

De Beers Société Anonyme

(Incorporated under the laws of Luxembourg)

Friday, 24 July 2009

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

DECISIVE ACTION STEERS DE BEERS THROUGH ECONOMIC CRISIS

Historically Difficult Trading Conditions Show Significant Improvement in Q2

Financial Summary				
US Dollar millions				
	Q1	Q2	H109	H108
Total sales	400	1 311	1 711	3 740
EBITDA	(81)	378	297	831
Net Earnings	(186)	189	3	316
Profit before finance charges and taxation	(153)	293	140	662
Free cash flow	(233)	107	(126)	98
Gearing	52.7%	40.0%	40.0%	47.8%

DIRECTORS' COMMENTS

2009 H1 snapshot

- ◆ Profit before finance charges and taxation of US\$140 million and EBITDA of US\$297 million, in spite of extremely difficult trading conditions, particularly in the first quarter.
- ◆ Sales of rough diamonds by the DTC (including those through joint ventures) in H1 were US\$1.4 billion, 57 per cent lower than H1 2008, due to reduced purchases by Sightholders as they worked to reduce inventory levels and increase liquidity in the face of the global economic downturn. After very difficult trading conditions experienced in Q1, Q2 saw a significant pick-up in sales with the average Sight more than doubling in Q2 compared with Q1.
- ◆ Overall costs across the group were reduced by more than 50 per cent compared with last year, as the group focused on cash management and preservation.
- ◆ Safety remains a priority, and De Beers is committed to targeting zero harm on its operations. The group LTIFR was maintained at 0.19 during the six month period.

Response to economic downturn

As the global economic crisis worsened during Q4 2008, De Beers forecast significantly lower sales for 2009 and took decisive steps to ensure the long-term sustainability of its business. De Beers continues to focus on five key elements (production levels in line with client demand, cost savings, operating efficiencies, debt management and stimulation of consumer demand).

Produce In Line with Client Demand

Production in the first half of 2009, at 6.6 million carats, was 73 per cent lower than the same period last year in response to decreased demand. As planned, this reduction was focused on Q1, which saw a 91 per cent reduction year on year to 1.1 million carats. This was as a result of production holidays taken on the De Beers mines in South Africa and Canada as well as on those of its joint venture partners in Botswana and Namibia. All but one of the mines in Botswana has subsequently resumed operations, and group production during Q2 was 5.5 million carats. It is anticipated that carat production for the full year will be approximately 50 percent that of 2008.

Drive Cost Reductions across the Business

De Beers has aggressively reduced operating and production costs, realising US\$612 million in savings compared with last year. Capital expenditure has been reduced by US\$ 241 million over the same period. Going forward, reduced expenditure will position the group to withstand the economic downturn and, post recession, emerge cash generative creating the conditions necessary for recovery.

Enhance Operating Efficiencies

De Beers has identified efficiencies which have enabled a reduction in the global workforce (including contractors) of 23 per cent. These efficiencies have been achieved through a de-layering of the organisation, and a reduction in the activities of the corporate centres. It is anticipated that the majority of the efficiencies will be permanent, even as the market trends upward.

Manage the Debt

During H1, the shareholders provided US\$500 million in additional subordinated loan funding to De Beers. At 30 June, the total subordinated shareholder loans due amounted to US\$817 million, before IFRS interest adjustments. De Beers has begun discussions with lending banks regarding the renewal of a US\$1.5 billion term loan facility which expires in March 2010. These discussions are ongoing and management expects to conclude the outcome during the course of H2. The profile of De Beers' net debt is as follows:

US Dollar millions		
	30 June 2009	31 December 2008
Total net debt	4 063	3 800
Shareholders' loans	734	248
Preference shares	107	107
Net bank borrowings	3 222	3 445
<i>Which are repayable :</i>		
- loans within 12 months	1 500	-
- thereafter	1 722	3 445

At the end of June, De Beers' gearing, excluding subordinated shareholders' loans, was 40% (December 2008: 48.4%). Net cash amounted to US\$622 million (December 2008: US\$147 million).

Maximise Demand Opportunities

The trading environment in the rough diamond market was extraordinarily difficult in Q1 but, during Q2, De Beers began to see positive trends in demand, sales and price.

As consumer desire for diamonds remains strong, De Beers is investing in three separate initiatives to turn this sentiment into sales. In the Far East, De Beers' proprietary diamond brand *Forevermark* has continued to expand in Hong Kong, Macau, China and Japan with the result that the brand is now available in 245 doors across Asia. *Forevermark* is currently being expanded into a further six cities in China.

In the US, De Beers is currently developing its latest *Big Idea* concept with Sightholders and retailers, and the distinct new proposition will be unveiled later in the year in time for the Christmas retail season. Since 2001, 70 per cent of the incremental growth in the US retail diamond jewellery market has come from launching previous *Big Ideas*, such as *Trilogy* and *Journey*.

De Beers is a founding member of a new industry marketing initiative, The International Diamond Board, which aims to drive demand and protect consumers' confidence in diamonds.

Outlook

The industry has been severely impacted by the global economic environment being the most difficult in decades. A result, in part, of De Beers' decision to reduce production and sales in response to lower client demand, inventories of rough diamonds in the cutting centres have reduced by some 30 per cent from their peaks in 2008, and debt levels in the cutting centres have reduced to more sustainable levels. In Q2 De Beers has seen industry sentiment improve significantly, while the price of rough diamonds has begun to trend upward. These are translating into improving sales trends for the DTC.

At the retail level, demand remains subdued in the major US market. As the rate of decline in demand has slowed, however, the second half should see improvement. Demand from emerging markets, mainly China and India, remains positive.

De Beers will continue to take a cautious approach in terms of production, sales and cost management, while anticipating the continued steady recovery of the industry. Looking to the medium-term, diamonds have historically performed well in periods following recessions, with significant price growth seen in almost every recovery period dating back to before the 1970s. In the long-term, the fundamentals of the diamond industry remain strong. With no major new diamond discoveries in more than a decade, and with worldwide reserves at an all time low, diamonds will become more scarce. As demand grows in emerging markets it is likely that sales will outpace forecast diamond supply for many years to come.

De Beers announces interim results as follows:

De Beers Société Anonyme
Consolidated Income Statement
for the half-year ended 30 June 2009
(Abridged)

	US Dollar millions		
	Half-year 30 June 2009	Half-year 30 June 2008	Year 31 December 2008
Total sales (Note 1)	1 711	3 740	6 888
Less: cost of sales	1 588	2 967	5 525
Gross profit	123	773	1 363
Less: operating costs (Note 2)	153	410	817
Operating (loss) profit	(30)	363	546
Add:			
Trade investment income	99	305	583
Foreign exchange (losses) gains	71	(6)	(306)
Profit before finance charges and taxation	140	662	823
Less: net finance charges (Note 3)	98	100	240
Profit before taxation	42	562	583
Less: taxation	48	231	304
(Loss) Profit after taxation	(6)	331	279
Less: interests of outside shareholder in subsidiaries	15	47	55
Own (loss) earnings	(21)	284	224
Add: share of retained income of joint ventures	24	39	70
Net earnings before once-off items	3	323	294
Once-off items (Note 4)		(7)	(204)
Net earnings	3	316	90
Underlying (loss) earnings (Note 5)	(164)	350	515
EBITDA	297	831	1 222

Consolidated Balance Sheet
30 June 2009
(Abridged)

	US Dollar millions		
	30 June 2009	30 June 2008	31 December 2008
Share capital and reserves	2 586	3 047	2 408
Interests of outside shareholders	257	326	220
Total shareholders' equity	2 843	3 373	2 628
Shareholders' loans	734	91	248
Other net interest bearing debt*	3 329	4 008	3 552
Other non-current liabilities	680	824	665
	7 586	8 296	7 093
Fixed assets	3 342	3 746	3 100
Other non-current assets and investments	3 051	3 219	2 933
Net current assets	1 193	1 331	1 060
	7 586	8 296	7 093

*Other net interest bearing debt includes short-term borrowings and is net of cash

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Summary of cash flows for the half-year ended 30 June 2009

	US Dollar millions		
	6 Months 30 June 2009	6 Months 30 June 2008	Year 31 December 2008
Cash (consumed by) available from operating activities	(31)	455	700
Less: investing activities			
Fixed assets – stay-in-business	67	97	204
– expansion	19	230	199
Investments	9	30	39
	95	357	442
Free cash flow	(126)	98	258
Less: financing activities			
Ordinary dividends (including payments to outside shareholders)	74	135	358
Cash flow	(200)	(37)	(100)
Add (Deduct):			
Shareholder advances	500		248
Movements attributable to changes in exchange rates	(77)	(5)	357
Decrease (Increase) in net interest bearing debt	223	(42)	505

Notes

1. Total sales of natural rough diamonds (including joint ventures)	1 429	3 288	5 930
2. Operating costs include:			
- Exploration, research and development	45	133	232
- Sorting and marketing	52	105	266
- Group technical services and corporate overheads	56	172	319
	153	410	817
3. Net finance charges include preference dividends amounting to	5	8	16
4. Once-off items comprise:			
Costs in respect of a class action settlement agreement		7	7
Net costs in respect of restructuring			21
Impairment in respect of goodwill attributable to the Element Six and DBDJ business			176
		7	204
5. Underlying (loss) earnings* is calculated as follows:			
Net earnings before once-off items	3	323	294
<i>Adjusted for special items and re-measurements:</i>			
Asset disposals net of impairment and restructuring charges	1	(4)	1
Re-measurement gains on financial instruments	(168)	31	220
Underlying (loss) earnings	(164)	350	515

* *Underlying (loss) earnings comprise net earnings attributable to shareholders adjusted for the effect of any once-off or special items and re-measurements, less any tax and minority interests. Special items include closure costs, exceptional legal provisions and profits and losses on the disposal of or impairments of assets. Special items which are considered to be significant relative to the results are categorised as being once-off. Re-measurements 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.*

De Beers Société Anonyme

Other information

	US Dollar millions		
	6 Months 30 June 2009	6 Months 30 June 2008	Year 31 December 2008
Exchange rates			
US\$ / ZAR average	9.00	7.49	7.75
US\$ / ZAR period end	8.09	8.09	9.28
US\$ / C\$ average	1.20	1.00	1.08
US\$ / C\$ period end	1.13	0.98	1.23
Ordinary dividends paid			
2008 – Interim		77	77
– Special Interim		88	88
– Final			53
Production summary			
<i>Tons Treated 000's:</i>			
DBCM	4 559	11 358	21 832
Debswana	4 003	17 147	41 012
De Beers Canada	1 272	902	2 690
Namdeb	1 029	9 119	16 922
Williamson Diamonds		1 233	2 154
	10 863	39 759	84 610
<i>Carats recovered 000's</i>			
DBCM	1 655	6 373	11 960
Debswana	3 915	16 171	32 276
De Beers Canada	636	616	1 640
Namdeb	385	998	2 122
Williamson Diamonds		68	134
	6 591	24 226	48 132

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Visit the official De Beers group website for more information on the Company and where you can view and download a selection of images - www.debeersgroup.com.