28th September 2014

Thank you for offering De Beers the opportunity to respond. First and foremost, we refute the findings of the 'Rough to Polished: a case study of the diamond pricing and valuation system" as they are based on flawed methodology and misunderstandings of the sector.

There are a number of areas where the report is factually wrong. It also fails to distinguish between rough and polished stones. The Government Diamond Valuator (GDV) does not rely on our price book to value rough diamonds. In fact, it views and values rough independently to reach its own valuation. The GDV is independently appointed by the South African government to ensure the rough diamonds mined in the country are priced at fair market value.

The report fails to recognise that whilst we export rough diamonds mined in South Africa, we also import aggregated rough (equivalent to 40% by value of its South African production) from our global production in to the country for the purposes of local beneficiation. Rough diamonds from these countries have a greater US$ per carat than rough diamonds produced in South Africa. Therefore, when these rough diamonds are aggregated to create a sale mixture, the value will be higher.

The report also confuses the way our rough diamonds are mined and sold, particularly in South Africa**.** Rough diamonds are mined in South Africa and kept in the country for sorting and valuing by De Beers (based on our price book, which is the same globally). 10% of those rough diamonds are then offered to the State Diamond Trader (SDT) to support in-country beneficiation. In addition, any large or exceptional stones are also not exported. They remain in South Africa for sale to local beneficiators. The GDV then physically sees the goods and values them itself. If agreement cannot be reached, then the Independent Diamond Valuator is brought in to establish an agreed market price. All the remaining diamonds (representing 85% by volume once SDT and large stone allocations have been retained in SA) are then exported to Botswana to be aggregated with our global production (thereby adding value). We ensure that every rough diamond that is economically cuttable is sold in South Africa.

Our economic contribution to South Africa is significant and goes well beyond our tax obligations including R6.1bn in taxes to the South African government between 2008-2012.We also invest significantly to develop cutting and polishing industries in South Africa. In 2012, De Beers sold around R3bn of rough diamonds to the SDT and South African cutting and polishing businesses. These sales not only support direct employment in the cutting and polishing industry in South Africa (currently c.1,000 people) but also support the supply chain.

Our approach to management of our tax affairs is an important part of maintaining our position as a responsible partner with the jurisdictions in which we operate and as a result, we are very careful to ensure that we meet our tax obligations as they fall due. We have long supported the principle of tax transparency and have published details of our tax payments for many years.

It's important to note that only around 15% (by volume) of our global production is from South Africa, with the balance coming from our mines in Botswana, Namibia and Canada. De Beers produces only around 25% (by volume) of the world's diamonds in what is a competitive market.