

DE BEERS
A DIAMOND IS FOREVER

Living up to diamonds

OPERATING AND FINANCIAL REVIEW 2006



Highlights

- ◆ The De Beers family of companies made firm its commitment to report publicly on its contribution towards sustainable development through the publication of “Living up to diamonds”, our Report to Stakeholders.
- ◆ De Beers sold 26% of the equity in De Beers Consolidated Mines at a price of R3.7 billion (US\$604.8 million) to the Black Economic Empowerment group Ponahalo Holdings. This exceeded the South African Mining Charter requirement for 2009.
- ◆ The Government of the Republic of Botswana (hereafter referred to as the Government of Botswana) and De Beers signed a definitive agreement for the renewal of a 25-year mining licence for the Jwaneng mine and agreed licence extensions for all other Botswana mines in the portfolio until 2029. Furthermore, both parties agreed to establish a 50/50 joint venture, Diamond Trading Company Botswana.
- ◆ The Government of the Republic of Namibia (hereafter referred to as the Government of Namibia) and De Beers signed a definitive agreement for the extension of the DTC sales contract period for a further eight years and, furthermore, to establish a 50/50 joint venture, Namibia Diamond Trading Company.
- ◆ De Beers continued to invest extensively in exploration activities globally, focusing particularly on Angola, Botswana, Canada and the Democratic Republic of the Congo.
- ◆ The De Beers family of companies achieved record production levels of 51 million carats, up from 49 million carats in 2005.
- ◆ DTC sales reached US\$6.15 billion, the second highest figure ever achieved.
- ◆ Element Six recorded a strong year with sales increasing some 16%, improving the company's contribution to De Beers earnings.
- ◆ De Beers Diamond Jewellers recorded sales in excess of US\$100 million and opened new stores bringing the worldwide total to 15.

Financial summary – full year

	US\$ millions		
	2006	2005	% change
EBITDA	1 232	1 403	-12%
Net earnings	730	554	+32%
Underlying earnings	425	850	-50%
Cash available from operating activities	809	473	+71%
Capital expenditure – expansion	949	370	+156%
Gearing	38.7%	34.5%	

Contents

Chairman's introduction	2
Managing Director's review	4
Financial highlights	6
Consolidated income statement	7
Consolidated balance sheet	8
Cash flow information	8
Notes to tables	9
Operating highlights	10
Production statistics	10
Debswana	11
Namdeb	12
De Beers Consolidated Mines	13
De Beers Canada	14
Williamson Diamonds	15
Diamond Trading Company	16
Independent investments	17
Exploration	18
Governance	20
Report to Stakeholders	26
Purpose, Vision, Values and Principles	28





Chairman's introduction

The year has been challenging for De Beers, but it will be remembered as one in which each constituent element of the family of companies took concrete steps towards building a competitive and robust future for the De Beers family.

While dividends to shareholders have halved and earnings are down, the cost of capital expansion rose from US\$370 million in 2005 to US\$949 million in 2006, thus providing stakeholders with a firm message: De Beers is investing in the future and positioning itself for growth by focusing resources on those mines and exploration activities that are right for De Beers and right for our long-term commitment to the diamond industry.



Building trust

In 2006, the De Beers family of companies formalised its commitment to report publicly on the contribution it makes towards sustainable development with the publication of "Living up to diamonds", our Report to Stakeholders. This marked a seminal moment in the history of De Beers and is a good example of transparency appropriate for an industry leader. Our commitment was recognised by the multi-stakeholder governed Global Reporting Initiative as achieving the highest level of corporate reporting – an A+ application of the G3 sustainability reporting guidelines.

Central to our quest for profitability is our commitment to be fully accountable to all those upon whom our activities impact. Diamonds are one of nature's most unique and fascinating products. Around the world they are symbols of love, status and appreciation, and are used to mark life's great occasions and to reward personal achievement. Diamonds should also be properly acknowledged for the great benefits they bring to the nations, communities and people where they are found, as long as they are mined responsibly. They also contribute essential revenues to governments in countries with regulated formal mining activities. This revenue helps to transform for the better the lives of citizens by advancing local economies, providing access to healthcare, promoting education and driving employment.

Where alluvial diamond deposits are concentrated, they can be mined on an industrial scale. However, most alluvial diamond deposits are spread out across wide geographic areas and are not economically viable to be mined industrially. These deposits are mined informally, in a non-regulated, poorly organised way. Neither governments nor local communities benefit sufficiently from diamonds produced in this manner. Artisanal alluvial diggers often do not receive fair prices for their stones nor governments their fair share through taxes. This limits the ability of governments to invest in essential development.

De Beers is involved only in formal, fully regulated industrial-scale mining, but we believe that the industry needs to address the economic, social, environmental and development issues raised by the informal sector. To that end, we are engaged in multi-stakeholder partnerships such as the Kimberley Process, the Diamond Development Initiative and the Tanzanian project, the Mwadui Community Diamond Partnership. The diamond industry depends on the confidence and trust of the ultimate consumer – it is our responsibility to earn that trust.



Shaping the future

De Beers believes in promoting and participating in partnerships. They are the foundation of our relationships with governments, customers, employees, civil society and other stakeholders in our business.

In 2006, De Beers took the historic and groundbreaking step of offering for sale a 26% equity interest in De Beers Consolidated Mines Limited (DBCM) to Pannahalo Holdings – half of this stake being owned in equal portions by all DBCM employees and pensioners of the company, for these are the people who have made DBCM great. This deal has now been concluded and the results have proven beneficial both to the core business and to the broad-based community that it represents.

Of significant note also in 2006 was the signing of agreements between De Beers and both the Government of Botswana and the Government of Namibia.

De Beers continues its journey of reshaping strategy and restructuring operations to ensure that we thrive in a competitive, lean and efficient manner. Our commitment to the future is underlined by the fact that we are currently constructing four new diamond mines, two in Canada and two in South Africa. Furthermore, with heightened levels of prospecting activities in, for example, central and southern Africa, we have every hope that new diamond discoveries will be made.



Pulling together

Six years have passed since the World Federation of Diamond Bourses and the International Diamond Manufacturers' Association passed a joint resolution (at the 2000 World Diamond Congress in Antwerp) supporting the international campaign – initiated by South Africa – to eliminate the trade in "conflict diamonds". Through the Kimberley Process Certification Scheme, a series of practical measures were established to ensure greater supervision, compliance and accountability within the diamond industry. While, over the course of 2006, the world's media has once again focussed on the tragic plight of those who suffered in the last decade through civil unrest in central and west Africa, it is significant to note that today over 99% of the world's rough diamond production is conflict free.

As often stated, it is our firm belief within De Beers that any diamond that has been associated with human suffering is one diamond too many. To that end, we have rigorous processes in place to ensure that De Beers diamonds are, and remain, 100% conflict free. As an industry leader, we also acknowledge our responsibility to offer skills and assistance to those governments that, post conflict, look to rebuild their economies through revenue accrued from the legitimate diamond industry. In 2006, our involvement included the provision of capacity building to Liberia's Government Diamond Office, under the guidance of President Ellen Johnson-Sirleaf, as it prepares for the lifting of United Nations sanctions prohibiting the export of diamonds from the country.



Showing we care

The people whose lives we touch, the communities, nations and the environment we share, all matter deeply to us. A detailed account of our activities in these areas is presented in our Report to Stakeholders.

Over the course of the next five years, the De Beers family of companies will invest over US\$60 million in African corporate social investment projects. We have, for example, breathed new life into the tourism industry in Kimberley, the birthplace of De Beers, through development of the "Big Hole" tourist attraction. The initial De Beers investment of R50 million (US\$7.4 million), with additional support from the South African government and a broad group of Northern Cape stakeholders, is viewed as a catalyst for what could add up to a potential R300 million (US\$44.6 million) in further investment in the area.

From an environmental perspective, 11 out of our 12 major mining operations are now certified to ISO 14001 standards. Williamson – our one remaining uncertified mine – will, we are confident, attain this status in 2007. Of further note is the fact that our DBCM operations have set out to achieve a 15% reduction in energy usage by 2015. As part of this goal to reduce our energy and carbon footprint, we are also appraising the feasibility of carbon offset projects at our South African operations. About 158 000 hectares, 10 times our operating area, are already reserved for conservation projects that absorb more carbon dioxide emissions than we produce.

In the social sphere of our operations, De Beers, in unison with respective partner companies, continues to tackle the challenge of the impact of HIV/AIDS through comprehensive voluntary counselling and testing programmes. A further element of this programme is the provision of free antiretroviral treatment to all employees and a spouse or life partner.



Being passionate

In reflecting on the year past, we have witnessed heightened levels of exploration and project development. Whether in Africa or in the frozen north of Canada, the resourcefulness of the De Beers family of companies is bearing fruit. Record production has been achieved from our mines across the family, at safety levels previously unattained. DTC marketing programmes continue to drive demand through developing "big ideas" and promoting the integrity of the natural product. Furthermore, the family of companies has continued to fine-tune organisational effectiveness and focus.

As Chairman of the world's leading diamond company, I am truly proud of all that has been achieved in 2006 and look forward to an even greater 2007.

Nicky Oppenheimer



De Beers Marine visit to A&P Tyne, United Kingdom on Tuesday 25 July 2006. Left to right: Steve Gould, Nicky Oppenheimer and David Noko in front of the Peace in Africa mining vessel



Managing Director's review

2006 proved a challenging trading year for the De Beers family of companies, but one in which significant milestones were reached across our operations. We are confident that these steps will ensure a healthy, prosperous and above all dynamic future for employees, partners and wider stakeholders alike.

DTC sales in 2006 reached US\$6.15 billion, the second highest figure ever achieved. This figure is slightly down on 2005, reflecting, in part, a reduction in purchases from Alrosa, Russia's state-owned diamond producer, in accordance with commitments made to the European Commission.

Challenges faced by the downstream industry were significant but not insurmountable. Rising commodity prices and interest rates, depressed margins, damaging floods in Surat, India (the largest diamond cutting and polishing sector in the world) and instability in the Middle East all made for a challenging year in terms of pipeline demand for rough diamonds. In spite of this, consumer demand in the United States (which represents around half of the world's diamond jewellery sales by value) remained solid and continues to grow in line with GDP. China and India also experienced encouraging sales growth, further indicating sizeable prospects for the future.

Strengthening our partnerships

The De Beers family of companies achieved record production in 2006 of 51 million carats, up from 49 million carats in 2005, which bears testament to our expertise and efficiency in diamond mining. The De Beers family of companies also recorded its lowest lost time injury frequency rate (LTIFR) ever of 0.19 hours lost time for every 200 000 hours worked, a figure we are proud of, but remain committed to further reducing. While successes are notable in this regard, there were two fatalities in 2006; Michael Masindi at Venetia and Baagi Medupe at Orapa. I am deeply saddened by their deaths and our thoughts remain with their families.

In 2006, DBCM achieved production levels of over 14.6 million carats, whilst reducing costs significantly through technical and asset efficiencies and increasing profitability.

It is encouraging to note that DBCM achieved its lowest ever LTIFR rate of 0.21 in 2006. Finsch mine accomplished five million fatality-free shifts in July and The Oaks mine has seen six years pass without an accident or fatality. All DBCM operations have now met ISO 14001 and OHSAS 18001 standards.

A seminal moment in the history of De Beers was marked on 4 April 2006 when a definitive agreement was reached to implement the sale of a 26% equity interest in DBCM amounting to R3.7 billion (US\$604.8 million) to Ponahalo Holdings as part of a broad-based Black Economic Empowerment initiative. This progressive and innovative agreement further indicates and embeds the company's commitment to a truly transformed South Africa.

Debswana again achieved record production levels of 34.3 million carats, up from 31.9 million in 2005, further highlighting the success of our partnership with the Government of Botswana. Debswana also recorded a 0.13 LTIFR, the lowest ever achieved.

In May 2006, De Beers and the Government of Botswana signed a definitive agreement for the renewal of a 25-year mining licence for the Jwaneng mine (from 1 August 2004) and licences for Orapa, Letlhakane and Damtshaa mines were also extended until 2029. The agreement also covered the sale of Debswana's production to the DTC for a further five years and the establishment in Botswana of the Diamond Trading

Company Botswana (DTCB), a 50/50 partnership between De Beers and the Government of Botswana.

At Namdeb, production exceeded two million carats in 2006 for the first time since 1977, an increase of 18% on 2005. Marine recoveries comprised 1.07 million carats providing an 11% increase on 2005. Namdeb recorded a 0.35 LTIFR.

On 30 January 2007, De Beers and the Government of Namibia formalised an agreement to extend the DTC sales contract period for a further eight years (from 1 January 2006) and, furthermore, to establish the Namibia Diamond Trading Company (NDTC), a 50/50 partnership that will sort and value Namdeb's diamond production and carry out local sales and marketing activities. As a result, up to N\$2 billion (US\$300 million) worth of rough diamonds, representing close to 5% of Namibia's GDP, will be made available to local cutting and polishing factories by 2009. Namibia, which produces approximately N\$5 billion (US\$737.5 million) worth of rough diamonds per year, will continue to sell rough diamonds to DTC International through NDTC.

US\$2 billion capital expansion

2007 marks a new era for the De Beers family of companies in which we will produce diamonds outside of the African continent for the first time.

As a measure of our progress in Canada over the course of 2006, under the leadership of Jim Gowans, President and CEO of De Beers Canada, 88% of hours worked by De Beers employees were in a construction environment. Snap Lake, in the Northwest Territories, is on target to start production in October 2007 and the Victor mine in Ontario remains scheduled to come on-stream in the fourth quarter of 2008.

As a company with its roots firmly based in southern Africa, it is with great pleasure that in 2007 we will witness two further African projects coming into operation. The mining vessel *Peace in Africa*, has arrived in Cape Town and, once commissioned, will commence diamond recovery off the west coast of South Africa in Q3 2007. Similarly, in June 2006, DBCM announced that it had been granted a new order right to mine for diamonds at the Voorspoed mine, near Kroonstad in the Free State Province. This represents DBCM's first "greenfield" mine since Venetia in 1992 and will produce in excess of 700 000 carats per year. Importantly, the project will provide 700 new jobs in construction and 400 jobs as the mine reaches full production in the second quarter of 2009.

At a time when consumer demand for diamonds has never been so strong, it is reassuring to note that when all four mines achieve full production they will contribute approximately 3.3 million carats and US\$700 million to the annual production capacity of De Beers.

Investment in exploration

In 2006, De Beers positioned itself to take advantage of exciting exploration opportunities globally. In Angola, the company was granted three new concessions each covering over 3 000 km². In Botswana, the AK6 project shows significant potential and joint ventures in the Democratic Republic of the Congo (DRC) are proceeding well and have achieved access to highly prospective territory.

Effective marketing

Over the course of 2006, diamond jewellery sales reportedly rose solidly in excess of 5%. The DTC continued to grow demand through the promotion of "big ideas" such as *Journey Diamond Jewellery*, an initiative which sparked positive sales growth over the holiday season. The *Trilogy* campaign has continued its phenomenal success in the United States and grows at an astounding 35% year-on-year in Japan, where it comprises 18% of the total market. Sales research has indicated that such growth could potentially be mirrored in both the Indian and Chinese markets, where the size of the diamond jewellery buying target group is expected to grow at 6.8% Compound Annual Growth Rate (CAGR), from 33 million consumers today to 65 million in 2015.

The DTC continued to develop its FOREVERMARK programme with launches in Japan, China and India. The drive to widen the scope of the initiative indicates our intention to enhance and promote consumer confidence in the integrity and transparency of our global supply chain.

Compliance and reputation

Acting in unison with members of the diamond industry, civil society and governments, the De Beers family of companies remains deeply committed to protecting the consumer and the legitimate diamond supply chain from the scourge of conflict diamonds. Through complete adherence to and active support of the UN mandated Kimberley Process we, as a leading member of the industry, will continue to commit resources and expertise towards ensuring that consumers remain confident in the integrity of diamond purchases and that diamonds continue to provide a source of hope and prosperity for producing nations.

In March 2006, De Beers announced a provisional agreement to settle and consolidate all of the United States class actions against De Beers for a total sum of US\$295 million.

In January 2007, the European Commission announced its decision to reject all outstanding complaints against De Beers and the DTC with respect to the "Supplier of Choice" strategy.

Outlook

The outlook for the global economy is encouraging, with leading indicators showing signs of continued expansion and a strong underlying demand for diamond jewellery. India and China are likely to be the leading growth markets, and the United States is predicted to continue its five-year growth trend. While growth in DTC sales in 2007 is likely to be constrained by availability, due in part to the reduction in purchases from Alrosa, De Beers will benefit from its new mines coming on-stream towards the end of the third quarter.

In this environment, management will continue to focus on building a new De Beers, fit for leadership in a competitive and evolving diamond industry. This includes our review of current mining assets, driving efficiencies across our operations, investing in new production capacity and in exploration activities to create a strong future project pipeline. We will continue to drive demand for our diamonds and seek other opportunities to create value for our shareholders across the diamond pipeline.

The De Beers logo, featuring the brand name in a stylized, handwritten-style script.

Financial highlights

- ◆ DTC sales at US\$6.15 billion (2005: US\$6.5 billion), while the second highest on record, were lower than 2005 reflecting reduced purchases from Alrosa, in line with the commitments given to the European Commission, and the continued challenging environment in the wholesale market for rough diamonds, where a lack of liquidity, margin pressure and increased financing costs impacted pipeline demand. However, consumer demand for diamond jewellery continued to grow in 2006, with China and India reporting strong sales growth and the United States growing in line with GDP.
- ◆ EBITDA at US\$1.2 billion (2005: US\$1.4 billion) is down 12% as a result of lower DTC sales and increased exploration and development costs.
- ◆ Net earnings at US\$730 million (2005: US\$554 million) increased by 32% due to the sale of 26% of DBCM to Ponahalo, a broad-based Black Economic Empowerment consortium, and the sale of the group's interest in the Fort à la Corne joint venture in Canada.
- ◆ Underlying earnings at US\$425 million are US\$277 million lower than 2005, after adjusting for the impact of a Canadian tax credit, due to reduced margins in the diamond account, the impact of increased finance charges and the dilution in earnings caused by the sale of 26% of DBCM.
- ◆ Cash available from operating activities increased to US\$809 million from US\$473 million in 2005.

“... what I like about these figures is that they show De Beers investing in the future, and expansion capital ... up at just under US\$950 million”

Nicky Oppenheimer, Chairman

“... this was an extraordinary year in terms of our own production, 51 million carats, up from 49 million carats the previous year, an all time record”

Gareth Penny, Managing Director

Consolidated income statement

For the year ended 31 December 2006 – abridged	US\$ millions	
	Year to 31 December 2006	Year to 31 December 2005
Diamond sales		
– DTC	6 150	6 539
– Other	476	513
Joint venture and other income	1 012	906
	7 638	7 958
<i>Deduct:</i>		
Cost of sales	5 737	5 906
Sorting and marketing	428	484
Exploration, research and development	287	242
Group services and corporate overheads (Note 1)	138	130
Net diamond account	1 048	1 196
<i>Deduct:</i>		
Net finance charges (Note 2)	140	101
New business development	24	19
Income before taxation	884	1 076
Taxation (Note 3)	361	283
Income after taxation	523	793
Attributable to outside shareholders in subsidiaries (Note 4)	74	1
Own earnings	449	792
Share of retained income of joint ventures	4	22
Net earnings before special items	453	814
Special items:		
Surplus in respect of the sale of 26% of DBCM (Note 4)	229	
Surplus in respect of the sale of Fort à la Corne (Note 5)	105	
Payment in terms of class action settlement agreement (Note 1)	(57)	(260)
Net earnings	730	554
Underlying earnings reconciliation (Note 6)		
Net earnings before special items	453	814
<i>Adjusted for:</i>		
Surplus on realisation of fixed assets less provisions	(9)	(14)
Mine impairment and retrenchment costs	35	48
(Gains) losses on non-hedge derivative financial instruments	(48)	16
Taxation and minority interests	(6)	(14)
Underlying earnings	425	850
EBITDA	1 232	1 403
Ordinary distributions in respect of:		
2004 – Final		200
2005 – Interim		150
Final (including a partial repayment of share premium)		250
2006 – Repayment of share premium	473	
Interim	150	
Final	50	

Consolidated balance sheet

For the year ended 31 December 2006 – abridged		US\$ millions	
	31 December 2006	31 December 2005	
Ordinary shareholders' interests	3 532	3 597	
Outside shareholders' interests (Note 4)	302	104	
Total shareholders' interests	3 834	3 701	
Net interest-bearing debt (Notes 2 and 7)	2 944	2 362	
Other liabilities	1 487	1 729	
	8 265	7 792	
Fixed assets	6 394	5 790	
Investments and loans	94	66	
Diamond inventory and other assets	1 777	1 936	
	8 265	7 792	
Exchange rates US\$ = Rand			
– Average	6.72	6.39	
– Year end	6.99	6.36	

Cash flow information

For the year ended 31 December 2006		US\$ millions	
	31 December 2006	31 December 2005	
Cash available from operating activities	809	473	
Investing activities			
Fixed assets – stay-in-business	245	248	
– expansion	949	370	
Investments	(442)	21	
	752	639	
Financing activities			
Preference share capital redeemed	214	214	
Share premium redeemed	473		
(Increase) in debt	(962)	(645)	
Ordinary distribution	173	600	
	(102)	169	

Notes to tables

1. In the prior year, US\$10 million in respect of legal costs incurred in concluding the class action settlement agreement were included in corporate overheads. These have been reclassified as special items in the current year and added to the original class action payment of US\$250 million.

In terms of an amended class action settlement agreement dated 17 March 2006, a further US\$45 million was paid into escrow on 28 April 2006 pending conclusion of the settlement process. Legal costs incurred in 2006 in respect of the settlement amount to US\$12 million.

2. Preference share capital is included in net interest-bearing debt. Preference dividends, amounting to US\$32 million (2005: US\$54 million) are included in finance charges.

On 30 June 2006, the company took advantage, for the third time, of an early redemption clause attaching to its 10% preference shares in issue and redeemed the maximum permissible amount of US\$214 million, or 25% of the total originally in issue.

3. In the prior year, following the approval of the Victor Project, the value of the group's accumulated tax losses in Canada was brought to account as a deferred tax asset which had the effect of reducing the 2005 tax charge by US\$148 million.
4. De Beers concluded a broad-based Black Economic Empowerment (BEE) transaction on 18 April 2006 which resulted in 26% interest in De Beers Consolidated Mines Limited being sold to Ponahalo Holdings for R3.7 billion (US\$604.8 million). This has resulted in a profit of US\$229 million in the consolidated income statement. As a result of the sale transaction, US\$473 million has been returned to shareholders through a repayment of capital. The sale process involved, inter alia, the arrangement of incremental financing of US\$640 million in revolving and term facilities and facilitation by De Beers in the form of guarantees amounting to approximately US\$130 million.

With effect from 18 April 2006, Ponahalo's share of DBCM's earnings has been included in income attributable to outside shareholders in subsidiaries in the income statement. The impact of the BEE transaction was US\$50 million on underlying earnings for the year and US\$184 million in respect of net asset value.

5. On 28 September 2006, De Beers Canada concluded the sale of its 42% participating interest in the Fort à la Corne joint venture to Shore Gold Inc. for C\$180 million (US\$155 million), of which tax amounting to US\$50 million was attributable.
6. In previous reporting periods Headline Earnings were reported as a primary indicator of performance. In line with accepted international practice, De Beers believes that the presentation of Underlying Earnings provides a better indicative measure of underlying performance principally through the exclusion from earnings of significant non-operating items and unrealised profits or losses which arise due to the valuation impact of financial market volatility.

Underlying earnings comprises net earnings attributable to shareholders adjusted for the effect of any special items and remeasurements, less any tax and minority interests. Special items include closure costs, exceptional legal provisions and profits and losses on disposals of assets. Remeasurements include adjustments to ensure that the unrealised gains and losses on non-hedge derivative instruments are recorded in underlying earnings in the same period as the underlying transaction against which these instruments provide an economic, but not formally designated, hedge.

7. Cash has been offset against interest-bearing debt.

Foreign exchange rates

Exchange rates to US\$ (all average 2006):

South Africa Rand (R): 6.72

Botswana Pula (P): 5.76

Namibia Dollar (N\$): 6.78

Canada Dollar (C\$): 1.14

Tanzania Shilling (TZS): 1 252.40

Britain Pound (£): 0.55

Operating highlights



The No. 1 treatment plant at Orapa mine, Botswana

Production statistics

	Actual 2006 Tons Treated	Annual 2005 Tons Treated	2006 Diamonds Recovered	2005 Diamonds Recovered	2006 Grade (cpht)	2005 Grade (cpht)
Cullinan	2 942	4 608	1 150 108	1 304 653	39.1	28.3
Finsch	5 786	5 937	2 275 494	2 215 643	39.3	37.3
Kimberley and contractors	11 123	9 671	1 944 899	1 896 893	17.5	19.6
Koffiefontein	34	1 817	234	123 505	0.7	6.8
Namaqualand and contractors	6 412	6 452	978 415	1 014 132	15.3	15.7
The Oaks	262	250	102 805	85 766	39.3	34.4
Venetia	6 050	5 933	8 116 906	8 515 045	134.2	143.5
DBC	32 610	34 667	14 568 861	15 155 637	44.7	43.7
Diamond Area No 1	25 356	26 371	1 000 743	797 518	3.9	3.0
Contractors *			1 084 136	976 891	0.2	0.2
Namdeb **	25 356	26 371	2 084 879	1 774 409	n/a	n/a
Orapa	18 443	16 500	17 338 240	14 890 436	94.0	90.2
Lethakane	3 723	3 458	1 089 180	1 097 231	29.3	31.7
Damtshaa	1 461	1 289	227 890	302 677	15.6	23.5
Jwaneng	10 108	10 007	15 637 666	15 599 427	154.7	155.9
Debswana	33 735	31 253	34 292 976	31 889 771	101.7	102.0
Williamson Diamonds	2 963	3 394	189 396	190 384	6.4	5.6
Grand Total	94 664	95 685	51 136 112	49 010 201	52.9	50.2

* Recovered grade represented as carats recovered per m² and not carats recovered per hundred tons (cpht).

** Grade (cpht) not meaningful as a result of the mixture between land operations (tonnage treated) and marine operations (m² mined).

Debswana



Blackie Marole

	2004	2005	2006
Number of mines	4	4	4
Mining licence area (ha)	30 935	30 949	30 935
Safety			
Lost time injury frequency rate	0.13	0.15	0.13
Lost time injury severity rate	52.79	3.09	55.62
Fatal injuries	1	0	1
Environment			
Energy use (million GJ)	4.58	4.57	4.13
Carbon dioxide emissions (million tonnes)	0.69	0.69	0.62
Water use (million m ³) ⁽¹⁾	30.00	26.93	27.54

(1) Includes potable, non-potable and recycled water. Does not include seawater. Water use for 2004 and 2005 has been amended downwards from figures presented in the Report to Stakeholders 2005/6 to reflect previous overestimates.

Mines

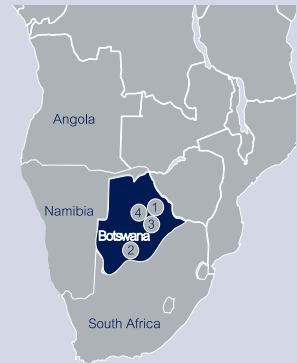
- ① Damtshaa ★
- ② Jwaneng ●★
- ③ Letlhakane ★
- ④ Orapa ★

Type

- Open-pit

Certification

- OHSAS 18001
- ★ ISO 14001



In 2006, one of the key achievements of Debswana was the extension and harmonisation of the company's mining licences for the established mining operations in Botswana. Subsequent to the signing of a Heads of Agreement between the company's shareholders in December 2004, negotiations to renew the Jwaneng licence were concluded during the period under review and the Jwaneng Mining Licence Renewal Master Agreement was signed by the shareholders on 23 May 2006. Under the terms of this agreement, the licence will run for 25 years (from 1 August 2004). In addition, the currently held licences for the Orapa, Letlhakane and Damtshaa mines have been extended to run until 2029, in line with the Jwaneng licence.

Performance for 2006 was positive with the Debswana group achieving strong diamond sales volumes of 33.9 million carats driven by record production levels for the year.

Total operating costs for the year were 11% above the 2005 levels with the increase largely driven by an amortisation of P185 million (US\$32.1 million) in rehabilitation costs relative to P47 million in 2005 (US\$9.3 million), this being due to a revision to the estimate for rehabilitation costs. Further pressure on operating costs resulted from high fuel prices as well as an increase in staff-related costs.

Production levels

Debswana's mines performed very strongly during the year by achieving diamond production of 34.3 million carats compared with 31.9 million carats in 2005. This increase (8%) was largely driven by an improved efficiency at Jwaneng mine and improved plant utilisation at Orapa mine. Tons treated for the year were 3% ahead of budget, mainly due to improved plant utilisation at all operations.

Outlook for 2007

Key sustainability projects identified for Debswana's mines include resource extension programmes, pit extension designs, treatment plant replacements and underground mining studies.

Safety, health and environment

The combined lost time injury frequency rate (LTIFR) for all of Debswana's mines was a remarkable 0.13, which is an improvement on the 2005 LTIFR of 0.15.

The Environmental Impact Assessment Act completed a full year of operation during the period under review and Debswana obtained all necessary clearances to ensure compliance with legislation for projects that required impact assessments.

It is, however, with sincere regret that we report the death of Baagi Medupe, who died at Orapa mines as a result of an electrical accident in February 2006.

Satisfactory progress has been achieved in the area of HIV/AIDS impact management during the year under review. An increase has been recorded in both the number of people who know their HIV status and enrolment statistics for antiretroviral treatment under the disease management programme.

However, indications are that the HIV/AIDS epidemic will pose continuing challenges in the future. As a result, efforts to mitigate and minimise the impact of HIV/AIDS on employees, their partners and families will need to be sustained.

A review of the company's HIV/AIDS Management Policy was undertaken during the year under review, following which the provision of antiretroviral therapy assistance was extended to employees' children under the age of 21 years who are infected with HIV.

Fish-eye view of Orapa mine



<http://www.debswana.com>

Namdeb



Inge Zaamwani

	2004	2005	2006
Number of mines	5	5	5
Mining licence area (ha)	778 697	786 697	778 696
Safety			
Lost time injury frequency rate ⁽¹⁾	0.23	0.18	0.35
Lost time injury severity rate	6.13	2.13	12.72
Fatal injuries	0	0	0
Environment			
Energy use (million GJ)	1.72	1.82	2.13
Carbon dioxide emissions (million tonnes)	0.26	0.26	0.32
Water use (million m ³) ⁽²⁾	7.46	7.13	7.40

(1) Excludes De Beers Marine Namibia which had a LTIFR of 0.1 in 2006.
 (2) Includes potable, non-potable and recycled water. Does not include seawater.

Mines

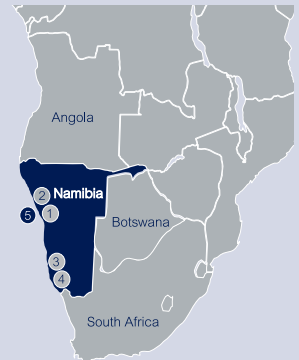
- ① Contractors
- ② Elizabeth Bay Mine ★
- ③ Mining Area 1 ★
- ④ Oranjemund ★
- ⑤ De Beers Marine Namibia ★

Type

- Alluvial
- Marine

Certification

- ★ ISO 14001



For the first time in the history of Namibian diamond mining, 2006 was marked by more carats being recovered from marine mining than from land-based operations. The year also saw the conclusion of the Namdeb Sales Agreement, negotiated between the Government of Namibia and De Beers. This led to the creation of a 50/50 owned joint venture known as Namibia Diamond Trading Company (NDTC). The company will be responsible for sorting, valuing and marketing some of Namibia's diamonds.

In line with Namdeb's "Chapter two" strategic goal of producing 10 million aggregated carats by 2010, the company continued to invest substantial capital in both exploration and production efficiencies. Several strategic projects progressed over 2006 including the life extension of land-based mining, thus assisting in securing employment for Namdeb employees.

Production levels

During 2006, diamond production at Namdeb reached unprecedented levels. Production from marine and land areas yielded 1.07 and 1.02 million carats respectively, totalling 2.08 million carats for the year. This figure exceeded planned production by 85 000 carats. The increase in land-based carat production is attributed to the success of mining coastal accretion in the MA1 area and elsewhere, as well as a positive performance from the No. 3 Plant and the Oranjemund mine.

Safety, health and environment

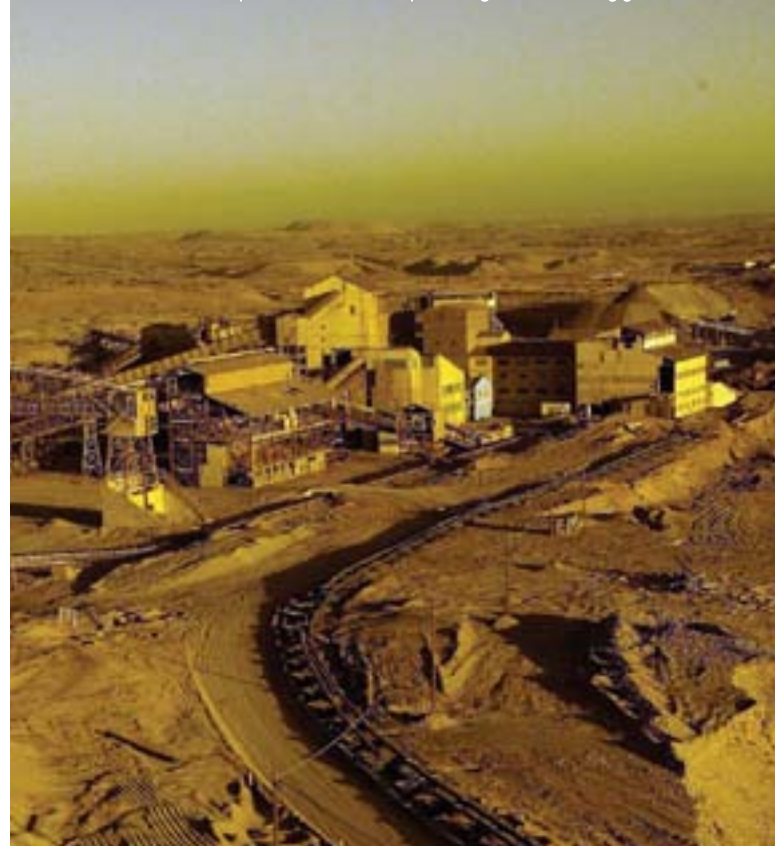
All Namdeb operations were audited against the National Occupational Safety Association (NOSA) Integrated Safety, Health and Environmental System. All three operations achieved a Five Star "Platinum Grading" and were awarded NOSCAR status. MA1 retained its fourth consecutive NOSCAR, Oranjemund mine its eighth and Elizabeth Bay mine its ninth. During 2006, Namdeb implemented OHSAS 18001 and will be audited for certification in 2007. Namdeb also retained its ISO 14001 system certification in all areas.

In 2006, Namdeb launched a holistic wellness programme with a focus on HIV/AIDS prevention, care and support for employees and community members. More than 73% of all Namdeb employees know their HIV status. Antiretroviral treatment has been provided to Namdeb employees and spouses with successful outcomes. AIDS-related deaths have been significantly reduced and chronically ill patients have, on occasion, resumed work.

Outlook for 2007

Namdeb achieved some remarkable successes in 2006. In 2007, the company will continue to assess and refine its position as the leading source of revenue generation for the people of Namibia. In recent times it has become increasingly clear that the future of diamond mining in Namibia lies off-shore where De Beers Marine Namibia is entering new frontiers as the world's leading off-shore diamond mining company.

The No. 2 Plant treatment complex uses sea water for processing diamond-bearing gravels



<http://www.namdeb.com>



David Noko

De Beers Consolidated Mines

	2004	2005	2006
Number of mines	7	7	7
Mining licence area (ha)	115 119	115 513	112 570
Safety			
Lost time injury frequency rate	0.38	0.22	0.21
Lost time injury severity rate	163.82	48.27	54.13
Fatal injuries	4	1	1
Environment			
Energy use (million GJ) ⁽¹⁾	5.31	5.54	5.15
Carbon dioxide emissions (million tonnes)	0.95	0.97	0.87
Water use (million m ³) ⁽²⁾	20.94	20.72	19.86

(1) Energy consumption and CO₂ emissions for 2004 and 2005 have been amended upwards from figures presented in the Report to Stakeholders 2005/6 to reflect a previous underestimate in diesel use at our Kimberley operations.
 (2) Includes potable, non-potable and recycled water. Does not include seawater.

Mines

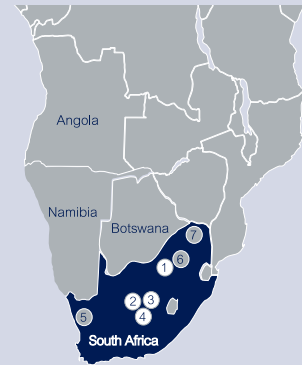
- ① Cullinan ● ●
- ② Finsch ● ●
- ③ Kimberley * ● ●
- ④ Koffiefontein
- ⑤ Namaqualand ● ●
- ⑥ The Oaks ● ●
- ⑦ Venetia ● ●

Type

- Open-pit
- Underground
- * Tailings treatment

Certification

- OHSAS 18001
- ★ ISO 14001



In 2006, De Beers Consolidated Mines (DBCM) took steps to create a robust foundation for its business in 2007 and beyond. Focus centred on the reduction of costs at the centre of the company, the running of profitable mines, the financing of future projects and starting new projects to increase profitable production in the company. DBCM is committed to playing a constructive role in the transformation of South Africa. To this end the company has offered significant mining opportunities to Black Economic Empowerment (BEE) companies.

In April 2006, De Beers concluded its R3.7 billion (US\$604.8 million) empowerment deal with Ponahalo Holdings in respect of DBCM. The new shareholders, led by Manne Dipico, elected Deputy Chairman of DBCM in May 2006, have already provided the company with a renewed sense of vigour, participating fully in the Executive Committee and on the Board.

The year offered exciting developments from an operational perspective. Voorspoed mine in the Free State Province was awarded the first "new order" mining licence in October for a diamond mine. At a cost of R1.2 billion (US\$170 million) Voorspoed will begin production of almost one million carats a year by 2009. Following R1.1 billion (US\$145 million) expenditure, the marine mining vessel *Peace in Africa* will enter service off the country's Atlantic coastline in the first half of 2007. The vessel is forecast to produce approximately 280 000 carats per annum. The infrastructural impact and creation of new employment opportunities in the Free State Province, Northern and Western Cape Provinces as a result of such capital expenditure are considerable: over 600 permanent jobs will be created with several thousand jobs formed in project construction and ancillary service provision by mainly BEE suppliers in South African procurement.

In 2006, DBCM committed R50 million (US\$7.4 million) to transform the Kimberley "Big Hole" museum into a world class tourism facility to attract visitors and business to Kimberley. It is predicted that the project will provide a much needed catalyst for further investment in the Northern Cape Province. Similarly, plans are currently being developed with the Northern Cape Government to establish an International Diamond Jewellery Academy in Kimberley.

In November 2006, an agreement was signed with Petra Diamonds for the sale of Koffiefontein, a mine that, while having been within the De Beers portfolio for over a century, no longer fits within our business model for the future.

Production levels

In 2006, DBCM treated 32.6 million tons of diamond-bearing Kimberlite ore, a decrease from 34.7 million tons in 2005 owing to the closure of Koffiefontein mine in December in that year. Production levels were also affected by a reduced output from Cullinan diamond mine. The turnaround strategy of Kimberley Plant reaching record levels of efficiency. A total of 14.6 million carats were recovered during the year, down from 15.2 million in 2005.

Safety, health and environment

In 2006, DBCM achieved an improvement in its LTIFR. The 0.21 LTIFR represents the best annual safety record in history for DBCM. Of note is the achievement of no lost time injuries at The Oaks and Namaqualand mines. Significantly, Namaqualand's achievement marked an 80-year best for the operation. Finsch mine completed five million fatality free shifts in July for which it received a prestigious award from the Department of Minerals and Energy. All DBCM mines remain ISO 14001 certified. However, it is with deep regret that we record the loss of our colleague Michael Masindi in a vehicle accident at Venetia mine. Our thoughts remain with his family.

Outlook for 2007

The outlook for DBCM in 2007 is both positive and exhilarating. With an upgrade of the treatment plant at Finsch mine to commence mid-year at a cost of R500 million (US\$74.4 million), the operation is forecast to recover an additional 500 000 carats per annum. Similarly, projects in various study phases include the Finsch Block 5, Venetia Cut 5 project and the mine's underground concept. Strategically DBCM will endeavour to achieve revenue growth in 2007 through profitable production and management of an asset portfolio that best suits the company at present and into the future. To achieve such far-reaching targets, DBCM will continue to invest in developing capacity within the organisation and will strive to recruit the best talent where necessary.

Awards in 2006

The Oaks – Mine Metallurgical Managers Association Award for 70 months without a lost time injury

Venetia – South African National Productivity Improvement award for productivity improvement



Jim Gowans

De Beers Canada

	2004	2005	2006
Number of mines ⁽¹⁾	2	2	2
Mining licence area (ha) ⁽²⁾	5 990	5 990	5 990
Safety			
Lost time injury frequency rate	0.7	0.52	0.28
Lost time injury severity rate	0.7	14.84	18.48
Fatal injuries	0	0	0
Environment			
Energy use (million GJ)	0.12	0.47	0.83
Carbon dioxide emissions (million tonnes)	0.01	0.04	0.08
Water use (million m ³) ⁽³⁾	0.02	0.03	6.43

(1) All Canadian mines are still in development and are not yet operational.
 (2) Mine licence area includes Snap Lake and Victor and does not include Gahcho Kué.
 (3) Includes potable, non-potable and recycled water. Does not include seawater.

Mines

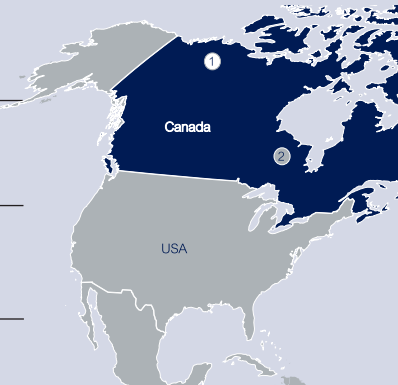
- ① Snap Lake ★
- ② Victor ★

Type

- Open-pit
- Underground

Certification

- ★ ISO 14001



2006 was a year of tough challenges and immense change for De Beers Canada. The company strengthened its Executive Committee with changes to a number of senior management positions, including the appointment of Jim Gowans as President and CEO.

New agreements were reached with aboriginal groups, including the signing of "impact-benefit agreements" with the Tlicho Government and the North Slave Métis Alliance.

The company generated its first revenue with the sale of its 42% participating interest in the Fort à la Corne joint venture project in Saskatchewan for C\$180 million (US\$155 million).

Exploration deals were signed to gain access to a number of properties in northern Ontario and the high arctic.

In November, the Toronto office opened the Diamond Display Centre, modelled after the Diamond Information Office at the Diamond Trading Company in London. The centre is the first of its kind in Canada and is used to inform government representatives, the media, investors and potential partners about how De Beers does business and to demonstrate how stakeholders can benefit from the diamond industry.

Mines in development

In 2006, De Beers Canada remained on the cusp of a new era. 2007 will see De Beers' first diamonds extracted from outside of Africa, with rapid progress on a second mine, and a third project well under way.

Snap Lake Project, Northwest Territories

The Snap Lake team made tremendous progress in 2006, overcoming extreme, industry-wide pressures from increased labour, fuel and material costs, compounded by the early closure of winter roads due to warmer than average temperatures. Construction continued unimpeded, and several major structures were framed and enclosed, including utilities buildings, the processing plant and enhanced employee facilities. The project is now on target to begin production in late 2007.

Victor Project, Ontario

The official ground-breaking ceremony for construction was held in July, with several high-profile leaders from government and aboriginal communities in attendance. It marked the beginning of Ontario's first diamond mine, which is forecast to begin

production in 2008. Several critical elements of infrastructure and project installations were completed, including an extension of the existing airstrip to accommodate larger aircraft, construction of site roads to the pit area and a water treatment plant.

Gahcho Kué Project, Northwest Territories

The permitting process for Gahcho Kué continued in 2006. The project was referred to an Environmental Impact Review in June 2006, and at De Beers Canada's request, the decision is currently under judicial review. This decision would deviate from Snap Lake's permitting process which falls under the same legislation and jurisdiction. The company is seeking clarity on this issue so there is consistency and standardisation in the permitting process. Work continued on a new engineering study that will reduce capital costs, and a drilling programme that will further define the Tuzo kimberlite pipe.

Safety, health and environment

De Beers Canada's focus on sound safety, health and environment management continued as people hours worked in a construction environment more than doubled in 2006. This is evidenced by the reduction of all injuries and lost time injury (LTI) by 21% and 37% respectively, and the fact that the Exploration division has not had a LTI in over two years.

In November, external examiners from the British Standards Institution (BSI) conducted an audit of the Exploration division and recommended the recertification of the ISO 14001 environment management systems standard.

Outlook for 2007

Much of De Beers Canada's efforts in 2007 will target the completion of the Snap Lake Project and commencing mining operations. The Victor Project will work towards ambitious construction targets that could cut the expected timeline by as much as six months.

The company will continue to build relationships with joint venture partners, governments and communities to secure access to land, facilitate expedient and consistent permitting and create a general climate of support for the operations in Canada.

Exploration will strive to accelerate the discovery of diamondiferous kimberlites in Canada to build a stable and sustainable pipeline of projects.

<http://www.debeerscanada.com>

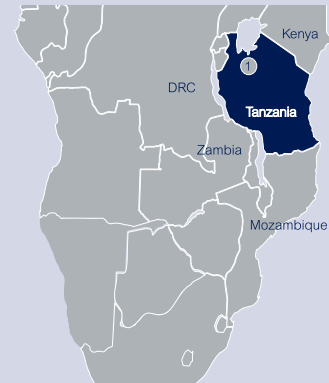


Tony Devlin

Williamson Diamonds

	2004	2005	2006
Number of mines	1	1	1
Mining licence area (ha)	2 973	2 973	2 973
Safety			
Lost time injury frequency rate	0.06	0.33	0.07
Lost time injury severity rate	389.82	10.9	1.73
Fatal injuries	1	0	0
Environment			
Energy use (million GJ)	0.21	0.26	0.24
Carbon dioxide emissions (million tonnes)	0.01	0.01	0.01
Water use (million m ³) ⁽¹⁾	5.34	8.61	8.83

(1) Includes potable, non-potable and recycled water. Does not include seawater.



Mines

● Williamson *

Type

● Open-pit
* Tailings treatment

In 2006, diamond production at Williamson Diamonds Limited (WDL) totalled 189 396 carats, marginally lower than in 2005 when 190 384 carats were produced. Improvements were made from the second quarter of 2006 onwards primarily due to better utilisation of the final recovery plant and improved process efficiencies.

The volume of diamondiferous ore treated, totalling three million tons in 2006, fell by 13% compared with 2005.

Early in 2006 a "pan plant" used to process material from local gravel deposits was purchased from a former contract miner at a cost of TZS1.25 billion (US\$1 million). The gravel mining operations remain marginal due to lower recoverable grades.

Production levels

During the latter part of 2006, a project to improve the utilisation of the main plant commenced at an estimated cost of TZS12.52 billion (US\$10 million). This plant improvement project has been devised to target a 20% improvement in the rate of ore treatment and is scheduled for completion by July 2007.

Technical investigations to increase the plant throughput to seven million tons per annum through the introduction of autogenous milling technology were concluded during the year. Subject to approval by the Board of WDL, this expansion project could be completed by mid 2008 with full production achieved by the end of 2008.

Safety, health and environment

One LTI was reported during 2006 giving a lost time injury frequency rate for the year of 0.07. In addition, one million LTI-free man hours was again achieved in November 2006. The implementation of the OHSAS 18001 occupational health and safety and the ISO 14001 environmental management systems are now well advanced with certification planned for 2007.

Occupational hygiene monitoring programmes were implemented over the course of 2006 and WDL's HIV/AIDS prevention and management programme continued to receive attention. Medical personnel underwent training in Tanzania and South Africa to facilitate further the roll out of Williamson projects in this field.

All the requirements for the Environmental Management Plan were submitted during 2006 and final approval is anticipated early in 2007.

A mine nursery was established to produce seedlings of indigenous tree species for local bush rehabilitation. Environmental awareness and tree planting competitions in the communities and schools around Mwadui continued to be popular. The removal of invader vegetation species continued with 65.5 ha being cleared and prepared for replanting of indigenous species.

Awards

WDL won the De Beers Chairman's Safety Shield for the most improved safety record in the De Beers family of companies.

Outlook for 2007

Diamond production in 2007 is planned to increase by 20% primarily due to the plant improvement initiative.

Implementation of the Mwadui Community Diamond Partnership (MCDP) is scheduled to commence mid-year, following the completion of a diagnostic review in December 2006. The objective of the MCDP is to alleviate poverty and accelerate sustainable socio-economic development in the informal small-scale diamond mining communities surrounding Williamson mine. De Beers itself does not engage in informal small-scale alluvial diamond mining.

The Williamson mine is the largest mined diamond-bearing kimberlite pipe in the world



<http://www.debeersgroup.com>



Varda Shine

Diamond Trading Company



New partnerships for growth

In 2006, the Diamond Trading Company (DTC) made good progress in positioning the company for considerable changes to its international operating structure. Our evolution into a truly international network of companies has required intense focus on how we are structured going forward and on issues of governance and corporate identity. This is particularly important in the light of the new suite of agreements that De Beers signed with its partners in southern Africa this year.

In May 2006, agreements were signed between the Government of Botswana and De Beers that not only included an extension to the DTC's contract to buy Debswana's production, but also brought into existence a new aspect to our international business, Diamond Trading Company Botswana (DTCB). As well as sorting and valuing all of Debswana's production, this 50/50 partnership with the government will carry out local sales and marketing activities to support the establishment of sustainable local diamond manufacturing operations. In addition to this, on 30 January 2007 De Beers and the Government of Namibia formalised an agreement to extend the DTC contract to buy Namdeb's production for a further eight years (from 1 January 2006). The relationship was also extended into diamond marketing with the establishment of a 50/50 joint venture – Namibia Diamond Trading Company (NDTC) – which will be responsible for sorting and valuing all of Namdeb's diamond production and will carry out local sales and marketing activities. It is envisaged that NDTC will assist the growth of a sustainable diamond manufacturing industry in Namibia.

A tough diamond market in 2006

The DTC concentrated on improving the effectiveness of all our operations in 2006. Solid progress was made on reducing costs and ensuring greater working efficiencies across the board. At the same time, the company continued to obtain the best long term, sustainable diamond price for producers, while responding to the needs of our clients in an environment of great uncertainty in the market place.

DTC sales were lower than in 2005 reflecting reduced purchases from Alrosa, in line with commitments given to the European Commission, and a challenging environment in the market for rough diamonds, where a lack of liquidity, margin pressure and increased financing costs affected pipeline demand. Nevertheless, at US\$6.15 billion, our 2006 sales were still the second highest on record.

 <http://www.forevermark.com>

Our marketing programmes continued to focus on driving demand for diamond jewellery. Preliminary results indicate that global sales of diamond jewellery increased by 5% with China and India achieving double-digit growth. Growth in consumer demand has been driven in part by the success of the new *Journey* campaign launched in the United States in the fourth quarter of 2006, as well as more well-established concepts such as *Trilogy* diamond jewellery. These results were achieved in a year when popular culture activity drew the spotlight once again to conflict diamonds. The strength of the DTC's Consumer Confidence campaign coupled with a high level of effort from the industry as a whole seems, however, to have ensured that there was no discernible impact on United States sales in the Christmas and New Year period. In addition, following its success in Hong Kong, the FOREVERMARK programme, our unique mark of trust to increase consumer confidence when purchasing diamonds, was launched in retail stores throughout China and Japan.

2007: another challenging year

DTC sales in 2007 are likely to be constrained by supply, chiefly due to a gradual reduction of purchases from Alrosa in line with commitments given to the European Commission. This impact will be partly mitigated in the medium term, however, as SASA, Voorspoed (South Africa), Snap Lake and Victor mines (Canada) begin to inject new production over the next two years. In the cutting centres, continuing issues of high bank debt, fluctuating premiums and liquidity indicate another challenging year and gradual consolidation across the supply chain will probably begin to highlight the need for efficiencies. Later in the year the DTC will begin its Sightholder selection process for the new contract period starting in 2008. This will have a renewed emphasis on working with Sightholders that can demonstrate world class excellence and the need for both the company and its clients to "stand up and be counted" on the issue of ethical business practices. In 2006, the DTC implemented its Diamond Best Practice Principles (BPPs) Assurance Programme across the family of companies and with Sightholder entities. Implementation and performance were third party verified by Société Générale de Surveillance (SGS) and fourth party assured by United Research Services (URS). There were no material breaches found for either the family of companies or the Sightholder community in the 2005/6 implementation cycle. Improvement opportunities were identified and addressed for third party review in 2007. The outlook for further growth in retail sales remains positive, with India and China likely to be the leading growth markets and the United States continuing its steady five-year growth trend.

Independent investments



Diamdel

The Diamdel companies, which comprise the rough diamond trading subsidiary of De Beers that focuses on sales to the secondary non-Sightholder market, achieved sales of US\$417 million in 2006. Diamdel specialises in supplying a broad range of over 500 customers from its branches located within the world's leading diamond-cutting centres.

Element Six

Element Six, the independently managed industrial diamond group, recorded a strong year, with sales increasing 16% and a greatly improved contribution to De Beers earnings. In Element Six Abrasives, grit sales volumes continued to grow, although prices remain under pressure from Chinese competitors. Element Six Abrasives' new plants in Ukraine and China reduced the average cost and, with greater focus on value-adding products such as coated grits, contributed to a greatly improved performance. Strong growth was also recorded in products for cutting tools, especially in the metalworking market. Sales of products for oil and gas drilling applications grew substantially, driven by increased activity in the oil and gas sector. The substitution by synthetic diamond material of conventional carbide drilling products continued unabated during the year. The integration of the recent Ukrainian acquisition and the start up of the Chinese plant have been completed successfully. In Element Six Technologies the start of a new company, Diamond Microwave Devices, marked the beginning of the exciting journey of making synthetic diamond materials in electronics a commercial reality.

De Beers Diamond Jewellers

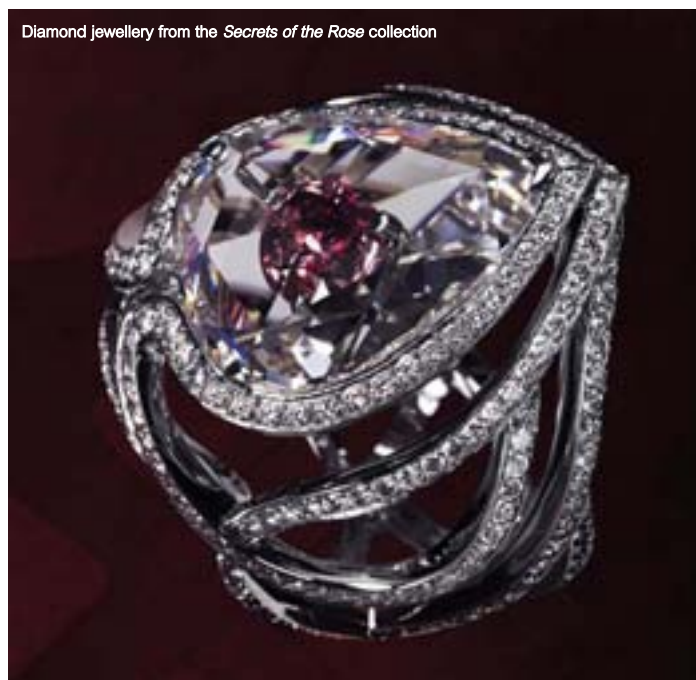
During 2006 our independently managed retail joint venture with Louis Vuitton Moët Hennessy (LVMH), De Beers Diamond Jewellers (DBDJ), formerly known as De Beers LV, achieved record sales in excess of US\$100 million. DBDJ opened five stores in 2006: Kobe, London (Harrods), Kyoto, Dubai, Taipei and, on 8 January 2007, DBDJ opened a further outlet in Las Vegas bringing the total to 15 stores globally. DBDJ experienced steady growth in Japan over the course of 2006, with promising performance in the United States, a market that it entered in late 2005 through opening outlets in both New York and Los Angeles. Equally, DBDJ has strengthened its retail presence through the opening of its first franchise operations in Dubai and Korea.

Sales are becoming increasingly balanced across the global DBDJ stable with the United Kingdom totalling 23.1%, Japan 23.7% and the United States 23.8%.

The *Talisman* and *Secrets of the Rose* collections, high-end jewellery and engagement rings, all contributed to substantial growth in revenue per store.

To increase its recognition and image, a new advertising campaign was launched in 2006 for DBDJ. The company introduced its first wristwatches in Christmas 2006, with a full collection to be launched in September 2007. DBDJ will continue to expand significantly in the coming year, incorporating both wholly owned and franchise operations worldwide.

Diamond Jewellery from the *Secrets of the Rose* collection



<http://www.diamdel.com>

<http://www.e6.com>

<http://www.debeersgroup.com>

Exploration



Charles Skinner



Gahcho Kué, Canada

Under the leadership of Charles Skinner, the De Beers exploration team is in a good position to take advantage of exciting opportunities globally with a particular focus on southern and central Africa, Canada and Russia over the coming year.

Botswana

De Beers was granted new prospecting licences around Jwaneng and Orapa areas and has discovered three new kimberlites. In addition the Orapa AK6 project in joint venture with African Diamonds has progressed well and continues to show promise.

Angola

The company has been granted three new concessions, each covering an area of just over 3 000 km². This brings the total ground holdings in Angola to nearly 11 000 km². Airborne geophysical surveys completed during 2006 identified a number of prospective targets to be followed up in 2007, and the drill bulk sampling of kimberlites for diamonds is well under way.

Prospecting in Angola is conducted by De Beers Angola Prospecting (DEBAP) as operator to a number of joint ventures, including Endeb, an unincorporated joint venture between DEBAP (49%) and the state diamond company Endiama (51%).

Democratic Republic of Congo

De Beers discovered five new kimberlites and continues to enjoy access to highly prospective ground. Geophysical surveys and sampling programmes continued over the course of 2006 with 94% and 82% of the current licence areas covered by sampling and geophysical surveys, respectively.

Prospecting in the DRC takes place through Group Mining and Exploration. De Beers is party to a number of exploration joint venture agreements, one being with Société Minière de Bakwanga (Miba).

Canada

De Beers continues to focus on the Gahcho Kué property and has signed a joint venture agreement with Pure Gold Minerals over the "High Arctic" properties. As part of the De Beers global strategy to rationalise its project portfolio, De Beers Canada announced in September the sale of the company's entire 42% participating interest in the Fort à la Corne joint venture project in Saskatchewan to Shore Gold Inc., for C\$180 million (US\$155 million).

Russia

De Beers and Alrosa signed a Memorandum of Understanding with a view to examining opportunities for joint diamond prospecting and exploration activities in Russia and other countries. This agreement seeks to continue to contribute to the development of economic relations between Russia and South Africa and to the growth of the diamond sectors of both countries.

Other countries

De Beers continues to undertake prospecting activities in India and, to a limited degree, in Australia. The company is in the process of closing exploration operations in Guinea, the Central African Republic, Zimbabwe, Brazil, Australia and China.

Principles and guidelines for exploration

Exploration activities in all countries, including Angola and the DRC, are governed by the De Beers family of companies' principles, policies and procedures, and are subject to annual first and third party verification within the scope of the BPPs. Exploration activities in Angola and the DRC were included in the BPP Assurance Programme in 2005/6. Environment, Community, Occupational Health and Safety (ECoHS) performance is further informed by our impact assessment and ECoHS guidelines for exploration. The health needs of all exploration employees are addressed through De Beers Group Services.



Governance

Board and committees

Best practice

The Board of De Beers supports the principles of openness, integrity, responsibility and accountability. Fundamental to the fulfilment of corporate responsibilities and the achievement of financial objectives is an effective system of corporate governance. The Board continuously endeavours to ensure that the company's policies, where applicable, meet current best practice. In doing so the group follows, to the extent that they are applicable, the principles and recommendations set out in the Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance for South Africa 2002.

Board and committee structure

The Board is chaired by Nicky Oppenheimer. It is responsible for the group's system of corporate governance and is ultimately accountable for its activities. The Board also provides oversight and consultation to operating companies on governance structures and processes when requested, including on the training of Directors.

Currently, the Board comprises 16 directors of whom four serve in an executive capacity. All Directors have unrestricted access to company information, records, documents and property. Non-Executive Directors derive no benefits from the company for their services as directors other than their fees.

The Board meets every quarter – and more frequently, if required. Where a Director is based in another country and not able to attend personally, video or teleconferencing facilities are used to include that Director in the relevant proceedings.

De Beers and its holding company, DB Investments (DBI), are party to a shareholders' agreement which governs the shareholders' relationship and also sets out, inter alia, matters relating to the appointment of Directors and management of De Beers, committees of the De Beers Board, and matters reserved specifically for either the shareholders or the De Beers Board. De Beers and DBI are also party to a management contract with Central Holdings Limited and Central Management Services Limited (CMSL), in terms of which both DBI and De Beers appointed CMSL to assist in the strategic development of the De Beers family of companies and, in particular, to assist in the appointment of the senior executives and management of the group.

Executive Committee

Chaired by Gareth Penny, the company's Executive Committee meets regularly and is responsible to the Board for implementing the policies and strategies of the group. It deals with all executive business of the company not specifically reserved for the Board or shareholders, and prioritises the allocation of capital, technical and human resources. It also reviews bi-annually the major risk areas of each business unit.

Audit Committee

This committee monitors the adequacy of the financial information reported to shareholders, internal controls, accounting policies and financial reporting. It monitors and supervises the effective functioning of the Internal Audit department and the ethical conduct of the company, and also provides a forum for communication between the Board and the external and internal auditors.

Environment, Community, Health and Safety (ECoHS) Committee

The ECoHS Committee monitors and reviews the family of companies' environmental, community, health and safety policies, guidelines and operational practices, and through governance processes assures the adherence of operating companies to their principles, as well as appropriate local and international standards and relevant local legislation.

The family of companies strives to conduct its business with due regard for economic, social, cultural and environmental concerns. The health and safety of our employees and the well-being of the communities surrounding our mines are the focus of comprehensive policies dedicated to this end. Our mining and related activities face complex environmental challenges. Through its environmental policy the group is committed to addressing environmental risks and impacts in a systematic, comprehensive and business-like manner, developing effective management systems and employing the principles of forward planning, efficiency and wide resource utilisation.

Remuneration Committee

The committee approves remuneration for the executive directors to ensure that rewards and incentives are linked to both individual and group performance.

Investment Committee

The Investment Committee manages the process of investment capital approval and/or allocation within the family of companies to ensure that investments, divestments and financing proposals increase shareholder value and meet the company's financial and strategic criteria. The committee includes representatives of the shareholders and nominees of the management company, CMSL.

Accountability and control

Internal controls

The Directors are responsible for the group's systems of internal controls and for regularly reviewing its effectiveness. The principle aim of the system of internal controls is the management of business risks that are significant to the fulfilment of the business objectives of De Beers, with a view to enhancing over time the value of the shareholders' investment and safeguarding our assets. Although no system of internal controls can provide absolute assurance that business risks will be fully mitigated, the group's internal control systems have been designed to meet the group's particular needs and address the risks to which it is exposed.

Risk management

Both the shareholders and the Board recognise that engaging risk is at the core of the business of De Beers and that risk-taking is a choice in the pursuit of objectives. The De Beers group and its operations are governed by a risk framework through which risks are engaged in an informed manner, pro-actively identified and managed. This includes identifying and taking advantage of opportunities as well as protecting intellectual capital, income and assets by mitigating adverse impacts of risk.

The focus of risk management is on identifying, assessing, managing and monitoring all known forms of risk across the group. Management is involved in a continuous process of developing and enhancing its comprehensive risk and control

procedures to improve the mechanisms for identifying and monitoring risks. These risks encompass such areas as consumer markets, skills and people risks, technology, stakeholder, commercial, social, environmental, corporate reputation, compliance with regulation and legislation, professional liability and the general operating, financial and treasury risks.

Monitoring process

The effectiveness of the internal control systems, including the potential impact of changes in the operating and business environments, is monitored through regular management reviews, reviews and testing by internal auditors and by the independent auditors during the course of their statutory examinations. Control self-assessment also takes place, with a representation letter on compliance being signed annually by the managers of each business unit.

Our Principles

Through 2005/6, employees from across the family of companies worked together to define our new Purpose, Vision and Values. A set of Principles (see inside back cover) was also developed in consultation with a wide group of internal and external stakeholders to support the Purpose, Vision and Values framework and to define accountabilities across a range of sustainability issues and stakeholder concerns. These Principles were approved by the Executive Committee and signed by each operating company Managing Director in October 2006.

A third party verified Assurance Programme has been developed and is being piloted in 2007, for implementation across the family of companies in 2008. The Assurance Programme expands the scope, depth and rigour of the current BPP Assurance Programme (see page 18) for the family of companies. The Assurance Programme is aligned with international best practice standards, industry initiatives and is more relevant to the mining sector than the existing BPPs. DTC Sightholders, located in the cutting and polishing part of the value chain, will continue on the current BPP Assurance Programme (as described in our Report to Stakeholders 2005/6). Both programmes are supported by a compatible set of Requirements, an electronic Workbook and an Assurance Manual.

Internal Audit will review the adequacy of operating entity performance and drive the completion of corrective actions for the family of companies. It will also assess the extent to which gaps in performance identified in the Report to Stakeholders 2005/6 have been addressed through 2007. Findings are presented to the Audit Committee on an annual basis and in line with the De Beers risk review process.

Code of Business Conduct and Ethics

The family of companies is committed to a policy of fair dealing and integrity in the conduct of its business. To this end, the De Beers Code of Business Conduct and Ethics requires employees throughout the family of companies to maintain the highest ethical standards in ensuring that business practices are conducted in a manner that, in all reasonable circumstances, is beyond reproach.

Employment equity

The family of companies is committed to creating a workplace in which hard-working people can develop rewarding careers at all levels, regardless of their background, ethnicity, race or gender. The family of companies' employment practices and policies emphasise equal opportunity for all, and seek to identify, develop and reward employees who demonstrate good performance.

The employment equity policies of DBCM provide for bursary schemes and academic support programmes, input-based targets, training, development and mentoring programmes, as well as innovative technical and management career development processes. These policies also aim to create an inclusive organisational culture in which all employees feel comfortable and accepted.

Where appropriate, employment equity is implemented in consultation with employee representative bodies. An employment equity and affirmative action agreement exists between DBCM and the South African National Union of Mineworkers. In Botswana and Namibia, localisation strategies, determined and monitored through legislation, are well established and provide similar citizen development and workplace activities.

Employee participation

The family of companies supports a system of employee participation in addressing issues that affect them and encourages employees and their representatives to participate in communication and consultative and negotiating structures. Regular briefing sessions inform all employees about the company's operations and other matters of interest. Grievance procedures and other structures are in place with a view to speedily identifying conflict and its effective resolution. Detailed information about De Beers' corporate governance is available on our website.

Key risks mitigated in 2006

- The European Commission accepted formal commitments offered by De Beers to reduce and then cease purchases of rough diamonds from Alrosa
- The European Commission formally rejected all outstanding complaints against De Beers and the DTC in respect of the DTC Sales and Marketing policy, and Russian Trade Agreement
- Access was granted to prospective ground in Angola, DRC and Botswana
- An agreement was signed with the Government of Botswana for renewal of the Jwaneng mining licence for an additional 25 years and for the extension of the Orapa, Damtshaa and Letlhakane mining licences for a similar period
- A provisional agreement has been reached to settle and consolidate all of the United States class actions against De Beers for a total sum of US\$295 million
- DBCM concluded its R3.7 billion (US\$604.8 million) Black Economic Empowerment deal with Ponahalo Holdings
- An agreement was formalised with the Government of Namibia to extend the DTC sales contract period for a further eight years effective 1 January 2006

Organisational change

Directors and management

- ◆ In 2006, there were a number of new directors appointed to the Board of De Beers s.a. These included Stuart Brown, Director of Finance, Jonathan Oppenheimer, Executive Director of De Beers s.a. and Baron David de Rothschild, Non-Executive Director of De Beers s.a. Dr Ed Dowling resigned as Board Director responsible for Group Mining and Exploration on 31 August 2006.
- ◆ De Beers is also pleased to announce that René Médori, Finance Director of Anglo American plc, joined the Board of De Beers s.a. on 7 February 2007. David Hathorn, Executive Director of Anglo American plc, stepped down on the same date. Tony Trahar, outgoing CEO of Anglo American plc, and Ollie Oliveira also retired and stepped down from the De Beers s.a. Board on 28 February 2007. Cynthia Carroll, incoming CEO of Anglo American plc, joined the Board on 1 March 2007.
- ◆ Over the last 12 months, De Beers also made a number of significant changes to strengthen the senior management team. This has included the appointment of Jim Gowans as President and CEO of De Beers Canada.

The reporting entity

- ◆ 20 January 2006, DBCM announced the closure of its Koffiefontein mine in the Free State Province. The mine opened in 1870 following the discovery of diamonds in South Africa in 1866. DBCM formally gave notice to the Department of Minerals and Energy (DME) as is required by the Minerals and Petroleum Resources Development Act.
- ◆ 19 May 2006, the Government of Botswana and De Beers signed an agreement to establish DTCCB, a 50/50 partnership between De Beers and the government. It will sort and value Botswana's diamond production and support the development of a local diamond manufacturing industry in Botswana. The business emphasis of the London DTC office will shift from being a rough processing centre to one that concentrates on serving the needs of Sightholders and driving global demand for diamonds.
- ◆ 8 June 2006, De Beers announced that it had been awarded a number of major contracts for the implementation of a project to establish a marine mine in the South African Sea Areas (SASA) off the west coast of South Africa.
- ◆ 22 September 2006, De Beers Canada confirmed it had agreed to sell its entire 42% interest in the Fort à la Corne joint venture project in Saskatchewan to Shore Gold Inc., for C\$180 million in cash.
- ◆ 23 October 2006, DBCM unveiled plans for the new Voorspoed diamond mine situated near Kroonstad in the Free State Province, South Africa. The commencement of construction of the mine follows the issuing of the company's first new order mining right under the Mineral and Petroleum Resources Development Act on 10 October 2006.



Exterior view of CHQ De Beers House in Johannesburg



Board members and group structure





De Beers s.a. Board members

From left to right, top to bottom

Nicky Oppenheimer (Chairman of the Board)
 Gareth Penny
 Dr Mark Berry*
 Stuart Brown
 Cynthia Carroll* (Appointed 1 March 2007)
 Robin Crawford*
 Baron David de Rothschild*
 Joseph Iita*
 Sir Chips Keswick*
 René Médori*
 Anthony Oppenheimer*
 Jonathan Oppenheimer
 Gary Ralfe*
 Julian Ogilvie Thompson*
 Dr Akolang Tombale*
 Serwalo Tumelo*

Directors retired subsequent to year end

David Hathorn (Stepped down on 7 February 2007)
 Ollie de Sousa Oliveira (Stepped down on 28 February 2007)
 Tony Trahar* (Stepped down on 28 February 2007)

* Non-executive

Executive Committee

As of 31 December 2006

Gareth Penny (Chairman of the Executive Committee)
 Nicky Oppenheimer (Chairman of the Board)
 Jonathan Oppenheimer (Executive Director, De Beers s.a.)
 Stuart Brown (Finance)

Managing Directors

From left to right, top to bottom

Gareth Penny (De Beers)
 Varda Shine (DTC)
 Inge Zaamwani (Namdeb)
 Jim Gowans (De Beers Canada)
 David Noko (DBCM)
 Blackie Marole (Debswana)

Ollie de Sousa Oliveira (Strategy and Business Development)
 Varda Shine (Managing Director, DTC)
 David Noko (Managing Director, DBCM)
 Blackie Marole (Managing Director, Debswana)
 Inge Zaamwani (Managing Director, Namdeb)
 Bruce Cleaver (Legal and Commercial)
 Debbie Farnaby (Shared Services)
 Leon Smith (Human Resources)
 Stephen Lussier (External and Corporate Affairs)
 Jim Gowans (President and CEO, De Beers Canada)

Audit Committee

Sir Chips Keswick (Chairman of the Audit Committee)
 Robin Crawford
 René Médori
 Julian Ogilvie Thompson

ECOHHS Committee

Robin Crawford (Chairman of the ECOHHS Committee)
 Dr Mark Berry
 Alex Hathorn (co-opted)
 Anthony Oppenheimer
 Julian Ogilvie Thompson
 Dr Akolang Tombale

Remuneration Committee

Sir Chips Keswick (Chairman of the Remuneration Committee)
 Nicky Oppenheimer
 Julian Ogilvie Thompson
 Cynthia Carroll (as of 1 March 2007)

Report to Stakeholders

The De Beers family of companies released its first Report to Stakeholders in 2006 for the period 2005/6. The report evaluates rigorously our economic, ethics, employee, community and environmental performance. It provides a framework to assess the contribution of diamonds to development. The report benchmarks our performance against issues identified as relevant and material by our stakeholders. Over 250 internal and 60 external stakeholders were engaged in the development of the report as a collective review of our performance.

The Report to Stakeholders 2005/6 demonstrates accountability against external commitments and standards including the UN Global Compact and the Global Reporting Initiative (GRI) "G3" sustainability reporting guidelines, which encompass the core indicators, mining and metals supplement and the HIV/AIDS pilot indicators. Our use of the G3 indicators was checked by GRI and confirmed as an A+ application of the guidelines. The report reviews the extent to which we have implemented and provided assurance against the BPPs, our Principles and policies. It includes assurance by first party, second party, third party and fourth party providers, as well as specialist reviewers, all of which confirm and comment on our performance.

The following sections provide a summary of our contribution to sustainable development in 2006. Additional content on our Principles and management systems is presented in our Report to Stakeholders 2005/6 and in our forthcoming update for 2006.

Economics

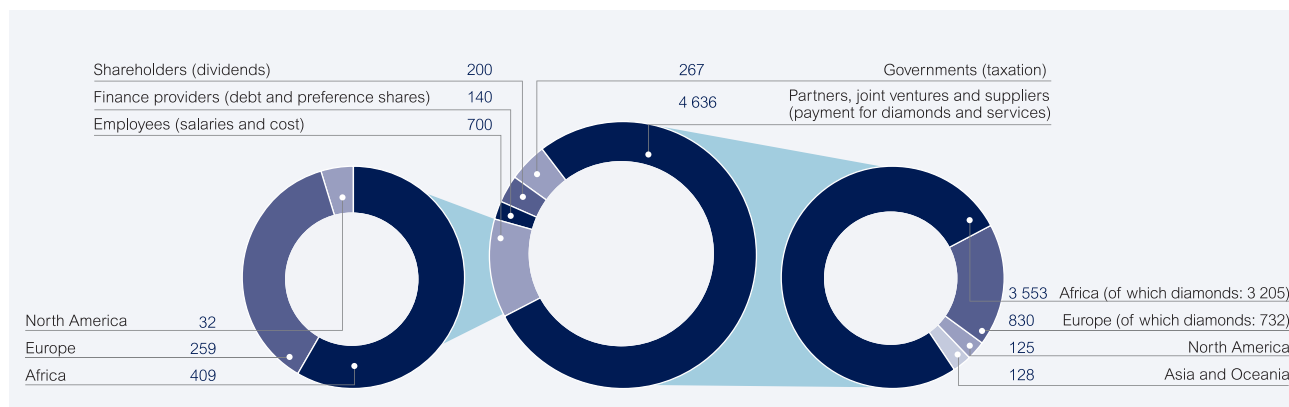
- ▶ In 2006, De Beers paid more than US\$5.9 billion (2005: US\$6.5 billion) to stakeholders (see Figure 1). This includes payments in excess of US\$4.6 billion to partners, joint ventures and suppliers. More than US\$3.21 billion of this was paid for diamonds in Africa; up from US\$3.18 billion in 2005.
- ▲ More than US\$4.2 billion (70.9%) of this US\$5.9 billion was paid to stakeholders in Africa. This represents a relative increase of 1% on 2005 when payments to stakeholders in Africa accounted for 69.9% of all payments to stakeholders (US\$4.5 billion of US\$6.5 billion).
- ▶ Capital investment amounted to US\$1.2 billion; US\$429 million of this was paid in Africa (2005: US\$379 million) and US\$717 million was paid in Canada. This additional US\$429 million increases our total investment in African economic growth to more than US\$4.6 billion in 2006 (2005: US\$4.9 billion). This is worth more than US\$12.8 billion in Africa when adjusted for purchasing power.

- ▶ De Beers paid US\$1.4 billion in taxes and royalties to governments; 92.2% of this (US\$1.3 billion) was paid in Africa. De Beers paid taxes and royalties of US\$1.6 billion (91.7% of US\$1.7 billion) in Africa in 2005.
- ▲ Over US\$1 billion was allocated to preferential procurement in southern Africa and Canada in 2006. This was 30.5% higher than the US\$724 million figure in 2005. Preferential procurement from businesses that are owned, empowered and influenced by Historically Disadvantaged South Africans (HDSAs) increased from 39.3% (US\$313 million) to 50.7% (US\$445 million) of South African spend. Citizen spend and local spend in Botswana accounted for US\$281 million (2005: US\$254 million), 84.8% of total spend. Expenditure with aboriginal suppliers in Canada totalled US\$300 million, representing a 124.5% increase on 2005 (US\$134 million).
- ▲ The establishment of NDTC, a 50/50 joint venture with the Government of Namibia, will diversify the national economy and increase beneficiation in Africa. In 2007, De Beers made an announcement to consolidate the West Coast operations of Alexkor and DBCM's Namaqualand mines as an independent and empowered mining company. This reaffirms our commitment to sustainable mining and investment in Africa.

Ethics

- ▲ All diamonds purchased and sold by De Beers are 100% conflict free. Our commitment to the Kimberley Process, and the elimination of conflict diamonds from world diamond flows, is reinforced by our support for the role of diamonds in development. The Mwadui Community Diamond Partnership in Tanzania aims to help alleviate poverty for small-scale informal diamond diggers and deliver revenues to government.
- ▲ In 2006, the family of companies developed new policies on anti-corruption, anti-money laundering and the countering of terrorism financing. These are being implemented across our operations, with key personnel receiving training.
- ▲ Our anonymous whistle-blowing scheme was reimplemented at group level in 2006. Additional whistle-blowing facilities are in place at 50% of our operations. A standardised reporting mechanism will be implemented in 2007, and the group mechanism outsourced.
- ▲ De Beers is implementing an integrated reporting process to capture breaches of the Code of Business Conduct and Ethics and other issues on compliance, governance and assurance around security. This will be implemented in 2007 and will require monthly reporting of incidents by all entities.

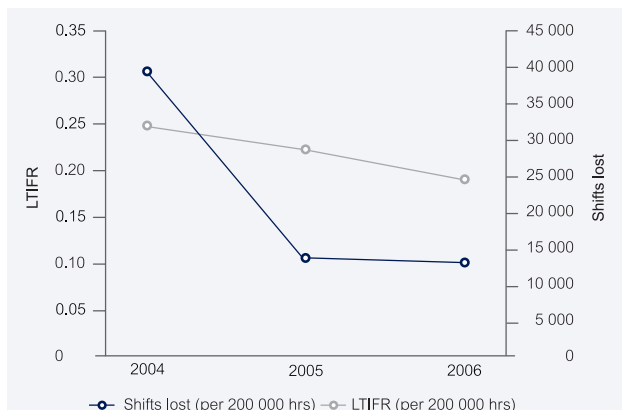
Figure 1: Payments to stakeholders by type and region 2006 (US\$ millions)



Employees

- ▲ Nine out of 12 mines have obtained OHSAS 18001 certification. All mining operations will be certified to OHSAS 18001 by the end of 2007. Shifts lost and Lost Time Injury Frequency Rates (LTIFR) decreased by 2.5% and 13.6% respectively between 2005 and 2006 (Figure 2). Two fatal injuries were recorded, one at Venetia in South Africa and one at Orapa in Botswana.
- All operations have comprehensive HIV/AIDS disease management programmes. Antiretroviral treatment (ART) is provided free to employees and a spouse or life partner, and children of employees in the case of Debswana. At the end of 2006, there were 1 109 employees and 322 spouses enrolled on our ART programme. More than 77% of DBCM, Debswana and Namdeb employees had participated in voluntary counselling and testing programmes. In 2006, DBCM, Debswana and Namdeb operations were audited against the GRI HIV/AIDS pilot indicators (Report to Stakeholders 2005/6).
- ▲ Incidence of tuberculosis at our DBCM operations in South Africa decreased by 14% from 387 per 100 000 in 2005 to 333 per 100 000 in 2006. Six of seven DBCM operations are on track to achieve our target of 95% compliance with our internal Occupational Health Standard by 2009.
- More than US\$20.7 million was spent on professional development programmes in 2006. This includes technical and formal training, qualifications, certificates and diplomas. US\$16 million was spent in South Africa by DBCM, DBGS and De Beers Marine. US\$1 million was spent in Namibia and US\$3.3 million was spent in the United Kingdom.
- ▼ DBCM has a diversity target of 40% HDSAs in management and 60% HDSAs plus white women by 2009. At end 2006, it had achieved 29.1% and 36.2% respectively. This represents a 4.9% and 6.8% decline on 2005 respectively and is partly due to significant organisational restructuring towards the end of 2006. HDSAs represented 77.1% of the total DBCM workforce.
- About 74.4% of semi-skilled employees at mining operations in Africa are represented by unions: 89% at DBCM, 60.8% at Debswana, 81.3% at Namdeb and 66.6% at Williamson.
- ▲ There were no incidents of discrimination recorded in 2005. Third party audits of our operations found none to be at risk of using either child labour or forced or compulsory labour. The rights of employees are protected through the BPPs, our Principles, an Employee Human Rights Policy and a Security Services and Human Rights Policy. Employee training on policy implementation is ongoing and compliance is externally audited.

Figure 2: Safety statistics



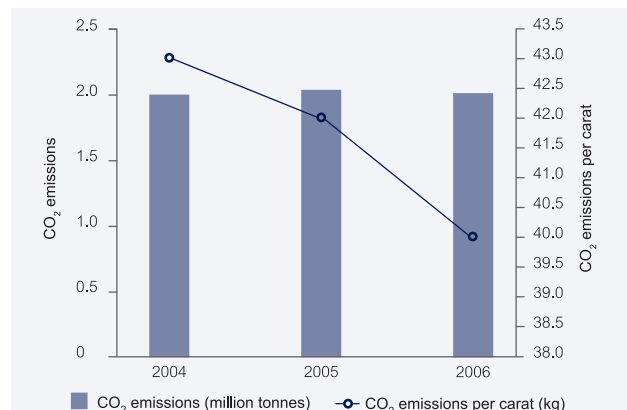
Communities

- ▲ Our social investment spend for 2006 is estimated at US\$16.4 million. This accounts for more than 1.85% of our pre-tax profits of US\$884 million; versus the 1.26% of US\$1.2 billion pre-tax profit allocated to social investment in 2005.
- ▲ About US\$15.3 million (93.7%) of this was invested in projects in the vicinity of our operations in Africa. This social investment spend of US\$15.3 million is worth about US\$46.5 million in Africa when adjusted for purchasing power.

Environment

- Our electronic environmental reporting application was implemented across the family of companies in December 2006, as part of our aim to improve accuracy and completeness in reporting. There have been no major environmental incidents or fines at our operations since 2003. The number of moderate incidents increased from 56 in 2005 to 81 in 2006.
- With Cullinan regaining its ISO 14001 status and Koffiefontein being discontinued, certification is now in place at 11 of our 12 major mining operations. Williamson mine in Tanzania remains on target to obtain certification in 2007.
- Only a small portion of our mining licence area is disturbed by mining activities. At the end of 2006, our activities disturbed 37 564 ha (4%) of the 931 164 ha of mining licence area in which we operate.
- At the end of 2006, De Beers owned and managed 158 420 ha of nature reserves in South Africa. Our Debswana joint venture manages a further 30 600 ha of state land in Botswana. The South African National Biodiversity Institute recently identified our Finsch properties as part of an area of endemism – thus further enhancing its conservation status.
- ▲ Energy consumption per carat of production decreased from 0.286 GJ in 2005 to 0.275 GJ in 2006. Absolute CO₂ emissions decreased from 2.07 million tonnes in 2005 to 2.05 million tonnes in 2006. CO₂ emissions per carat decreased to 40kg from 42kg (4.8%) per carat in 2005.
- In 2006, we used 63.7 million m³ of fresh water at our mining operations; 24.3% of this was recycled. This represents a marginal increase on the 63.4 million m³ used in 2005, and is largely due to increased production and an improved reporting process. Our west coast operations used 42.1 million m³ of sea-water; 32.8% less than the 62.6 million m³ used in 2005.

Figure 3: CO₂ equivalent emissions



Purpose, Vision, Values and Principles

The world of diamonds is about making “dreams” come true. Geologists dream about finding the next big mine, nations dream about the jobs, wealth and development opportunities that diamonds can bring, shareholders dream of superior returns, employees dream of a successful career and couples dream about the diamonds that symbolise their love and commitment.



Our Purpose

To turn diamond dreams into lasting reality.

Our Vision

We have big dreams for our family of companies – an ambitious growth vision focused on unlocking the full economic value of our leadership position across the diamond pipeline. We will make it a reality by maximising the potential of our global partnerships, the skills and commitment of our people and the magic and emotional value of our product.

Our Values

 Be Passionate We will be exhilarated by the product we sell, the challenges we face and the opportunities we create.	 Pull Together Being united in purpose and action, we will turn the diversity of our people, skills and experience into an unparalleled source of strength.	 Build Trust We will always listen first, then act with openness, honesty and integrity so that our relationships flourish.	 Show we Care The people whose lives we touch, their communities, nations and the environment we share, all matter deeply to us. We will always think through the consequences of what we do so that our contribution to the world is real, lasting and makes us proud.	 Shape the Future We will find new ways. We will set demanding targets and take both tough decisions and considered risks to achieve them. We will insist on exceptional excellence and reward those who deliver.
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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 African 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/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”

The Principles Assurance Programme translates our Principles into practice and provides a framework for measuring continuous improvement in performance over time. Through peer review across the family of companies, we will help each other achieve this goal. The implementation, monitoring and reporting of these Principles through the Assurance Programme, including a willingness to open up our performance to third party scrutiny, will ensure that our stakeholders are able to rely on our high standards and know that we are “living up to diamonds”.

Extended contacts

Angola

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De Beers Centenary AG
Alpenstrasse 5
6000 Luzern 6
Tel: +41 41 418 6000 Fax: +41 41 418 6001

Tanzania

Williamson Diamonds Limited
PO Box 9470, Dar-es-Salaam
Tel: +255 28 276 3850 Fax: +255 28 276 2965

United Kingdom

Diamond Trading Company
17 Charterhouse Street, London, EC1N 6RA
Tel: +44 20 7404 4444 Fax: +44 20 7831 0663

Contact information for De Beers Corporate Headquarters and general enquiries are presented on the back cover.

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 UN Global Compact and other UN, 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 DTC 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 DTC 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/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

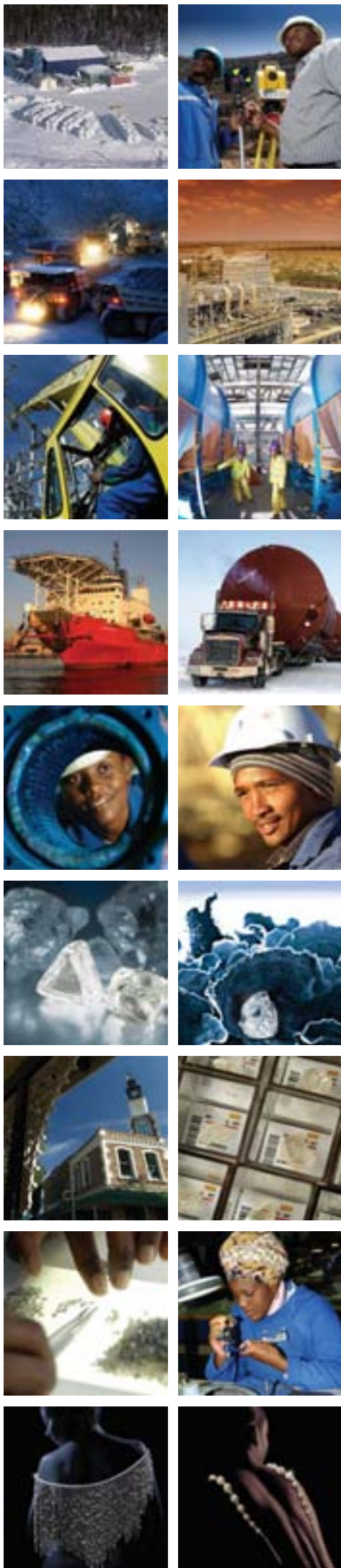
Community

- 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
- Respecting community governance and a community's rights to consultation with a view to securing their free, prior and informed consent for any significant operations that have substantial impact on their interests and livelihoods
- 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/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

Following extensive consultation, the Principles were approved by the Executive Committee and signed by all Managing Directors in 2006.



DE BEERS

A DIAMOND IS FOREVER

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Environmental information

This report was printed on 9lives paper, produced with 80% post-consumer recycled fibre, and 20% virgin totally chlorine free fibre sourced from sustainable forests

Prepared, designed and produced by De Beers with Maplecroft. April 2007