Addendum to *Diamond Industry Annual Review, Republic of Angola 2005*

De Beers Signs New Angolan Agreement

After a five year legal dispute over a 1991 contract with Angola's state diamond company, Endiama, De Beers signed a new agreement covering the exploration, mining and marketing of diamonds on June 17, 2005.

The contract covers five years of prospecting for new kimberlites in a 3,000 km^2 area of Lunda Norte. If prospecting produces the expected results – and there is every reason to think it will – a joint mining venture with Endiama will result.

The arbitration process has led to a redefinition of relations between the two companies. The original contract encompassed a $50 million loan to develop mines in the Cuango. These were occupied by UNITA 15 months later, and were used to fund arms purchases. However, due to the absence of a *force majeure* clause in the contract, interest on the loan remained payable. Now, the $50 million repayment will be transformed into investment in the new project. De Beers has acknowledged that it cannot expect the government to restore the much vaster prospecting areas prior to a change in law in 2000. The change in law reduced all concessions to a maximum of 3,000 km^2, both for security reasons, and to allow the development of smaller Angolan companies.

Perhaps the most important question is that of diamonds sales to De Beers. De Beers had, under the 1991 contract, the right to buy all diamonds from the Cuango mines, at that point 80 per cent of Angola's diamond production; these would also help to repay the $50 million loan. This ended in 2000, when Angola changed its sales system and developed the ASCorp single channel, under pressure from the UN to provide a system that ensured the exclusion of UNITA diamonds from official circuits. The new contract with De Beers has no country-wide implications but instead states that a joint venture will be set up between De Beers and Endiama/SODIAM to sell the diamonds found. This is similar to the Alrosa contract where such a joint venture has also been set up to market the production from Catoca and Alrosa's new mines.

De Beers' new prospecting contract is the latest in a series of agreements that will help turn Angola into a major producer from kimberlites, with one mine already operational, one under construction and additional three with prospecting at a relatively advanced point.

BHP Billiton followed up the announcement of the De Beers contract by stating it will remain a major player in the diamond market and is aggressively exploring Angola in search of the world's next big gem deposit. BHP's partnership with Petra Diamonds at Alto Cuilo is expected by analysts to produce a major diamond discovery.

Two further companies took a more competitive approach to the De Beers/Endiama announcement. New Millennium Resources/Angola Resources Pty. announced that it is bringing forward its exploration programme at its Rio Lapi concession in Angola, by six months, to commence prospecting in June 2005. The company will carry out drilling and analysis of up to eleven magnetic anomalies on its concession, as well as continuing alluvial production, which has now reached full output.

Trans Hex has also increased its operations and announced plans to prospect for kimberlites, having acquired a 39 per cent stake in an Angolan company, Matikara Prestação De Serviços, which holds exploration rights on three alluvial properties in Angola and one with kimberlite exploration rights. Transhex has also acquired a share in the Gango and Luana concessions in Angola. Bulk sampling on both projects will start in the third quarter of 2005. Transhex's Luarica mine, in which it holds a 35 per cent share, is now producing 95,000 carats a year but will increase production to 168,000 carats in 2006. Fucauma is still being commissioned but at full capacity will produce c 120,000 carats a year.

As it now stands, Angola may have eight kimberlite pipes under development, with at least three being mined, within the next three years, and other discoveries are highly probable. The new De Beers contract does not place De Beers as the most significant player in Angola, but it does aid in consolidating the new direction for diamond mining there.

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