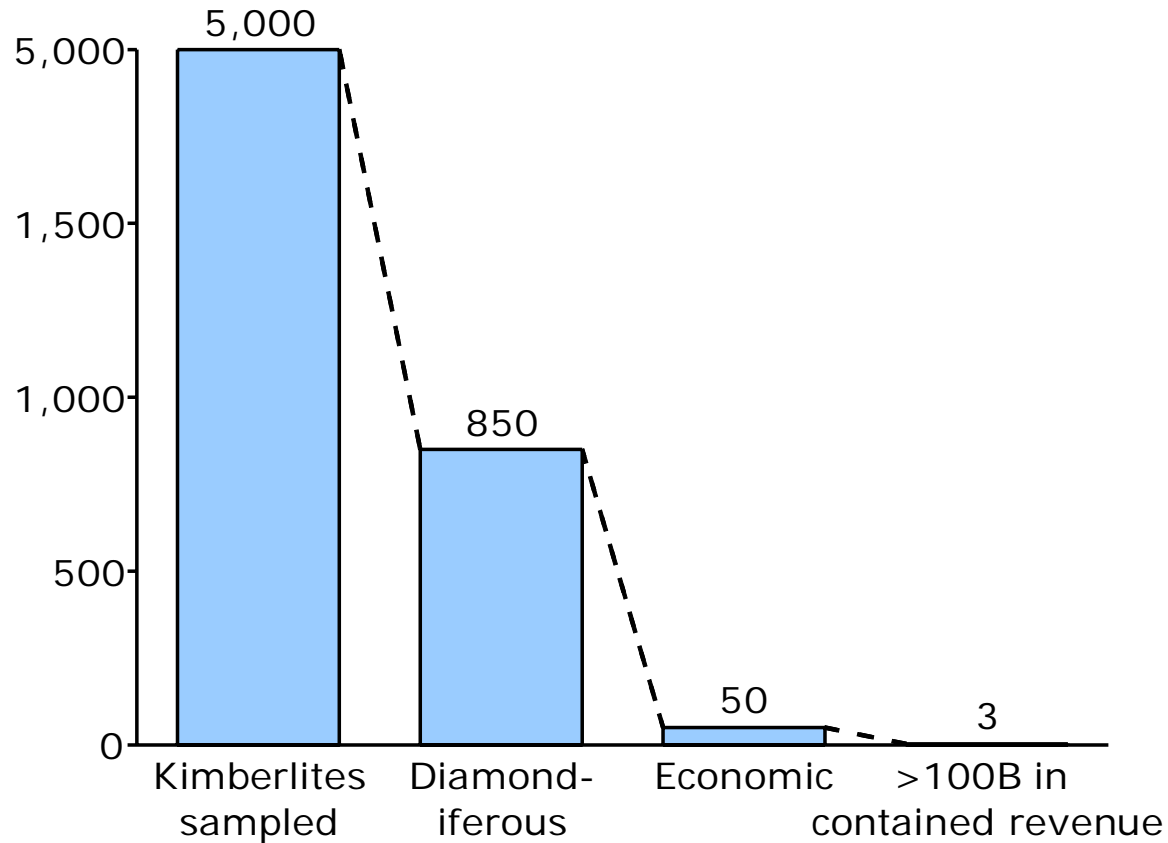


## Business locations



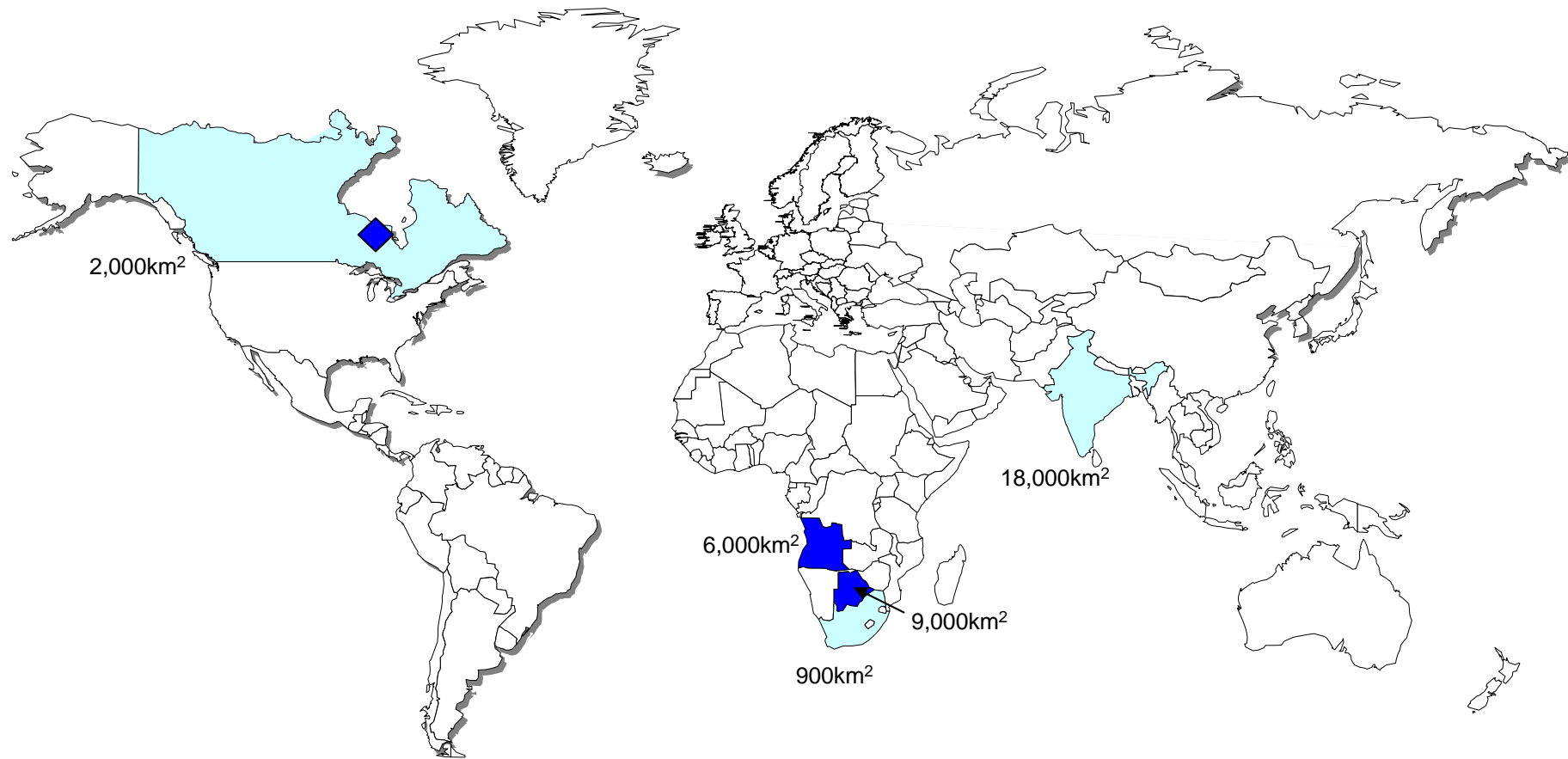
# Diamond exploration challenge

Diamond exploration results from the last 140 years



Source: De Beers Exploration data

# Focused exploration



- Early Stage (recce-discovery)
- Advanced Stage (deposit)

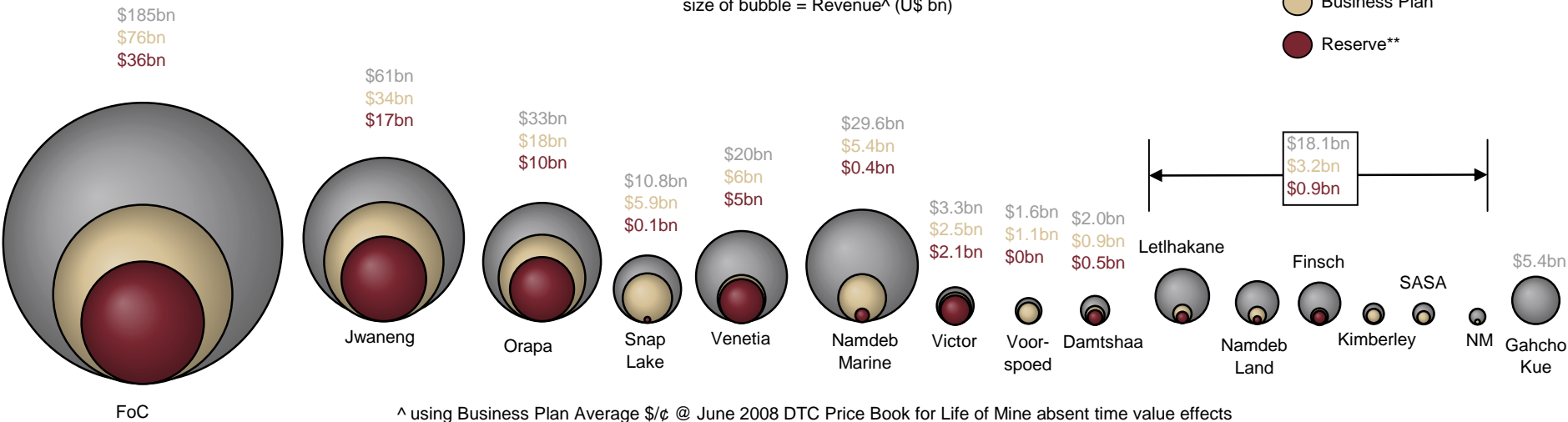
**Total De Beers Exploration Spend (\$mm)**

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
70	66	73	68	77	90	109	108	129	94	46

## The SSV Value<sup>^</sup> of The De Beers Family of Companies' Resources\*, Business Plan and Reserves\*\* as at 31/12/09

size of bubble = Revenue<sup>^</sup> (US\$ bn)

- Resource\*
- Business Plan
- Reserve\*\*



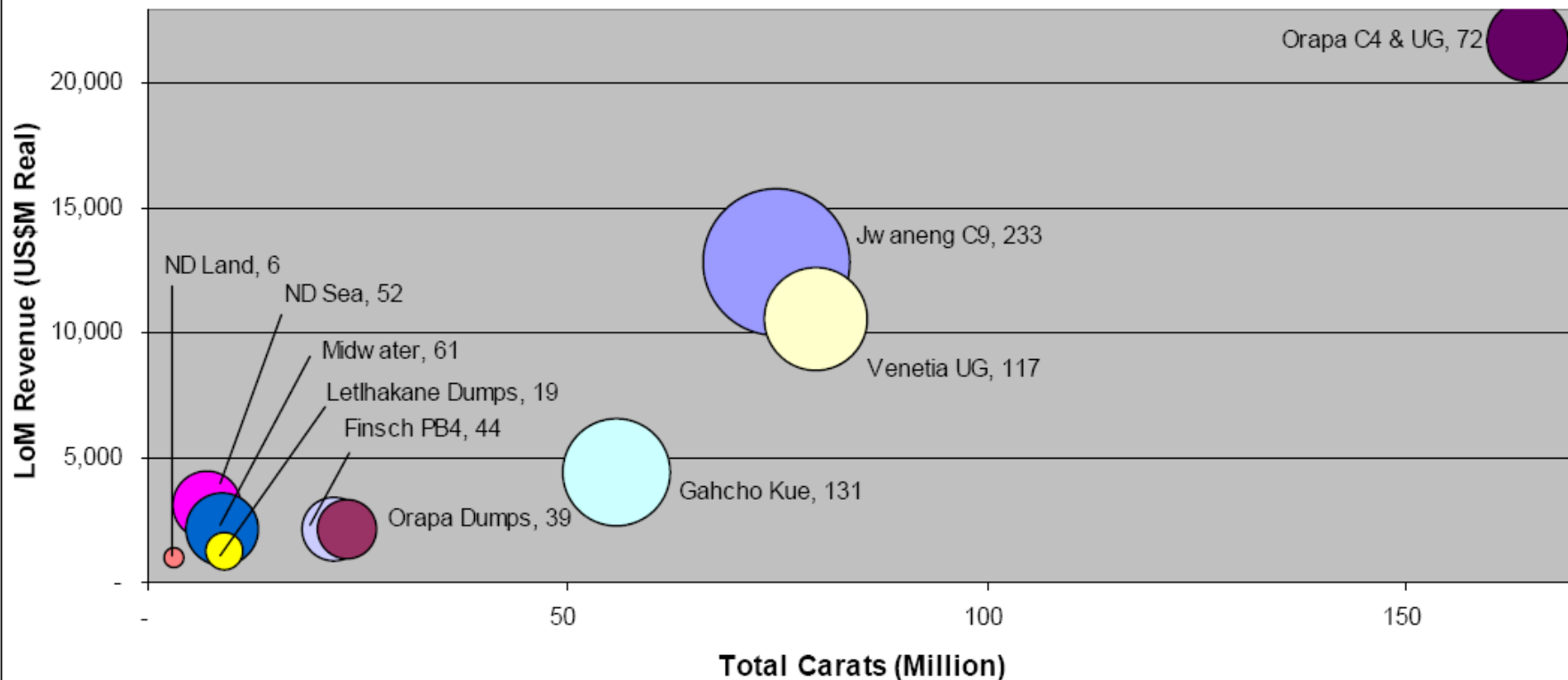
<sup>^</sup> using Business Plan Average \$/¢ @ June 2008 DTC Price Book for Life of Mine absent time value effects

\* Resource ¢ x Business Plan average \$/¢

\*\* Reserve ¢ x Business Plan average \$/¢

## GRAPH 1: INTRINSIC RESOURCE VALUES

(Bubble size and number after project name = US\$ per Tonne Revenue (FSV))



1. Industry Overview & De Beers Introduction

**2. 2009 Operating & Financial Review**

3. 2010 & Beyond

4. Venetia Overview

# Financial Summary

## Financial summary 2004 - 2008

Y/e December - \$m	2004	2005	2006	2007	2008
Sales					
DTC	5,695	6,539	6,150	5,920	5,930
Other	717	732	745	786	768
Total sales <sup>1</sup>	6,412	7,271	6,895	6,706	6,698
EBITDA	1,317	1,403	1,232	1,216	1,222
Underlying earnings	652	850	425	483	515
Cash generated by operating activities	985	472	809	844	700
Capital expenditure	416	638	752	1,612	442
Total assets <sup>2</sup>	6,258	6,846	7,599	8,381	7,093
Shareholders' interests	3,933	3,701	3,834	3,392	2,628
Gross debt					
Third party	1,339	2,175	3,037	4,075	3,622
Shareholder preference shares	642	428	214	161	107
Shareholder loans	-	-	-	-	248
Cash	393	241	307	179	177
Net debt	1,588	2,362	2,944	4,057	3,800

Drop in consumer demand



Constricted liquidity



Inventory overhang

# Maximise demand opportunities: DTC

## DTC Sales

US dollar millions

	H1	H2	2009	2008
DTC Sales	1,431	1,809	<b>3,240</b>	5,930

- Protecting diamond equity
- Selling flexibility
- Liaison with diamond banks and trade to bolster confidence
- Increased price and volume of sales as year progressed



# Produce in line with client demand

## Carats recovered: 2009 vs 2008

	2009	2008	Variance
DBCM	4 797	11 960	
Namdeb	929	2 122	
Debswana	17 734	32 276	
De Beers Canada	1 146	1 640	
Carats 000's	<b>24,600</b>	48,132	(49%)



# Create operating efficiencies

## Global headcount: 2009 vs 2008

	2009	2008	Variance
Headcount	<b>15,814</b>	20,464	(23)%

- Undertook a programme of de-layering and decentralisation
- Identified synergies across company
- Efficiencies are part of *new normal* way of operating



# Income Statement

## Income Statement (US\$ millions)

	H1 2009	H2 2009	Total 2009	Total 2008
Total sales	1,711	2,129	<b>3,840</b>	6,888
Gross profit	123	204	<b>327</b>	1,363
Gross profit %	7%	10%	<b>9%</b>	20%
EBITDA	297	357	<b>654</b>	1,222
Interest	98	127	<b>225</b>	240
Tax	48	77	<b>125</b>	304
Impairment of Canadian mining assets	0	696	<b>696</b>	0
Underlying (loss) earnings	(164)	(56)	<b>(220)</b>	515

# Cost Savings

<b>Savings (US\$ millions)</b>					
	<b>H1 2009</b>	<b>H2 2009</b>	<b>Total 2009</b>	<b>Total 2008</b>	<b>Savings</b>
Production costs	326	399	<b>725</b>	1,224	<b>499</b>
Operating overhead costs	153	249	<b>402</b>	817	<b>415</b>
Capex	86	95	<b>181</b>	403	<b>222</b>
<b>Total</b>	<b>565</b>	<b>743</b>	<b>1,308</b>	<b>2,444</b>	<b>1,136</b>

# Balance Sheet – Pre-Equity Injection

## Balance Sheet (US\$ millions)

	2009	2008
Fixed assets	2,795	3,100
Shareholder loans	759	248
Other net interest bearing debt	3,200	3,552
Cash	(751)	(147)
Preference Shares	107	107
Bank borrowings	3,844	3,592
<b>Net Current Assets</b>	<b>1,118</b>	<b>1,060</b>

<b>Cash Flow (US\$ millions)</b>				
	H1 2009	H2 2009	Total 2009	Total 2008
Cash (consumed by) / available from operating activities	(31)	257	226	700
Cash utilised in investing activities	95	96	191	442
<b>Free Cash flow</b>	<b>(126)</b>	<b>161</b>	<b>35</b>	<b>258</b>
<i>Less: Financing Activities</i>				
Dividends (including outside shareholders)	74	31	105	358
<b>Cash flow</b>	<b>(200)</b>	<b>130</b>	<b>(70)</b>	<b>(100)</b>
Shareholder Loans	553	0	553	264
Non cash movements (forex)	(130)	(1)	(131)	341
<b>Decrease in net interest bearing debt</b>	<b>223</b>	<b>129</b>	<b>352</b>	<b>505</b>

1. Industry Overview & De Beers Introduction
2. 2009 Operating & Financial Review
- 3. 2010 & Beyond**
4. Venetia Overview

# De Beers Activities

DE BEERS  
A DIAMOND IS FOREVER



# 5 Strategic Levers

## Secure De Beers **leadership position**

Strategic Lever 1	Strategic Lever 2	Strategic Lever 3	Strategic Lever 4	Strategic Lever 5
Sustainably maximise value for rough diamonds	Operate, optimise and invest in superior mines	Invest in value-creating downstream opportunities	Continually identify and embed cost and efficiency gains	Invest in and protect De Beers FoC reputation and diamond equity

			<p>Sales</p> <p>Costs</p> <p>EBITDA</p> <p>Free Cash Flow</p>	<p>Build relationships</p> <p>Protect reputation</p> <p>Drive org effectiveness</p> <p>Communicate effectively with all stakeholders</p> <p>Retain / attract best talent</p>
---	--	---	---	--

**Safety of our people & security of our product**

## Strategic Lever 1

### Sustainably maximise value for rough diamonds



Maximise price for production while assisting in the creation of viable downstream industries in producing countries



Build upon beneficiation success during new contract period



Build upon beneficiation success during new contract period



Maximise current opportunities in selling to non-Sightholder community and explore new opportunities

## Strategic Lever 2

### Operate, optimise and invest in superior mines



- Progress advanced exploration work in Angola and at Victor (Canada).
- Operational cost containment and strategic business plans .
- DebTech to progress new technology for the Gahcho Kue feasibility study



- Finalise operations review across Debswana and ensure Cut 8 is delivered on time and below budget



Maximise value of land and sea operations



Achieve the new mining plan for Snap Lake, while optimising current resource and completing resource extension project at Victor



- Enhance cash flow, especially at Venetia Mine.
- Agree solution with the State Diamond Trader
- Optimise Voorspoed ramp up
- Identify assets for disposal/sale

## Strategic Lever 3

### Invest in value-creating downstream opportunities

FOREVERMARK



Determine the brand vision and consumer proposition, and agree commercial expansion strategy

elementsix.

- Deliver strong growth and margin expansion across abrasive businesses and E6 market share gains.
- Successfully commercialise focused portfolio of unique new Technologies for diamonds

DE BEERS

Drive Organisational upgrade and focus on new collections, pricing, and retail performance / store productivity

## Strategic lever 4

### **Cost efficiencies**

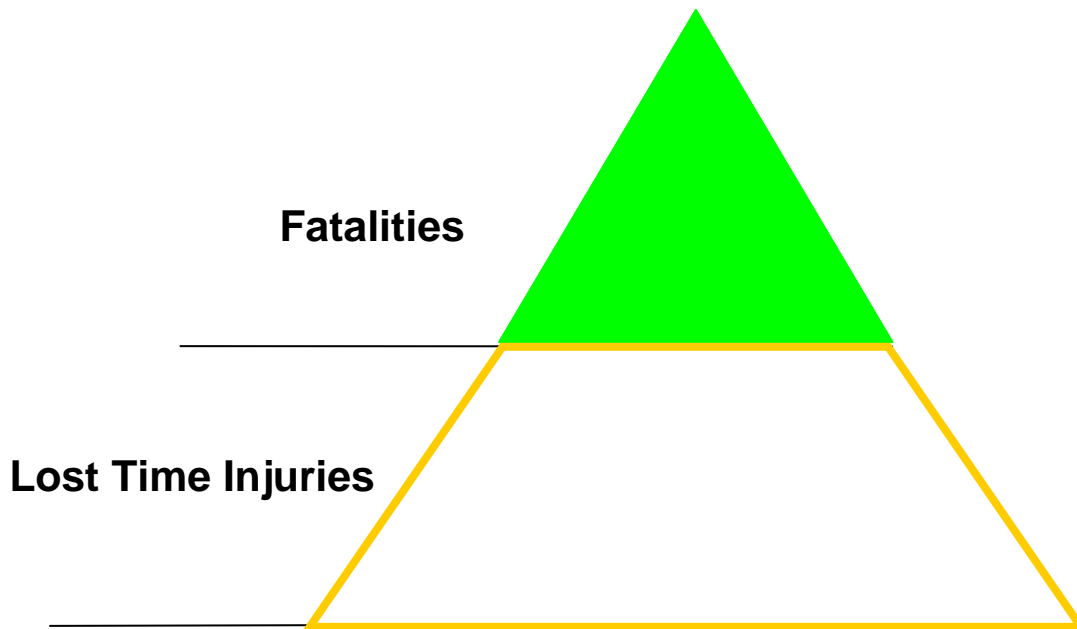
Cost of production improvement. Focus on cost per ton mine and cost per ton treated

Security of product

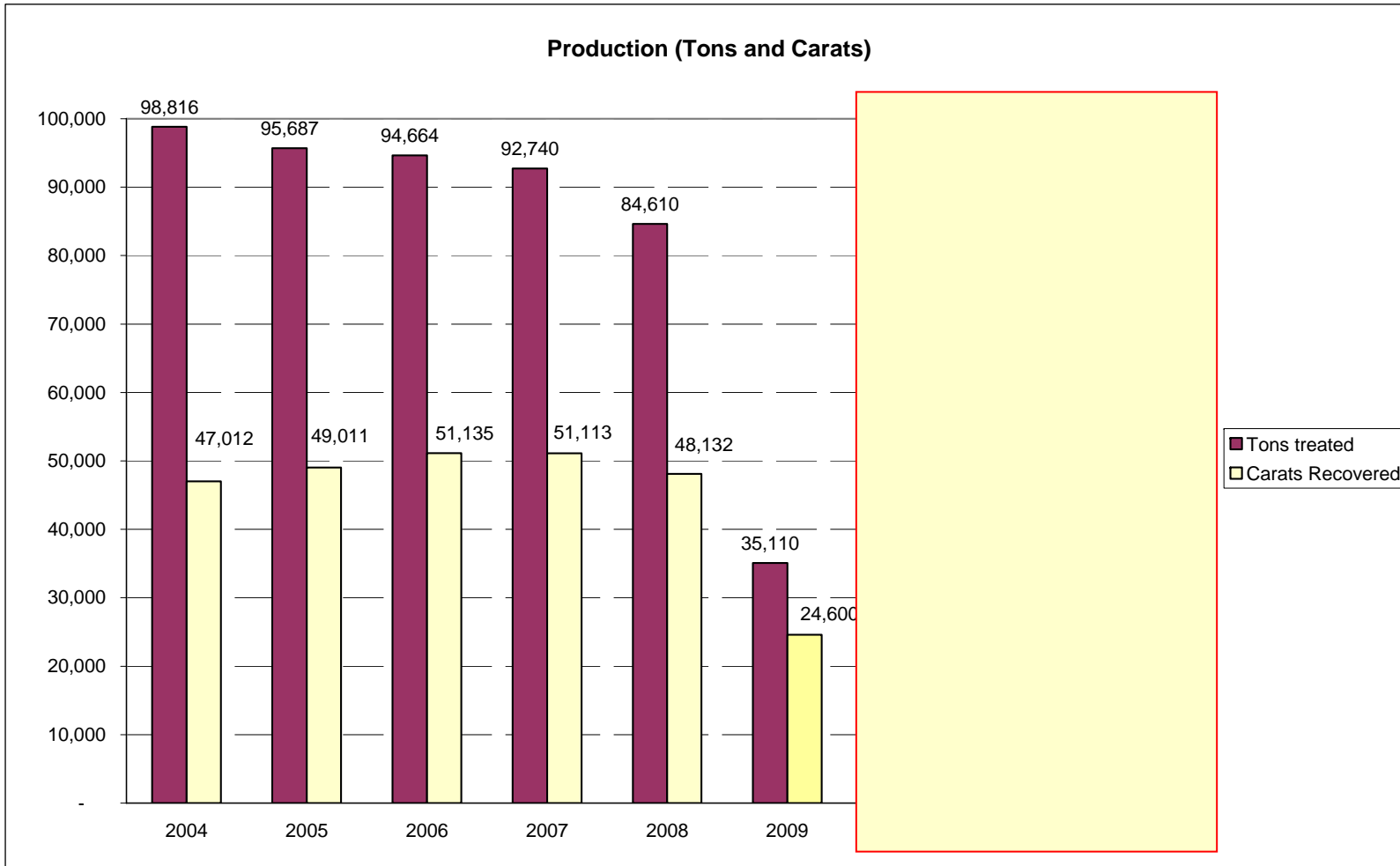
Capital efficiencies and new project build

Exploration and rapid deployment plant

# Safety remains our number 1 priority



# Increasing production in 2010



# De Beers – Industry leader

DE BEERS  
A DIAMOND IS FOREVER



FOREVERMARK



Mining Leader

Marketer & Distributor Leader

Leading Employer

Diamond Technology Leader



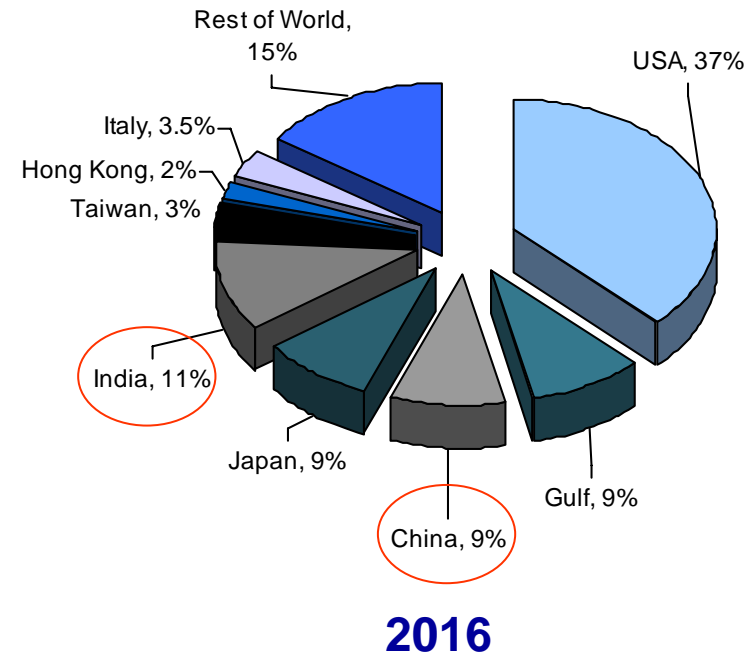
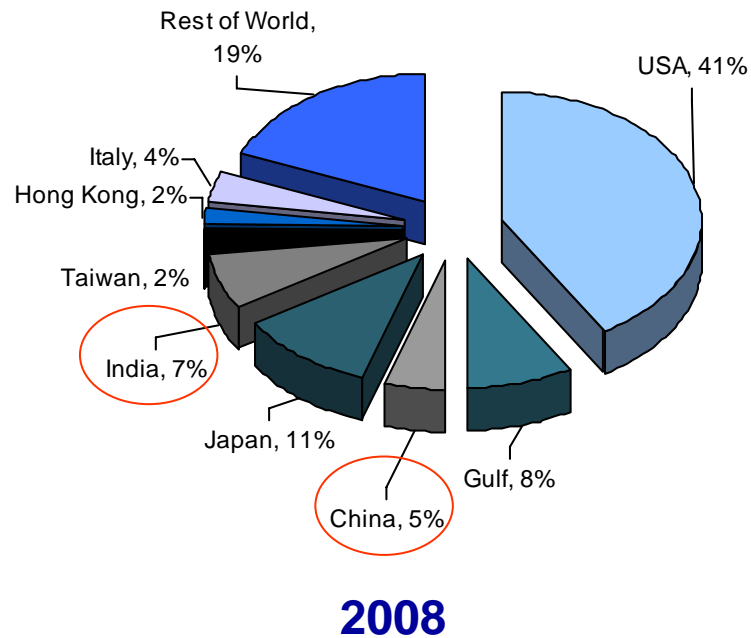
## 2009 Diamond Jewellery Sales Growth %

Market	DJ Retail Growth %		
	2009		2008
	LC Retail	USD PWP	USD PWP
USA	-5% to -7%	-7% to -9%	-10%
Japan	-10% to -13%	Flat to -4%	-5%
India	+12% to 14%	+0.5% to 2.0%	+8%
China (Shanghai/ Beijing only)	+12% to 14%	+15% to 17%	+19% (China)
<b>World Growth Trend</b>		<b>-3.0% - -4.0%</b>	<b>-3.5%</b>
<b>Total Estimated World PWP</b>		Approx. \$18bn	Approx. \$19bn

- ➔ Overall result slightly above De Beers' own forecasts due to better than expected performances in China and India + favourable exchange rates in Japan (and Europe)
- ➔ US market results reflect the impact of the worst economic recession experienced since the end of WWII – but results improved steadily throughout the year

Source: De Beers commissioned studies; Group Strategy analysis

## China and India promise to be the next engines of growth for the industry

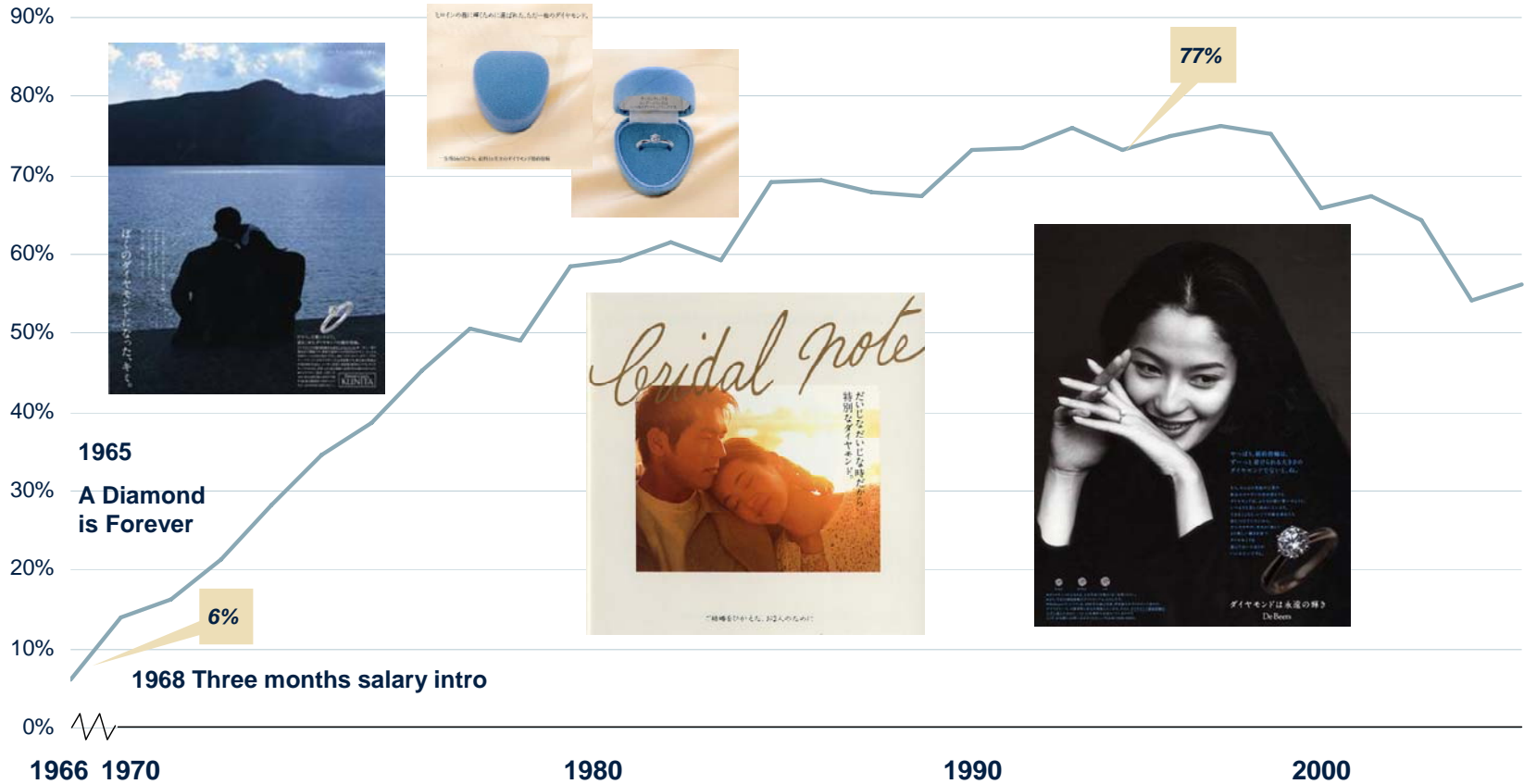


Source: De Beers Estimates

Note: Excludes currency effects

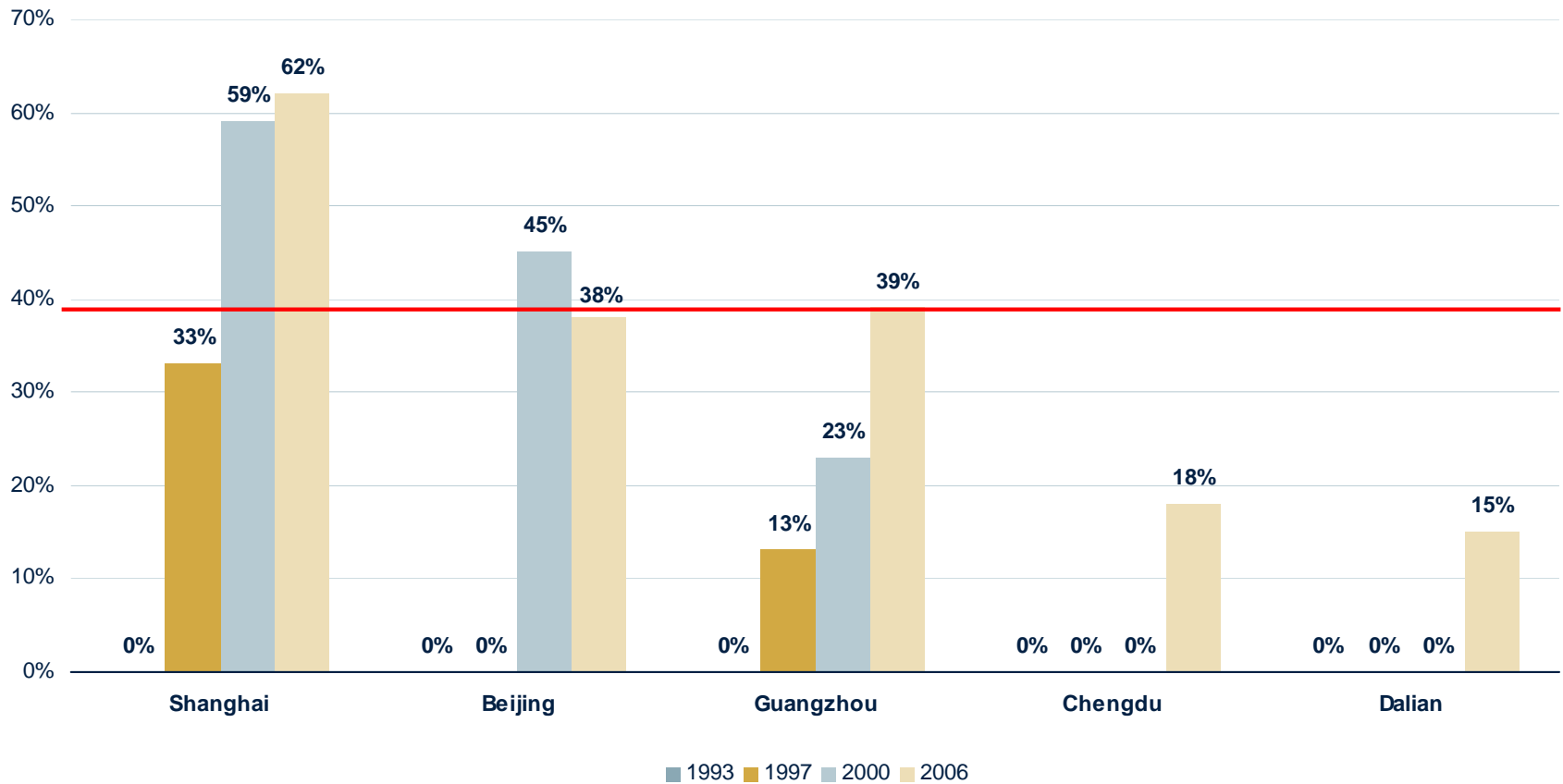
# Creating a market for diamonds in Japan...

Japan market growth (% new brides who receive diamond only engagement rings)

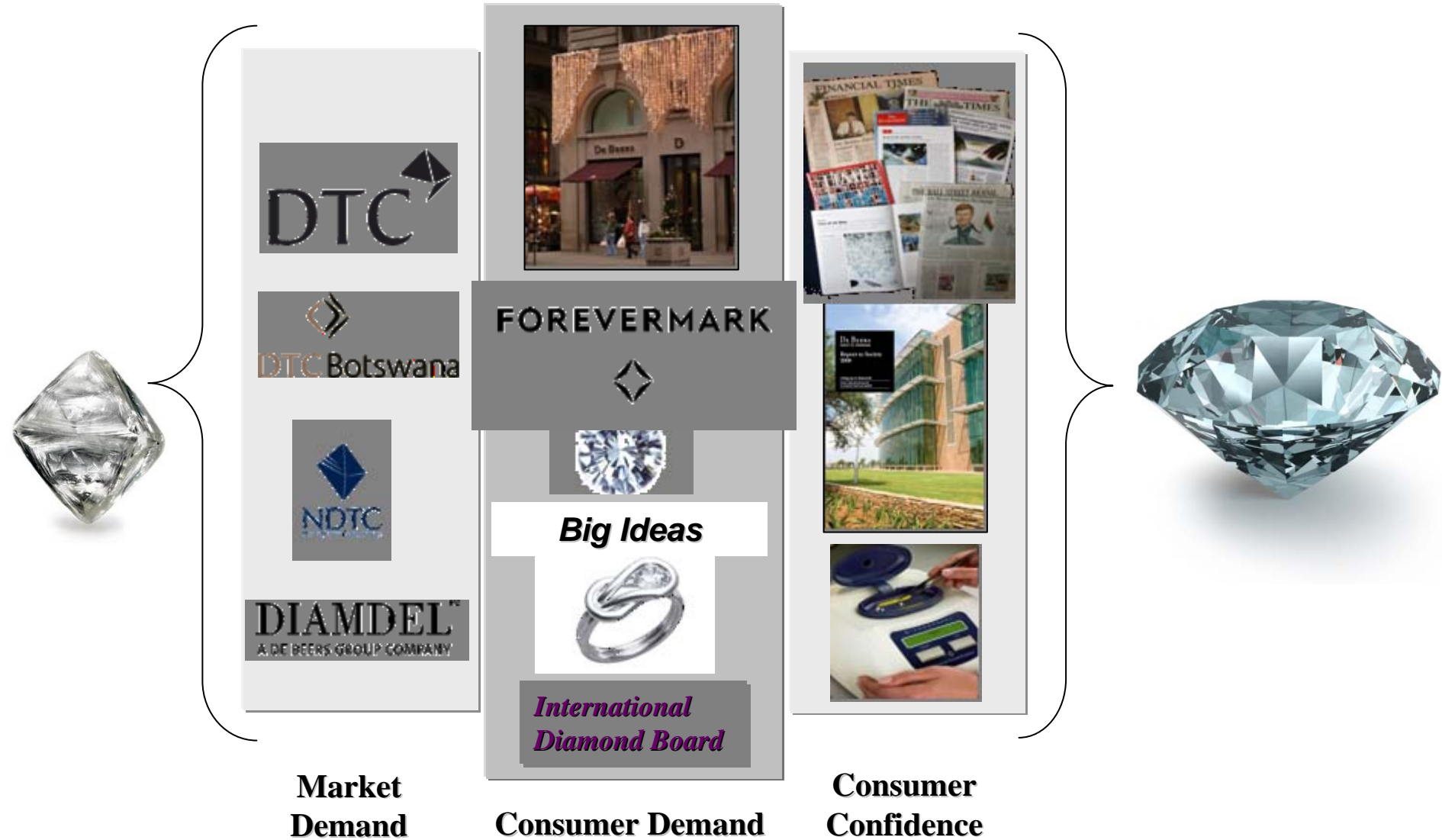


# ...and more recently in China

China DER (Diamond Engagement Ring) acquisition rate



# World class capabilities to distribute and market our diamonds



# Summary (1/2)

- Diamonds are a luxury product – competing directly with other discretionary items for share of wallet. As such, Marketing is key to driving value
- The industry pipeline is global in nature and covers exploration, mining, rough diamond distribution, polished manufacturing and wholesale, jewellery manufacturing and wholesale and jewellery retail
- The largest profit pools in the industry are at rough diamond production and distribution, and at diamond jewellery retail
- Rough production and distribution has been the most attractive segment in normal times given the relative concentration of this upstream segment compared to the high fragmentation of retail
- No material new production is expected in the near future
- Botswana and Russia are the largest diamond producers by value; De Beers Group and Alrosa the largest companies
- India is the largest cutting centre by value and number of employees



# Summary (2/2)

- De Beers operates in the most profitable areas of the pipeline and in Exploration, its engine for growth in the upstream segment – with a world class portfolio of mines and an unrivalled resource base
- Its selective distribution system and marketing activities support diamond jewellery demand and equity
- From Q4 2008, simultaneous shocks in liquidity, consumer demand and high polished inventory affected rough demand and prices
- De Beers reacted promptly to the crisis by implementing aggressive production and cost cutting, capital reduction and other measures to ensure sustainable future growth
- De Beers strategy aims at securing De Beers leadership position in future



[DeBeersGroup.com/ofr2009](http://DeBeersGroup.com/ofr2009)