

8 November 2013

Dear Sightholder,

A consumer's desire for diamonds is the only source of value for the industry. And that desire is underpinned by confidence. Confidence that the journey a diamond takes from mine to finger lives up to the moment it celebrates. Confidence that a diamond, as it is passed from generation to generation, will appreciate in value over the long-term. And confidence that a natural treasure given to symbolise forever was actually formed in the Earth billions of years ago.

With this in mind, some of you have asked us for our view on the trading of undisclosed synthetics, and for our support in helping you to fully understand the issue and protect your businesses.

De Beers' view of synthetics is clear and unchanged. Our extensive consumer insight research repeatedly shows that when it comes to life's most important moments, consumers want natural diamonds. Only the inherently rare gem that nature created billions of years ago is precious enough to serve as this powerful symbol. While it is possible that appropriately disclosed synthetics could find a legitimate place in the industry (low value synthetic ruby and emerald jewellery has existed for decades in the sub-\$200 retail price point), passing off a synthetic as a natural diamond threatens consumers' confidence in diamonds, and is at best unethical and at worst fraudulent.

While we believe the undisclosed trading of synthetics is confined to a very small portion of the global industry, there is clearly heightened concern around the issue. We have developed the enclosed guide to help you understand synthetics, what to look for and how you can protect yourself.

You value what it means to be a Sightholder of the De Beers Group of Companies. It is a signature of confidence for your clients, partners and lenders. We therefore have a shared responsibility with you to protect the reputation and goodwill of De Beers and our Sightholders. With this in mind, here is what you need to know:

- **Rough diamonds from De Beers:** De Beers sells diamonds we produce from our own mines in Botswana, Canada, Namibia and South Africa, and you can be sure that all rough diamonds purchased from De Beers are natural.
- **Detection technology:** We have the ability, today, to detect all synthetics. De Beers has invested heavily over decades to develop technology that enables us, and you, to detect all types of synthetics. And we are continuing to invest to ensure we remain several steps ahead of synthetic production technology.
- **Grading labs:** Leading laboratories have De Beers' synthetic detection equipment, and can provide you with assurances on the goods you submit to them.
- **Melee screening:** De Beers is currently testing a new Automated Melee Screening (AMS) machine that we expect to roll-out in the first half of 2014. Until then, Sightholders can test samples of melee parcels with DiamondSure to reduce the risk of purchasing undisclosed synthetics.
- **Best Practice Principles (BPPs):** The BPPs clearly prohibit the sale of undisclosed synthetics by Sightholders. We are working to progress the BPPs further to ensure appropriate systems and controls are in place to protect Sightholders from inadvertently trading in undisclosed synthetics. We will communicate further on these changes in due course.
- **Disclosure of entities known to be trading in undisclosed synthetics:** De Beers will work with industry bodies to identify entities that have sold undisclosed synthetics. This will help discourage non-disclosure.
- **Criminal offence:** Selling one product by misrepresenting it as another, as in the case of undisclosed synthetics, could be illegal and may be a criminal offence in some jurisdictions to be addressed by law enforcement authorities.

In addition, De Beers will be commissioning a Sightholder Advisory Panel with a mandate to develop clear and pragmatic guidance on steps you can take within your operations to mitigate risk and protect your business.

In the meantime, there are a number of steps we would expect you to take to protect yourself from inadvertently buying or selling undisclosed synthetics:

- **Purchasing rough diamonds:** In the rough state synthetics are easily identifiable and you can easily train your rough buyers to recognise synthetics. So if you are manufacturing rough, you can have greater confidence that you are working with natural diamonds.
- **Know your polished supplier:** Purchases from primary source manufacturers should come with assurances that the diamonds are natural and were manufactured directly from rough. However, the longer the pipeline the bigger the risk. Purchases from secondary sources (i.e. not the polisher of the goods), increases the opportunities for synthetics to be substituted for natural diamonds or spread across parcels sold to unsuspecting clients.
- **Screening:** While it is important to seek appropriate assurances from all your suppliers, ultimately the onus not to trade in undisclosed synthetics sits with you. Therefore, testing these goods yourself, or sending them to a lab for testing, will provide you with greater confidence in what you are buying. If you are not dealing directly with the polisher of the rough, it is necessary to screen for synthetics. Whether you do it yourself or send it to an internationally recognised lab, you have the ability to screen your goods and be fully confident in what you are buying.
- **Factory controls:** Once assured or tested and in your possession, your diamond stock is vulnerable to “swapping” on the factory floor. Effective security and monitoring processes will protect the value and integrity of your stock.
- **Report it:** If you have been sold undisclosed synthetics, you should take action to report it to relevant organisations, including bourses, trade associations and potentially law enforcement agencies. To support this, we will also be engaging other leading industry organisations to identify effective mechanisms for identifying those who trade in undisclosed synthetics.

Ultimately, as a Sightholder of the De Beers Group of Companies, the contractual obligation to not sell undisclosed synthetics sits with you. Doing so is a material breach of the BPPs and puts your supply contract at risk. Taking the straightforward steps listed above can dramatically reduce your risk of inadvertently selling an undisclosed synthetic. The BPPs will be adapted to assess the implementation and efficacy of Sightholders’ risk mitigation measures.

As leaders of the diamond industry we all have a responsibility to our clients, our employees, our partners and ultimately consumers to take steps to protect ourselves from fraudulent activity, and protect the value of our finite natural resource. Our advice is simple – as a Sightholder, you need to know what you are buying and selling. Ignorance cannot be an excuse and we must all take the necessary steps to protect our reputations.

More needs to be done, and the Technologies team at De Beers is producing more screening equipment like the AMS and will launch further technology in the years ahead. I would like to thank you for your support thus far and would value direct engagement with you to get your views and discuss ideas on how we can continue to safeguard consumers’ confidence in diamonds.

Regards,



Philippe Mellier
CEO, De Beers Group