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Group financial performance

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Our strategy in action

Diamonds

Share of associate's operating profit

2006
\$463 m

2007
\$484 m

EBITDA

2006
\$541 m

2007
\$587 m

- De Beers remains world leader in diamonds after 120 years
- Diamond production again exceeds 51 million carats
- Resilience of diamond jewellery market underpinned by China going forward

Business overview

Anglo American's diamond interests are represented by its 45% shareholding in De Beers. The other shareholders in De Beers are Central Holdings Limited (an Oppenheimer family owned company), which owns 40%, and the Government of the Republic of Botswana (GRB) with 15%.

De Beers is the world's leading diamond business, with expertise in the exploration, mining and marketing of diamonds. De Beers and its joint venture partners operate in more than 20 countries across five continents, employing nearly 22,000 people. From its 15 mines across Botswana, Canada, Namibia, South Africa and Tanzania, De Beers produces approximately 40% of the world's rough diamonds by value.

De Beers holds a 50% interest in both the Debswana Diamond Company (Proprietary) Limited and Namdeb Diamond Corporation (Proprietary) Limited, owned jointly with the GRB and the Government of the Republic of Namibia (GRN), respectively, and a 70% shareholding in De Beers Marine Namibia. The company also has a 75% interest in Williamson Diamonds Limited in Tanzania.

In addition, De Beers holds a 74% interest in South African-based De Beers Consolidated Mines Limited (DBCM), with a black economic empowerment (BEE) group (the Ponahalo interest consortium) holding an indirect 26% interest.

De Beers owns 100% of Diamond Trading Company International (DTCI). It also has a 50% interest with the GRB in Diamond Trading Company Botswana (DTCB), which will sort and value Botswana's diamond output as well as performing local sales and marketing activities. Additionally, a 50% interest is held, along with the GRN, in Namibia Diamond Trading Company (NDTC) which will sort and value Namibia's diamond output and carry out local sales and marketing activities.

Rough or uncut diamonds are broadly classified either as gem diamonds or industrial quality diamonds, with gem representing by far the larger of the two markets by value. The primary world market for gem diamonds is in retail jewellery where aspects such as size, colour, shape and clarity have a large impact on valuation. De Beers, through DTCI, supplies its clients – known as sightholders – with parcels of rough diamonds that are specifically aligned to their respective cutting and polishing needs.

De Beers and Moët Hennessy Louis Vuitton have established a high-end retail jewellery joint venture, through De Beers Diamond Jewellers, with stores in the most fashionable areas of some of the world's great cities, including New York, Los Angeles, London, Paris, Tokyo, Moscow and Dubai, with aggressive plans for expanding the global network in future.

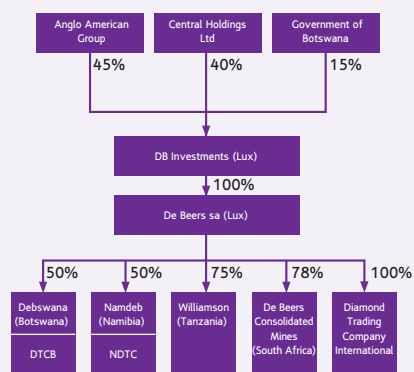
De Beers, through Element Six, is a major producer of synthetic industrial diamond material; applications include cutting, grinding, polishing, wire making and other technical and scientific uses. Element Six has a significant share in the oil and gas drilling business and has expanded recently by building an industrial diamond plant in China and the acquisition of a majority stake in a plant in Ukraine. In 2007, Element Six further enhanced its hard material portfolio by successfully completing the acquisition of Barat Carbide in Germany. With this step, Element Six acquired significant materials competence in carbide as well as market channels and application know-how in mining, road construction and for wear parts. With sales of well above \$100 million, Barat Carbide is a large addition to the Element Six group, resulting in total annual sales of over \$500 million for the combined entities.

Strategy and growth

During 2007, De Beers refocused its exploration activities, conducted a strategic review of mining assets and continued to invest in new mines. The company also restructured its mine portfolio, distribution and marketing activities and established new sales and marketing partnerships with producers in southern Africa.

The review is an essential part of De Beers' transformation and its business model is now focused on maximising consumer demand for diamonds, and not in maximising its market share. As part of its review, De Beers prioritised future investment in mining opportunities that fit its long term strategy. The sale of Cullinan, Koffiefontein and Kimberley underground mines together with some of the Kimberley tailings operations have been agreed and the merger of the West Coast operations of Alexkor with the

DE BEERS OWNERSHIP STRUCTURE



Industry overview

Up to two-thirds of the world's diamonds by value originate from southern and central Africa, while significant sources have been discovered in Russia, Australia and Canada. Annual diamond output amounts to approximately 156 million carats.

Most diamonds come from the mining of kimberlite deposits. Another important source of gem diamonds, however, has been secondary alluvial deposits formed by the weathering of primary kimberlites and the subsequent deposition of released diamonds in rivers and beach gravels.

Business unit overview continued



Above: Namdeb vessel *Ya Toivo* mines for diamonds off the coast of Namibia. Today, about half of Namdeb's production comes from its marine operations

Namaqualand Mines into a new, stand-alone diamond mining company has been announced. The Koffiefontein mine in South Africa was sold to Petra Diamonds Limited in July 2007. Petra also reached agreement with De Beers to purchase the Kimberley underground mines in September 2007, with this transaction expected to be concluded in early 2008. The Cullinan mine has also been sold as a going concern to Petra in a BEE consortium for approximately R1 billion.

The sale of Cullinan, consistent with the company's strategy to operate mines best suited to the future plans of De Beers in South Africa, completes the restructuring of DBCM's portfolio and will lead to improved returns on capital as new projects are commissioned in 2008.

De Beers is fully committed to implementing agreements with government partners that will lead to greater beneficiation in producer countries. Both NDTC and DTCB were established during 2006 to sort and value local diamond output as well as to perform local sales and marketing activities. The new joint ventures with the respective government partners will work towards the development of sustainable downstream diamond industries in Namibia and Botswana.

DTCB is expected to be fully operational in early 2008 and all 16 of the country's licence holders have been approved as sightholders, with contracts concluded for the years 2008 to 2011. In total, approximately \$360 million of rough diamonds are expected to be sold by DTCB to sightholders in 2008.

NDTC announced its client list consisting of 11 sightholders on 3 October 2007. On 29 October, those companies with operational factories as of 18 July received their first supplies for cutting and polishing in Namibia and the remainder will receive supply from 31 March 2008.

With the establishment of the State Diamond Trader (SDT) in South Africa, De Beers and the Department of Minerals and Energy (DME) of the Republic of South Africa have agreed that De Beers will make its management and technical expertise available to the DME for the next three years to facilitate the start up of the SDT. De Beers, like all other South African diamond producers, will be selling up to 10% of its production to the SDT.

Following a review of the DTCL operations, a decision was taken to maximise downstream effectiveness by establishing two separate divisions. The new De Beers Group Marketing (DBGM) unit will now be responsible for the marketing activity previously undertaken by DTCL, while DTCL will concentrate on purchasing, sorting and selling rough diamonds.

Downstream, DBGM continues to drive consumer demand and stimulate growth in the industry through its own marketing initiatives and an increase in advertising programmes by the DTC's clients, its downstream trade partners.

In exploration, De Beers is concentrating on projects in Angola, the Democratic Republic of Congo (DRC), Botswana, South Africa, Namibia, Canada and India. Exploration in the DRC and Angola, in conjunction with partners, is beginning to yield results as projects move from early to advanced stages. Advanced stage evaluation in Botswana has resulted in the potential development of AK06, a kimberlite mine in the Orapa region of Botswana. De Beers is conducting both early and advanced stage exploration activities in Canada focusing on the Slave and Superior craton target areas. In collaboration with Namdeb and DBCM and their associated partners, prioritised early stage exploration is being undertaken in northern Namibia and South Africa, respectively.

Financial overview

The Group's share of operating profit from De Beers increased by 5% to \$484 million. Earnings from joint ventures were higher than in 2006 and there was a modest rise in diamond prices in 2007, although the weakening of the dollar in the second half of the year had an impact on costs and margins. Diamond sales were lower than in 2006, resulting from diminishing supplies of rough diamonds to DTCL from the Russian state producer Alrosa. Underlying earnings at De Beers were higher than the prior year, principally reflecting an increased share of earnings from joint ventures and a tax refund to DBCM, which offset lower preference share income arising as a result of the June 2006 redemptions and higher minorities due to the Ponahalo BEE transaction which was completed in April 2006.

\$ million (unless otherwise stated)	2007	2006
Share of associate's operating profit	484	463
EBITDA	587	541
Group's aggregate investment in De Beers	1,802	2,062
Share of Group operating profit	5%	5%