



Annual Report 2014



Feedback

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The following icons indicate where additional information is available online, in the Groups' Sustainability Report or elsewhere in this report.

Indicates additional information

available on the Group's website
www.gemdiamonds.com.



Refers the reader to further

information available in the Group's 2014
Sustainability Report.



Gem Diamonds is a leading producer of high-value diamonds. **The Group owns the Letšeng mine in Lesotho, and the Ghaghoo mine in Botswana.**

Our strategy is based on three broad pillars:

value creation, growth and sustainability



Annual Report 2014



Sustainable Development Report 2014

About Gem Diamonds

The Letšeng mine is renowned for its regular production of large, top colour, exceptional white diamonds, making it the highest average dollar per carat kimberlite diamond mine in the world. Since Gem Diamonds acquired the mine in 2006, Letšeng has produced four of the 20 largest white gem quality diamonds ever recovered.

Gem Diamonds has an organic growth strategy based on enhancing the operating efficiencies of the Letšeng mine and bringing the Ghaghoo mine into full production. Achieving operational excellence through cost reductions and enhancing current production is an essential focus.

Additional value is created through the Group's expanded sales, marketing and manufacturing capabilities.

Caption for front cover: The Satellite pipe at Letšeng.

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GEM DIAMONDS AT A GLANCE

We continue to focus on creating value by focusing on mining and selling our diamonds effectively to maximise returns.

MINES

Letšeng Diamonds

OWNERSHIP

70%

Gem Diamonds Limited

30%

Government of the Kingdom of Lesotho

ACQUIRED July 2006

DESCRIPTION OF OPERATION

- Mining and processing diamond bearing ore sourced from the Main and Satellite kimberlite pipes

TOTAL RESOURCE

5.0 million carats

(as at 1 January 2014)

IN-SITU VALUE

US\$10.4 billion

(as at 1 January 2014)

STRATEGIC OBJECTIVES

- Optimisation of expansion projects while improving diamond liberation and reducing diamond breakage
- Focus on cost reductions
- Implement life of mine extensions
- Optimise timing for underground mining

OPERATIONAL PERFORMANCE 2014

Carats recovered: 108 569

Average US\$ per carat: US\$2 540*

Tonnes treated: 6.4 million

Waste tonnes mined: 19.9 million

*Includes carats extracted for polishing at rough valuation.

SUSTAINABILITY PERFORMANCE 2014

- Maintained a five-star rating in the annual external health, safety, social and environment (HSSE) audit
- Lost time injury frequency rate (LTIFR) 0.05
- All injury frequency rate (AIFR) 2.05
- Zero fatalities; one lost time injury (LTI)
- Zero major environmental incidents
- Corporate social investment (CSI) projects carried out on schedule
- 92% of workforce made up of Basotho nationals, 18% of whom are from project affected communities

FOCUS FOR 2015

- Complete implementation of Plant 2 Phase 1 upgrade
- Complete the construction and commissioning of the Coarse Recovery Plant
- Complete mine planning studies and pit optimisation; review optimal timing for commencement of underground mining
- Undertake further studies into the next phase of expansion programme
- Continuation of test work with new waste sorting techniques
- Continuation of the drive to reduce diamond damage

Gem Diamonds Botswana

OWNERSHIP

100%

Gem Diamonds Limited

ACQUIRED May 2007

DESCRIPTION OF OPERATION

- Development of the Ghaghoo diamond mine in the central Kalahari Game Reserve in Botswana

TOTAL RESOURCE

20.5 million carats

(as at 1 January 2014)

IN-SITU VALUE

US\$4.9 billion

(as at 1 January 2014)

STRATEGIC OBJECTIVES

- Optimise the returns following the completion of Phase 1 capital project
- Optimise and assess opportunity to expand into Phase 2

DEVELOPMENT PERFORMANCE 2014

- Three kimberlite tunnels completed on Level 1
- Processing plant commissioning commenced
- Capital project complete
- Carats recovered: 10 167
- Tonnes treated: 48 023

SUSTAINABILITY PERFORMANCE 2014

- Maintained its four-star rating in the annual external HSSE audit
- LTIFR 0.91
- AIFR 7.07
- Four LTIs, including one fatality
- Zero major environmental incidents
- Established a community trust. Funds were allocated to support various community projects during the year
- 93% of workforce made up of Botswana nationals, 19% of whom are from project affected communities

FOCUS FOR 2015

- Continue transition processes and systems from project phase to operation phase
- Continue ramping up production to name plate capacity
- Optimise the processing plant
- Advance the decline to open up Level 2
- Increase number of carats for sale and frequency of tenders held



Letšeng diamond mine – Lesotho – page 26



Ghaghoo diamond mine – Botswana – page 30

SALES AND MARKETING

Gem Diamonds Marketing Services

OWNERSHIP
100%
Gem Diamonds Limited

ESTABLISHED October 2010

DESCRIPTION OF OPERATION

- Diamond sorting, valuation, sales and marketing company based in Antwerp, Belgium

STRATEGIC OBJECTIVES

- Maximise the value achieved on rough and polished diamond sales
- Develop the Letšeng and Gem Diamonds brands in marketing channels beyond the mine gate
- Identify and develop key strategic areas for targeted revenue growth further down the diamond pipeline
- Increase customer base
- Develop and maintain strong relations with new and existing customers

PERFORMANCE 2014

- Achieved an average value of US\$2 540* per carat for Letšeng's rough production
- Contributed additional revenue to the Group of US\$5.8 million

** Includes carats extracted for polishing at rough valuation.*

SUSTAINABILITY PERFORMANCE 2014

- Every rough diamond produced was certified in terms of the Kimberley Process certification scheme
- Zero HSSE incidents

FOCUS FOR 2015

- Continue to achieve highest prices for all rough and polished diamonds
- Optimise the sales and marketing channels for the Ghaghoo rough production
- Optimise sales and marketing activities
- Identify diamond sales and marketing opportunities in other strategic jurisdictions



Sales and Marketing – page 33

MANUFACTURING

Baobab Technologies

OWNERSHIP
100%
Gem Diamonds Limited

ESTABLISHED April 2012

DESCRIPTION OF OPERATION

- High-tech rough diamond analysis and manufacturing company based in Antwerp, Belgium

STRATEGIC OBJECTIVES

- Advanced mapping and analysis of exceptional rough diamonds in order to better understand the true value and drive higher prices
- Provide manufacturing capacity to meet the Group's current manufacturing opportunity and growth objectives
- Manufacture high-end polished diamonds, primarily sourced from the Group's mining operations
- Continue to source and develop state-of-the-art diamond analysis technology and grow intellectual knowledge of both rough and polished diamonds
- Develop and maintain strong relationships with new and existing customers

PERFORMANCE 2014

- Baobab Technologies received 1 232 carats of high-value diamonds from Letšeng for manufacturing, with a rough market value of US\$17.2 million
- Included in the above were: a 124 carat, which was cut into 12 exceptional polished diamonds, with a total weight of 40.63 carats, and a 95 carat diamond, which was cut into four exceptional polished diamonds, with a total weight of 34.53 carats, all of which received triple 'excellent' grading in cut, polish and symmetry by the Geological Institute of America (GIA)

SUSTAINABILITY PERFORMANCE 2014

- All diamonds were certified in terms of the Kimberley Process certification scheme
- Developed and implemented an integrated safety, health, environmental and quality management system
- Zero HSSE incidents

FOCUS FOR 2015

- Increase volumes of extracted rough diamonds to be polished
- Obtained best possible polished results for rough diamonds manufactured
- Increase third party polishing business



Manufacturing – page 33

OUR BUSINESS MODEL

Gem Diamonds' strategy is based on three broad pillars, namely
growth, value creation and sustainability

We believe this offers us the flexibility to generate maximum returns for our shareholders in a sustainable manner. Our business model is focused primarily on extracting diamonds through mining. We have also expanded our focus further along the diamond value chain through our strategic sales, marketing and manufacturing activities. These activities give rise to a range of risks, which we actively manage and mitigate.

We are committed to sustainable development, seeking to create and extract maximum value for all stakeholders by exploring, mining and marketing our product responsibly.

Our overarching objective is to deliver sustainable returns for our investors while optimising the benefit for our communities and minimising our impact on the environment.



OUR STRATEGY

Growth

Organic growth

Optimisation of the Letšeng mine and bringing the Ghaghoo mine into full production using available capital to deliver optimum returns to shareholders.

Value accretive opportunities

Generation of additional value through expanded sales and marketing capabilities, incorporating manufacturing and downstream initiatives.

Value creation

Optimising returns

Improving the quality of our assets through life of mine extensions, plant improvements and mine plant optimisation.

Operating profitably and generating cash. Strengthening the capital structure. Optimising revenue achieved for our diamond production through reductions in breakage and theft.

Paying dividends.

Operational excellence

Focusing on cost reductions and enhancing our current production efficiency.

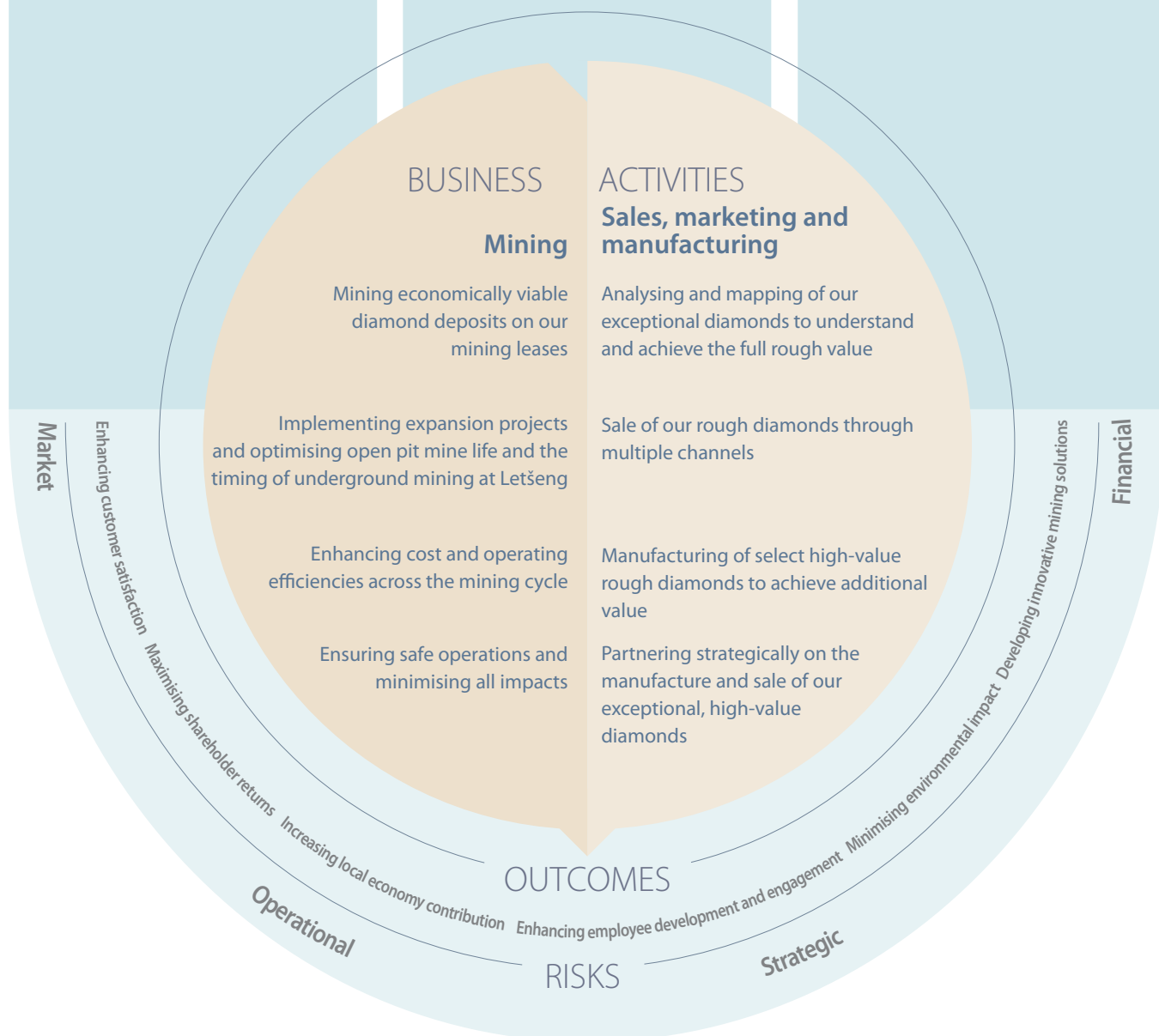
Sustainability

Stakeholders and communities

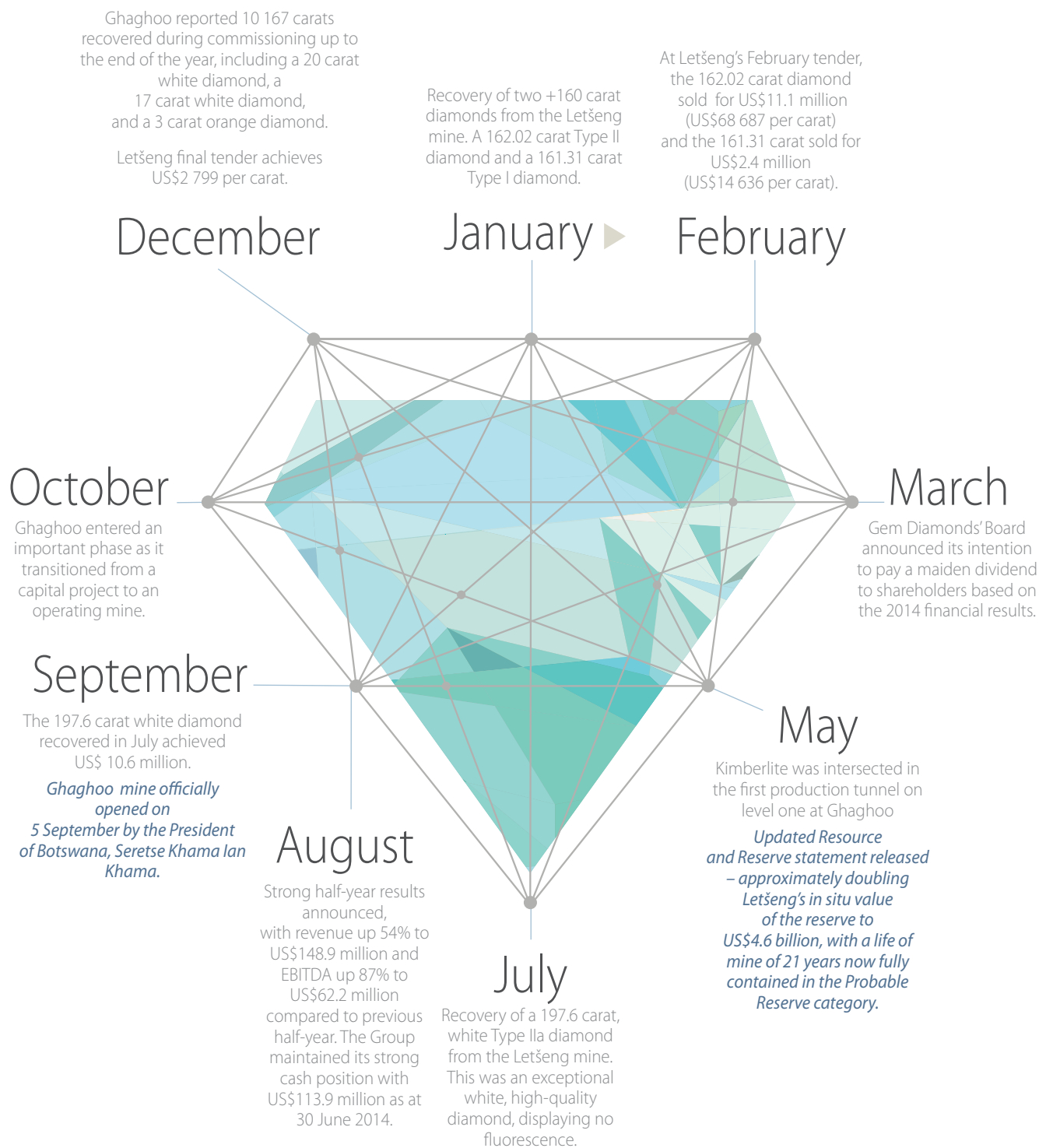
Building long-term, transparent and mutually beneficial relationships with all stakeholder groups.

Health, safety and environment

Aiming to sustainably achieve zero harm to our environment, people and communities. Effective management of impacts upon economic, social and ecological systems to the benefit of future generations.



2014 IN REVIEW



OUR LOCATIONS



CHAIRMAN'S STATEMENT

2014 was characterised by the delivery of a robust financial performance and the recommendation of our first dividend. The focus on maximising the revenue from our core assets through enhancing operating efficiencies and investing in innovative technologies has delivered improved earnings and has positioned Gem Diamonds for sustainable growth.

Our investment proposition

Diamond market fundamentals

Strategic and structural clarity

Dividend paying policy

Letšeng: value enhancing opportunities

Dear shareholder,

It gives me great pleasure to present Gem Diamonds' 2014 Annual Report.

Strategic review

In 2011, Gem Diamonds mapped out a clear strategy built on three pillars, namely value creation, growth and sustainability. This broad-based approach has allowed the Group to adapt to short-term opportunities and challenges while moving towards its long-term goal of sustainable shareholder returns. During 2014, the Group made great strides in achieving its stated objectives:

Maintaining a robust financial position and cash flows

The continued enhancement of the Group's cash position and balance sheet strength allows it to react proactively to market and operational conditions in order to meet its medium and longer-term objectives.

Group revenue rose by 27% over the prior year, with cash on hand at the end of the year of US\$110.7 million. The Group achieved a total shareholder return of 23% in 2014.

Dividend

Based on the positive results achieved since the implementation of the above strategy, the Board is pleased to recommend maiden cash dividend of 5 US cents per share. The Board has adopted a policy that will determine the appropriate dividend each year based on consideration of the Company's cash resources, the level of free cash flow and earnings generated during the year, and the expected funding commitments for capital projects relating to our growth

strategy and will aim to pay a total dividend at an approximately consistent proportion of sustaining net earnings. Dividends are expected to be declared by the Board annually with the full-year results. This policy demonstrates our commitment to returning value to shareholders.

Improving the revenue line at Letšeng through innovation

The Letšeng mine in Lesotho is synonymous with exceptional diamonds. It is, therefore, imperative that the Group continually invests in innovative ways of identifying, recovering and preserving these high-value diamonds. During 2014, the mine continued to reap the benefits of the technological investments made in the previous years. In addition, further focused projects, including the installation of the new Coarse Recovery Plant, which will further improve diamond recovery, and the Plant 2 Phase 1 upgrade, which will increase throughput, reduce breakage and improve diamond liberation, are set to advance Gem Diamonds' strategic objective of increasing revenues at Letšeng. These projects represent relatively low capital investments in keeping with the Group's focus of maintaining capital discipline in all of its operations.

While the political unrest that occurred in Lesotho during 2014 posed a possible challenge, the mine, situated four hours from the capital, Maseru, remained unaffected. The state of affairs in the country has since stabilised, with elections having taken place on 28 February 2015 under the watchful eye of the South African Development Community (SADC) representatives headed by South Africa's Deputy President, Cyril Ramaphosa.

Bringing the Ghaghoo mine into production

Gem Diamonds' technical skills have come to the fore in the development of the Ghaghoo mine in Botswana, delivering the capital project on time and within budget. It is also pleasing to report that the first diamonds produced during commissioning have been of a better quality and average size than those recovered during the exploration phase. It has also been noteworthy that the presence of rare coloured diamonds in the resource has been confirmed.

The mine development showcases Gem Diamonds' commitment to best practice in relation to its project affected communities and the environment. The communities affected by the Ghaghoo mine have been involved and consulted from the outset with the aim of achieving broader stakeholder value. In addition, numerous ecological and archaeological surveys; visual and socio-economic impact assessments; as well as an extensive public participation process have been conducted. Information gathered during this process underpinned the Group's approach to minimising Ghaghoo's ecological footprint and maximising the benefit for all stakeholders. A Ghaghoo Community Trust has been established and local community representatives sit in Trust meetings. The Trust has made a number of material interventions in community projects, long before the first diamond was sold and will continue to do so as the mine enters the next phase of development.

Continued excellence in sales, marketing and manufacturing initiatives

Positioned at the very top end of the diamond market, Gem Diamonds' Letšeng

Ghaghoo: near term asset valuation upside

mine consistently produces some of the world's most remarkable diamonds, making it the highest average dollar per carat kimberlite diamond producer in the world and achieved an average of US\$2 540* per carat in 2014. Letšeng's tenders attract the world's top diamantaires who continue to pay the highest prices for these exceptional diamonds, allowing Letšeng's rough production to remain relatively resilient to market fluctuations.

Of note, during the year Letšeng recovered its highest number of diamonds greater than 20 carats in a single year, since acquisition in 2006. This included seven +100 carat diamonds, five of which together achieved a total of US\$37.4 million. The largest diamond recovered during the year, a 299.3 carat yellow diamond, was sold into a partnership arrangement at the beginning of 2015, which will see Letšeng further benefiting from 50% of the resulting polished uplift.

Committed to the highest health and safety standards

Safeguarding the well-being of employees is both a moral and business imperative. Despite a strong overall safety performance during the year, the loss of life of one of our employees, Mr Segolame Mashumba, in January 2014, is a tragedy that has sharpened our focus on safeguarding the health and safety of our employees. On behalf of the Board and the Group, we once again send our heartfelt condolences to the family. I wish to reaffirm the Group's commitment to eliminating fatalities at work and reducing incidences of injury in line with our all-encompassing goal of achieving zero harm.

Robust corporate governance

Gem Diamonds is deeply aware of its responsibility towards the areas in which it operates, both in terms of environmental stewardship and socio-economic development. The Group recognises that its long-term viability is closely linked to the success and well-being of the communities in which it operates and strives to contribute positively to these communities. A comprehensive sustainable development programme is in place at each operation, supported in terms of strategic guidance by the HSSE Committee, at Board level. (Refer to the full 2014 Sustainable Development Report on the Gem Diamonds website.)

Corporate governance

The Group's commitment to robust corporate governance supports its ability to create sustainable returns for all stakeholders. During September 2014, the UK Corporate Governance Code was amended. The Board agrees with and supports the Code, and the Gem Diamonds' governance framework was amended accordingly. The Group is thus well positioned to introduce the necessary changes as required.

During the year, the Group's Board of Directors submitted themselves to a Board evaluation process aimed at enhancing Board governance. I am pleased to report that no major issues were identified and the feedback received will be incorporated into the Group's governance framework.

After eight years of service as Company Secretary, André Confavreux retired at age 70 on 11 January 2015. The Board would like to express its appreciation to André for his significant contribution to the Group over the years. Following André's

retirement, Glenn Turner has added the role of Company Secretary to his current duties as Executive Director.

Outlook

The long-term outlook for the diamond market remains strong. Despite a weakening of prices in the fourth quarter of 2014, partly due to concerns over bank lending and liquidity, the Group expects some firming in the market as banks in Dubai and elsewhere take steps to fill the funding gap that triggered these concerns. The medium to long-term outlook for diamond demand, therefore, is expected to remain favourable, with diamond prices beginning to trend upward in the second half of 2015.

The strategic focus for the year ahead will remain on creating value by focusing on mining and selling diamonds efficiently and responsibly. We remain confident in our ability to continue delivering returns to our shareholders through this focused execution of strategy as is demonstrated by the Group's dividend policy.

The 2014 results are a testimony to the calibre of people employed at Gem Diamonds and I would like to thank my fellow Board members for their wisdom and contribution during the year. On behalf of the Board, I would like to thank our employees for their tireless efforts and commitment to Gem Diamonds as well as our shareholders for their support as we continue to deliver on our strategy and build long-term value.

Roger Davis
Non-Executive Chairman

16 March 2015

Roger Davis



* Includes carats extracted for polishing at rough valuation.



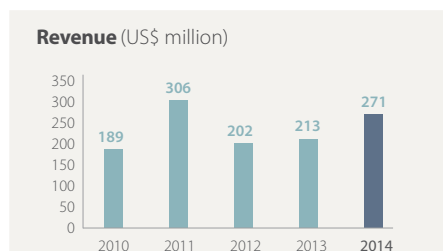
Based on the **positive results achieved since the implementation of our strategy**, Gem Diamonds is **pleased** to recommend a maiden cash dividend of 5 US cents per share.



KEY PERFORMANCE INDICATORS

Key performance indicators are used to help evaluate the performance of the Group against its strategy. These indicators are monitored continuously to effectively evaluate the performance of the Group over the short, medium and long term.

Growth

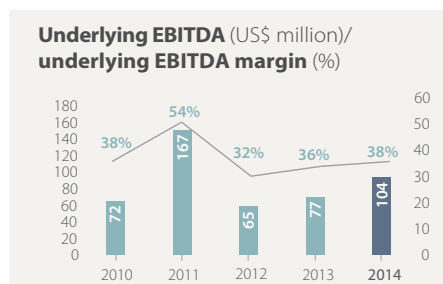


Description

Revenue represents the value of goods sold during the year (both rough and polished) and measures the level of operating activity and growth of the business. Revenue for the year is as reported in the consolidated income statement.

Commentary

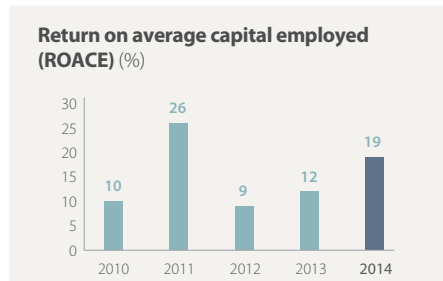
Group revenue increased by 27%, driven by 12% higher volume of rough carat sales from Letšeng and 24% higher diamond prices compared to the prior year. Revenue does not include sales from Ghaghoo as the mine had not reached full commercial production during the year. The first sale of carats recovered during commissioning concluded after year end.



Underlying EBITDA means earnings before interest, tax, depreciation and amortisation. It excludes share-based payments, other income, foreign exchange differences and exceptional items.

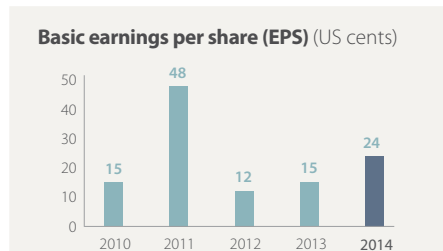
Underlying EBITDA margin is calculated as underlying EBITDA as a percentage of revenue. Both these indicators provide a measure of the operating profitability of the business. Refer to Note 3, Operating profit, in the financial statements for the calculation of underlying EBITDA.

Underlying EBITDA has continued its upward trend and has increased by 35% over the prior year. This reflects the impact of the higher Group revenue, continued cost management and operational efficiency focus during the year. EBITDA does not include any results from Ghaghoo due to the mine not having reached full commercial production. The weakening of the Lesotho loti (pegged to the South African rand) has had a positive impact on the translation of the local costs into US dollars.



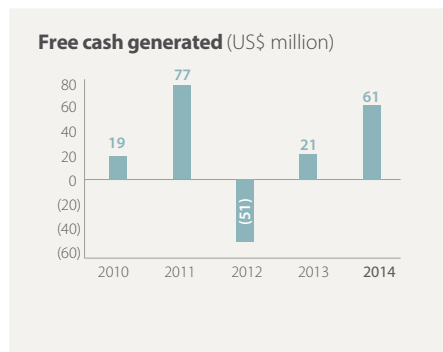
ROACE is a pre-tax measure of the efficiency with which the Group generates operating profits from its capital. ROACE is calculated as underlying EBITDA (as per Note 3, Operating profit, in the financial statements) less depreciation and amortisation divided by average capital employed (being total equity and non-current liabilities per the consolidated statement of financial position).

Pre-tax ROACE achieved 19%, driven by higher Group revenue and underlying EBITDA which positively impacted earnings. Prior years' ROACE is as reported at that point in time and includes all operations in existence in those relevant years.



Basic EPS represents net profit attributable to equity shareholders and is stated before exceptional items and after taking into account non-controlling interest. This is a measure of net profitability of the Group taking into account changes in the equity structure. EPS is calculated as reported in the consolidated income statement and in accordance with Note 6, Earnings per share, in the financial statements.

Basic EPS at 24 US cents per share (up 57% from the prior year) is indicative of the higher earnings achieved as a consequence of the higher revenue and EBITDA achieved. There was no change in the capital structure of the Group.



Free cash generated represents net cash flows before financing activities and investing activities in expansion projects. This measures the cash-generating capability of the Group to fund future growth. Free cash generated is reflected in the statement of cash flows and is determined by cash flows from operating activities less sustaining capital of US\$18.3 million (pre-expansion capital) and less waste cash costs of US\$54.0 million.

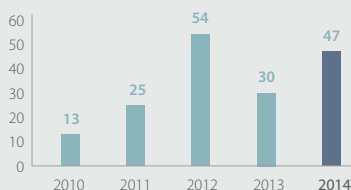
The Group is focused on generating strong operating cash flows. Stringent working capital management together with higher EBITDA contributed to increased levels of free cash generation during the year. The strong free cash generated provides flexibility to apply such cash into development and expansion initiatives and to implement the Group strategy of providing returns to shareholders through the ability to fund future dividends. During the year, these funds, together with debt facilities raised, were invested mainly into completing the Phase 1 development and commissioning of Ghaghoo and the Plant 2 Phase 1 expansion project at Letšeng.

The Group ended the year with US\$110.7 million cash and has drawn down US\$37.1 million of its total available facilities of US\$78.7 million, resulting in a net cash position of US\$73.6 million at year end.

The key performance indicators exclude the impact of any discontinued or disposed operations in the prior years unless otherwise stated.

Value creation

Capital expenditure (US\$ million)



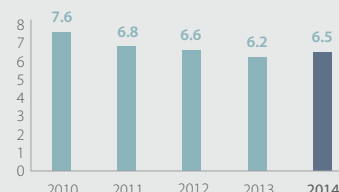
Description

Capital expenditure represents the amount invested in the Group's organic growth plans. Capital expenditure is reflected in the statement of cash flows as purchases of property, plant and equipment and includes expansion and sustaining capital.

Commentary

The Group invested US\$18.3 million in sustaining capital expenditure, which includes the investment in the new Coarse Recovery Plant at Letšeng and operational expenses at Ghaghoo which were capitalised to the carrying value of the asset during the commissioning and ramp-up phase. Expansion capital of US\$27.5 million was mainly attributable to the completion of the Phase 1 development of Ghaghoo.

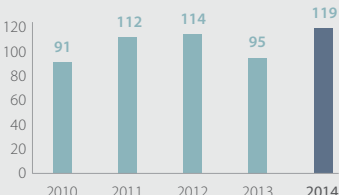
Production tonnes treated (millions)



The production profile sets out the tonnes treated by Letšeng and Ghaghoo.

The current year production represents steady state throughput through the Letšeng plant and includes 48 023 tonnes treated at Ghaghoo during the ramp-up phase. The decreased tonnes in the prior year included plant downtime for the crusher installation and the limited throughput test in the early part of that year.

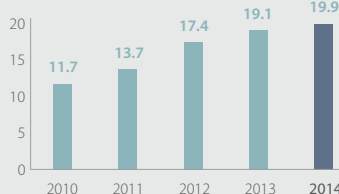
Carats produced (thousands)



The carats produced profile sets out the carats produced by Letšeng and Ghaghoo.

Letšeng's carat production increased by 14% and was driven by mining a higher contribution of the higher-grade Satellite ore, resulting in 31% of the total ore treated being sourced from the Satellite pipe and 69% from the lower-grade Main pipe, compared to 16% and 84% respectively in 2013. Further contributing to the higher carat recovery was the grade overperformance of the reserve during the year. The current year includes 10 167 carats produced from Ghaghoo during the ramp-up phase.

Waste tonnes mined (millions)



The waste tonnes mined profile sets out the waste tonnes mined by Letšeng.

Waste moved for the year was marginally ahead of requirements in order to meet the mine plan, aided by improved efficiencies in the use of larger load and haul equipment commissioned during the year.

Sustainability

Lost time injury frequency rate (LTIFR)



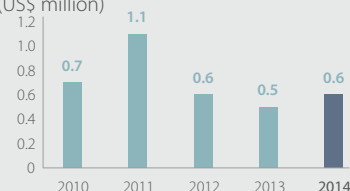
Description

The LTIFR provides a measure of the safety performance of the Group, including partners and contractors. LTIFR is measured on the basis of reported LTI statistics for all of Gem Diamonds' companies and subcontractors, expressed as a frequency rate per 200 000 man hours. Prior year rates include all operations in existence at that period.

Commentary

The LTIFR for the year was 0.20 and was the result of five LTIs (one at Letšeng and four at Ghaghoo) and includes one fatality recorded at Ghaghoo. The Group drives to continually improve its safety record in order to reach its target for LTIFR of zero.

Corporate social investment (CSI) expenditure (US\$ million)



CSI expenditure relates to the Group's continued commitment to CSI which is critical for the ongoing mutually beneficial and transparent relationships with our project affected communities.

The Group invested US\$0.6 million in community related projects during the year, which represents community related projects in Botswana and Lesotho.

The medium to long-term outlook for diamond demand and prices is expected to remain favourable when considering the supply-demand dynamics and the Group expects diamond prices to continue their upward trend in the latter part of 2015.

The global diamond market in 2014

The global diamond market has seen numerous peaks and troughs since the onset of the global financial crisis which saw diamond prices fall rapidly towards the end of 2008 and into 2009. In 2010, both rough and polished prices recovered strongly, reaching historically high levels in 2011. Following a downward correction in 2012, diamond prices have begun to trend moderately upward in 2013 and 2014 (see adjacent graph).

Despite the more recent positive trend, concerns regarding continued liquidity constraints in the market and the tightening of lending criteria by a number of prominent diamond banks, including the announcement of the closure of the Antwerp Diamond Bank in October 2014, negatively affected diamond prices and trading activity during the second half of the year.

Gem Diamonds' market in 2014

2014 was a year of two halves. The ongoing liquidity concerns had very little impact on sales during the first half of the year, with Letšeng achieving robust prices for its high-value rough and polished diamonds. The second half of the year saw buyers

adopting a more cautious approach which was further fuelled by a disappointing Hong Kong Jewellery Show in September. This exerted downward pressure on both rough and polished prices in general, however, Letšeng's high-value rough production continued to remain relatively resilient, ending the year on a very positive note, achieving an average of US\$2 799* per carat in the December tender (compared to the average of US\$2 540* per carat achieved for the full year of 2014).

Supply and demand dynamics

The diamond market key supply and demand fundamentals remain robust with demand expected to outstrip supply for the medium to long term. At present, however, with demand expected to outstrip supply, the market is currently experiencing a relative balance in terms of supply and demand, which is projected to continue for the short term. Thereafter, supply is expected to decrease as ageing mines continue to deplete their reserves and no new diamond mines are anticipated to contribute significant additional production. On the other hand, growth in demand is projected to continue at a healthy rate, due largely to expanding wealth and a growing middle class in both developed and developing countries.

Supply trends

Global rough diamond production has declined considerably since its peak of approximately 177 million carats in 2005, with production volumes still not having recovered to levels seen prior to the global financial crisis. Intensified mining activities, as well as a small number of new diamond mines anticipated to come on stream are expected to result in an increase in the supply of rough diamonds in the short to medium term. However, the projected levels of supply however still remain below the pre-global financial crises levels (see adjacent chart).

Demand trends

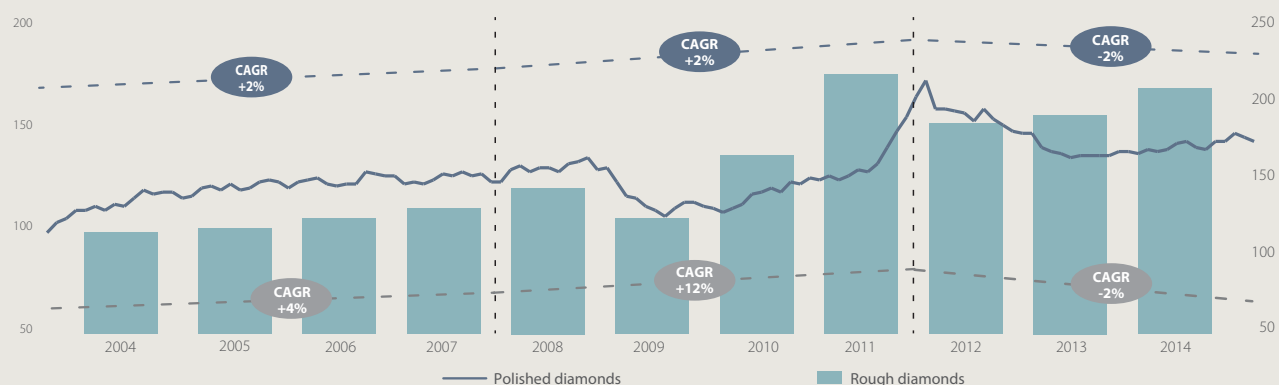
Diamond demand is expected to continue to grow in real value terms, largely driven by increased urbanisation and a growing middle class in emerging markets such as China and India and the continuing economic recovery in the US market. Although the US remains the world's dominant diamond consumer, the growth in disposable income and the trend towards western consumer spending behaviour in China and India will continue to positively influence global demand (see adjacent chart). Although the slowdown in GDP growth seen more recently in China has had a small negative impact on demand, this has been partially offset by the recovery seen in the US economy. This ongoing recovery of the US economy has resulted in improved demand from this region since 2008.

* Includes carats extracted for polishing at rough valuation.

Rough and polished diamond price growth reverts to near its historic trajectory

Polished diamond price index, 2004 = 100

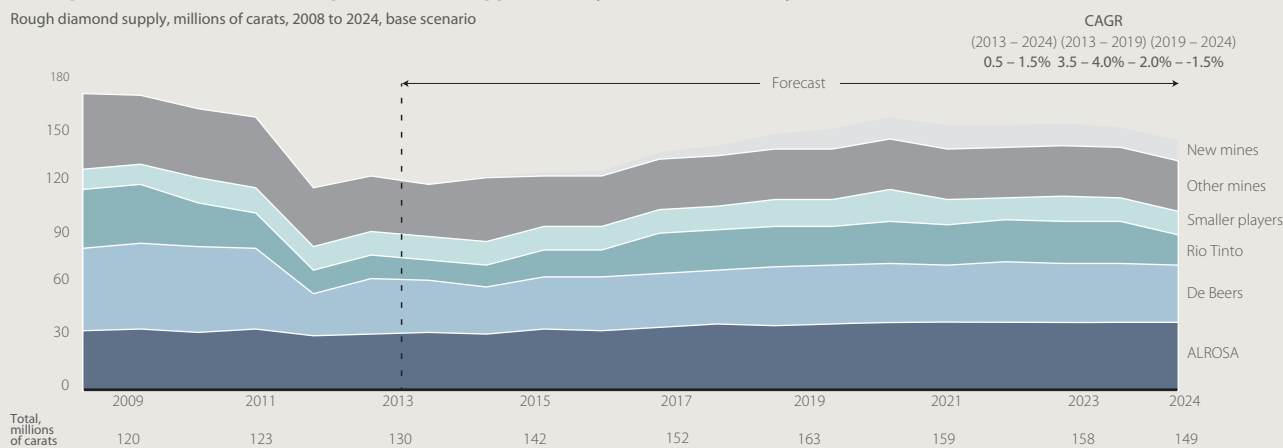
Rough diamond price index, 2004 = 100



Note: The CAGR for polished diamond prices is calculated as the growth rate for year-end or period-end prices; the price index for polished diamonds tracks stones of different sizes.
Source: PolishedPrices.com; Kimberley Process; company data; Bain analysis.
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World production of diamonds is expected to reach approximately 150 million carats by 2024

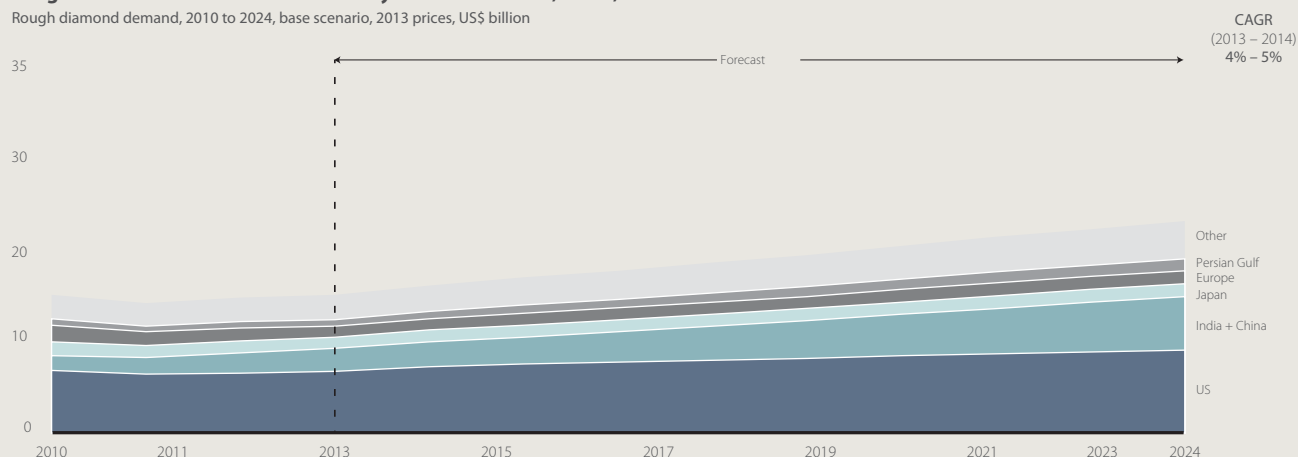
Rough diamond supply, millions of carats, 2008 to 2024, base scenario



Note: Smaller players are Dominion Diamond, BHP Billiton for 2008 to 2012, Petra Diamonds, and Catoca; other mines include all the remaining production in Angola, Australia, Canada, Democratic Republic of the Congo, Russia, South Africa, Zimbabwe, and other minor producing countries.
Source: Company data; publication analysis; Kimberley Process; expert interviews; Bain analysis.
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Rough diamond demand will be fuelled by markets in the US, China, and India

Rough diamond demand, 2010 to 2024, base scenario, 2013 prices, US\$ billion



Note: Rough diamond demand has been converted from polished diamond demand using historical ratio of rough diamond production to polished diamonds.
Source: Euromonitor, IDEX Tacy Limited and Chaim Even-Zohar; publication analysis; Bain analysis.
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THE FINAL LETŠENG TENDER ACHIEVED
US\$2 799 per carat
Full year average of US\$2 540 in 2014

Since the end of 2013, the Group has seen a steady rise in rough diamond prices for Letšeng's production as more of the higher-value Satellite pipe ore was accessed in accordance with the mine plan.

Diamonds used in the production of jewellery remain the primary driver of demand. The industry therefore continues to support initiatives to sustain this demand in the developed and, more particularly, the developing, world as well as to increase appreciation of diamonds as investments. Online diamond sales have become an important sales channel for the polished diamond and jewellery industry, fuelling demand as advanced economies continue the trend toward the convenience of online retail.

Our position in the market

Global annual diamond production during 2014 was estimated at 131 million carats, with Gem Diamonds contributing approximately 119 000 carats. However, the large, exceptional diamonds produced from the Letšeng mine makes it the highest average dollar per carat kimberlite diamond producer in the world, averaging US\$2 540* per carat in 2014 compared to an estimated global average of US\$105 per carat. Due to the significant amount of special diamonds (greater than 10.8 carats) produced, the Group is placed at the top end of the diamond market in terms of value and pricing, with Letšeng's tenders

continuing to attract an increasing number of the world's top diamantaires.

Since the end of 2013, the Group has seen a steady increase in prices for Letšeng's rough diamond production as more of the higher-value Satellite pipe ore was accessed in accordance with the mine plan. This, together with the ability of Gem Diamonds to extract the maximum value for its production through a flexible sales strategy of tender or partnerships, as well as own cutting and polishing, has also contributed to the strong earnings reported during the year.

With the commissioning of the Group's Ghaghoo mine in Botswana, and once full production levels are achieved, an approximately 200 000 additional carats per annum will be added to the Group's production, albeit with a lower price per carat. This will give Gem Diamonds greater exposure to the commercial goods market.

Outlook

The medium to long-term outlook for diamond demand and prices is expected to remain favourable when considering the supply-demand dynamics and the Group

expects diamond prices to continue their upward trend in the latter part of 2015.

Notwithstanding the continued concerns regarding bank lending and liquidity in the market, the Group expects diamond prices to continue their upward trend in the latter part of 2015, fuelled primarily by demand in the US, China and India.

The exceptional rarity of the large, high-quality, top colour diamonds for which the Letšeng mine is famous, together with the increased market demand for these high-value goods, contribute to creating a positive outlook at the top end of the diamond market where Gem Diamonds has positioned itself. The growth in the number of high-net-worth individuals and the development and growth of the luxury goods market continue to drive the demand for these high-value goods, making the prospect of good returns particularly favourable.

This, coupled with the commercial goods produced by Ghaghoo will position the Group to generate additional revenue going forward.

* Includes carats extracted for polishing at rough valuation.

Exceptional diamonds produced by Letšeng in 2014



66.57 carat sold for US\$4.2 million
(US\$62 566 per carat)
January 2014



162.02 carat sold for US\$11.1 million
(US\$68 687 per carat)
February 2014



88.13 carat sold for US\$3.7 million
(US\$42 110 per carat)
April 2014



132.6 carat sold for US\$7.5 million
(US\$56 492 per carat)
June 2014



80.5 carat sold for US\$4.4 million
(US\$54 179 per carat)
June 2014



94.98 carat extracted
July 2014



197.6 carat sold for US\$10.6 million
(US\$53 746 per carat)
September 2014



112.6 carat sold for US\$5.8 million
(US\$51 833 per carat)
December 2014



90.46 carat sold for US\$4.2 million
(US\$46 003 per carat)
December 2014



299.3 carat extracted December 2014 and
sold into partnership arrangement
in January 2015

CHIEF EXECUTIVE OFFICER'S OVERVIEW

Letšeng continues to drive strong operational performance and exceptional financial results during 2014. Prices of both rough and polished diamonds firmed over the first three quarters before declining moderately in the final quarter. Despite this softer trend, the final Letšeng tender of 2014 saw very strong prices achieved and demonstrates the Group's commitment to implementing the strategy adopted in 2011 to create sustainable growth and production despite the market conditions. As our second mine, Ghaghoo, ramps up, we look forward to the contribution Botswana's first underground diamond mine will make.

2014 achievements

Maintained robust financial position and cash flows

Operations expanded from a single producing mine to two

Maiden dividend

Improved Letšeng revenue line and plant optimisation

Operational performance

Letšeng

At Letšeng, a year of solid operational performance saw an improvement over the prior year's production results, with costs well controlled. Plant enhancements and improved blasting techniques, as well as greater access to ore from the higher-grade, higher-value Satellite orebody over the prior year, resulted in an improvement in the grade, size and quality of the diamonds produced.

During the year, Letšeng issued a revised resource statement to reflect a significant increase in the Letšeng indicated resource category which had been extended in depth to approximately 350 metres below the current mine pits on both Satellite and Main pipe orebodies. This extension has resulted in a significant increase in the indicated resource tonnage and contained carats but has also allowed for a significant increase in the Letšeng probable reserves, with the entire 22 year life of mine plan now classified as reserve.

The growth focus at the Letšeng mine during 2014 remained on relatively low capex expansion projects with near-term returns. Two such projects were advanced significantly during the year:

- The new Coarse Recovery Plant remains on track for completion at the end of the second quarter of 2015. This plant will optimise the treatment of the high-value, coarse fraction of ore using X-ray

transmissive (XRT) technology that will improve the recovery of the high-value Type II diamonds. Significant improvements to security measures and advanced diamond accounting processes will also result from the construction of the new Coarse Recovery Plant.

- Implementation of the Plant 2 Phase 1 upgrade project commenced in the third quarter of 2014 and is on track to be completed in early 2015. The project is expected to result in an increased treatment capacity of 250 000 tonnes per annum and further reduce diamond damage and improve diamond liberation. Subsequent upgrades to the plant will be considered once the current projects are completed, and plant performance has been fully evaluated.

The operational improvements undertaken this year, together with the projects that are currently under way and those considered for the future, position Letšeng as a long life open pit operation. Optimisation of the life of mine plans, which take these improvements into account, will deliver on the longer-term plan for Letšeng going forward.

Ghaghoo

As Botswana's first underground diamond mine, the Ghaghoo mine has showcased Gem Diamonds' ability to add value to existing assets through technical

innovation. By pursuing an underground mining option, the Group achieved significant cost savings, reduced its potential environmental impact and has served to pave the way for a new era of mining in challenging mining conditions (including deposits covered with significant overburden). This point was reinforced by the President of Botswana when he officiated the opening of the Ghaghoo mine in September 2014.

Gem Diamonds is developing Ghaghoo in a phased approach. The first phase is aimed at confirming diamond grades and prices, as well as testing different mining and processing techniques. In subsequent phases, production will be increased as appropriate in a cost effective manner.

The mine is currently in Phase 1 with the capital project complete and commissioning progressing well. As at 31 December 2014, 48 023 tonnes of ore had been treated, with 10 167 carats recovered, including a 20 carat white diamond, a 17 carat white diamond, and a three carat orange diamond (the recovery of which confirms the presence of valuable coloured diamonds in the orebody). After year end, a 35 carat diamond was recovered, which is the largest diamond recovered at Ghaghoo to date. The first tender of 10 167 carats was held in February of 2015, following viewings held in Gaborone and Antwerp and achieved US\$210 per carat. As is usual in the development of the marketing of a new mine's production, it will take at least six months of tender sales and

Completed Ghaghoo capital project on time and on budget

the subsequent sale of the polished diamonds by clients, in order for a reliable average price to emerge. As part of the mine's Phase 1 plan, a production rate of approximately 60 000 tonnes per month is expected to be achieved by mid-2015.

During the year, a significant ingress of water was encountered at Ghaghoo following the intersection of a fissure in the basalt country rock. This challenge has been overcome through swift and efficient technical response, allowing the development of the tunnels to proceed with minimal disruption to mine development.

Sales, marketing and manufacturing

The Group continues to invest in its marketing and manufacturing operations to ensure the highest returns on its production.

During the year Letšeng recovered seven +100 carat diamonds, five of these exceptional diamonds (a 197.6 carat, a 162.02 carat, a 161.31 carat, a 132.55 carat and a 112.6 carat) together achieved a total sales value of US\$37.4 million, representing 14% of Letšeng's total revenue. The largest diamond recovered in 2014 was a 299.3 carat yellow diamond, which was extracted and sold into a partnership arrangement in early 2015, where Letšeng will further share in 50% of the uplift from the eventual polished sales value.

Continued excellence in sales, marketing and manufacturing initiatives

For the full year Letšeng sold 108 963 carats (2013: 97 294), achieving an average price of US\$2 540* per carat, up 24% from US\$2 043* per carat in the prior year.

Health, safety, social and environment (HSSE)

The sustainability of the Group is strongly dependent on maintaining its social licence to operate. As a result, the health and safety of employees and contractors, environmental responsibility, legal compliance and social relevance remain key enablers of the Group's continued success.

The Group manages its environmental footprint with great care. Across all operations there is a continual focus on improving energy efficiency, reducing direct impact and enhancing biodiversity. It is pleasing to report that for the sixth consecutive year no major environmental incidents occurred across the Group.

Gem Diamonds works in close collaboration with its project affected communities to ensure that the social projects implemented make a meaningful contribution to these communities. With the opening of the Ghaghoo mine, the Group's involvement in the surrounding community has intensified. The Ghaghoo Community Trust has been funded as part of the development of the mine and these funds allocated to support community projects during 2014. In

addition, employment opportunities have been taken up by many in the project affected communities and the medical facilities on the mine have been made available to treat emergencies in the surrounding communities. Moreover, Ghaghoo continues to equip and maintain the boreholes, which are used by the communities within the Central Kalahari region.

Outlook

As the Group's operations expand from a single producing mine to two producing mines, with the ramp up of production at Ghaghoo, the Group will start seeing a significant shift in production figures going forward. The Group will continue to focus on improving operational efficiencies and pursuing innovative technologies. Taking these steps, I am confident that the Group is well placed to take advantage of the favourable supply/demand dynamics in the market in order to produce continued growth in 2015 and beyond.

I wish to express my sincere appreciation to our employees. Your continued pursuit of excellence has made the success of Gem Diamonds possible. I would also like to thank the Board for their guidance during the year, as well as our shareholders for their continued support.

Clifford Elphick
Chief Executive Officer

16 March 2015

Clifford Elphick



* Includes carats extracted for polishing at rough valuation.

GROUP FINANCIAL PERFORMANCE

Capital and cash management discipline has placed the Group in a well-funded position to recommend the payment of its maiden dividend of 5 US cents per share, which enforces its strategy of delivering additional value to its shareholders.

Financial highlights

Revenue of US\$271 million
– up 27%

Underlying EBITDA of US\$104 million
– up 35%

Attributable profit of US\$33 million
– up 57%

Basic EPS of 24 US cents
– up 57%

	2014 US\$ million Total	2013 US\$ million Total
Revenue	270.9	212.8
Royalties and selling costs	(24.7)	(18.5)
Cost of sales	(129.6)	(103.1)
Corporate expenses	(12.4)	(13.8)
Underlying EBITDA	104.2	77.4
Depreciation and mining asset amortisation	(15.2)	(17.3)
Share-based payments	(1.7)	(0.9)
Other income	0.2	0.7
Foreign exchange gain	5.2	0.6
Finance income/(cost)	0.2	(1.6)
Reversal of impairment of assets	–	0.1
Profit before tax	92.9	59.0
Income tax expense	(35.0)	(20.8)
Profit for the year	57.9	38.2
Non-controlling interests	(24.7)	(17.0)
Attributable profit for the year	33.2	21.2
Earnings per share (US cents)	24.0	15.3

Revenue

The Group's revenue is primarily derived from its two business activities, namely its mining operations at Letšeng and its rough diamond manufacturing operation in Antwerp. Revenue does not include any contribution from the mining operation at Ghaghoo, as the mine had not reached full commercial production during the year. The first sale of carats recovered during commissioning concluded after year end. Overall, the Group revenue increased by 27%, driven by 12% higher volume of rough carat sales from Letšeng and 24% higher diamond prices achieved. Management interventions initiated during 2013, effective mining plans and favourable external market conditions for the majority of 2014 have all resulted in a positive impact on revenue.

Mining operations

The demand for rough diamonds remained strong during 2014, with high prices achieved for Letšeng's production, particularly the high-quality, large diamonds for which the mine is renowned. The benefit of the additional investment in waste stripping in the Satellite pipe at Letšeng in 2013 was realised in 2014, as increased volumes of the higher-value, higher-grade Satellite pipe ore was mined during the year. The Satellite to Main pipe ore ratio was 31:69 during the year, compared to 16:84 in the prior year. The increased contribution of the higher-grade Satellite pipe ore, together with the higher than expected performance of the reserve grade during the year resulted in Letšeng recovering 108 569 carats, a 14% increase from the prior year.

	2014	2013
Average price per carat (US\$) ¹	2 540	2 043
Carats sold ¹	108 963	97 294
Group revenue summary (US\$ million)		
Sales – rough	276.8	198.8
Sales – polished margin	5.8	6.3
Sales – other	0.4	0.3
Impact of movement in own manufactured inventory	(12.1)	7.4
Group revenue	270.9	212.8

¹ Includes carats extracted for polishing at rough valuation.

**Cash on hand of
US\$111 million**

**Maiden dividend of
5 US cents per share**

The combination of increased mining in the higher-value Satellite pipe, the positive impact of the new crushers installed during 2013 and favourable market conditions, resulted in a higher average value obtained for Letšeng's rough diamond exports. US\$2 540* per carat was achieved in 2014 from the sale of 108 963 carats, compared to the average price of US\$2 043* per carat achieved in 2013 from 97 294 carats. This resulted in an overall increase of 39% in Letšeng's rough revenue compared to the prior year and an EBITDA margin of 46% (2013: 42%).

Diamond manufacturing operation

The diamond manufacturing operation in Antwerp contributed US\$5.8 million to Group revenue (through additional polished margin generated) and US\$3.9 million to EBITDA. During the year, 1 232 carats valued at a rough market value of US\$17.2 million were extracted from the Letšeng exports for manufacturing. In total, polished diamonds with an initial rough value of US\$5.1 million were sold during the year and US\$15.0 million remained in inventory at the end of the current year, compared to US\$2.9 million at the end of the prior year. The year-on-year polished inventory movement decreased the Group revenue by US\$12.1 million.

Royalties and selling costs

Royalties and selling costs in the Group of US\$24.7 million mainly comprise mineral extraction costs paid to the Lesotho Revenue Authority of 8% on the sale of diamonds and diamond marketing-related expenses.

Michael Michael – Chief Financial Officer



Cost of sales

The focus for 2014 remained on continued operational excellence through cost reductions and enhancing production efficiencies. Cost of sales for the period was US\$129.6 million, the majority of which was incurred at Letšeng, and includes waste stripping costs amortised of US\$49.3 million (2013: US\$34.8 million). The benefits of the newly negotiated mining contract, procuring a larger mining fleet and improved production throughput contributed to improved unit costs. Cost of sales does not include any operational costs incurred at Ghaghoo, as the mine did not reach its intended sustaining operational levels, and therefore all costs were recognised as part of the asset's carrying value during 2014.

The LSL (pegged to the South African rand) and the Botswana pula (BWP) were weaker than the prior year, positively impacting US dollar reported costs during the year. Conversely, the British pound (GBP) strengthened against the US dollar during the year, negatively impacting GBP corporate costs.

Exchange rates	2014	2013	% change
LSL per US\$1.00			
Average exchange rate for the year	10.85	9.65	12
Year end exchange rate	11.57	10.47	11
BWP per US\$1.00			
Average exchange rate for the year	8.98	8.40	7
Year end exchange rate	9.51	8.78	8
US\$1.00 per GBP			
Average exchange rate for the year	1.65	1.56	6
Year end exchange rate	1.56	1.66	(6)

* Includes carats extracted for polishing at rough valuation.

GROUP FINANCIAL PERFORMANCE continued

	Year ended 31 December 2014	Year ended 31 December 2013
Letšeng costs		
US\$ (per unit)		
Direct cash cost (before waste) per tonne treated ¹	12.70	13.34
Operating cost per tonne treated ²	19.64	15.85
Waste cash cost per waste tonne mined	2.22	2.71
Local currency (per unit) LSL		
Direct cash cost (before waste) per tonne treated ¹	137.75	128.68
Operating cost per tonne treated ²	213.08	152.92
Waste cash cost per waste tonne mined	24.07	26.12

¹ Direct cash costs represent all operating cash costs, excluding royalty and selling costs.

² Operating costs include waste stripping cost amortised, inventory and ore stockpile adjustments, and excludes depreciation.

Total direct cash costs (before waste) at Letšeng, in local currency, were LSL884.6 million compared to LSL801.1 million in 2013. This resulted in unit costs per tonne treated for the year of LSL137.75 (2013: LSL128.68). This increase of 7% is primarily attributable to general inflation increases of approximately 6%; above inflationary fuel and power increases; additional costs relating to back up power facilities and diamond reduction initiatives, offset by savings achieved through the new mining contract arrangements.

Operating costs per tonne treated increased to LSL213.08 per tonne from LSL152.92 per tonne, mainly due to increased waste stripping cost amortised, driven by the different waste to ore strip ratios for the particular ore processed. Letšeng significantly increased mining ore from the Satellite pipe during the year, which carries a higher amortisation charge than the Main pipe. As a result, the amortisation charge attributable to the Satellite pipe ore accounted for 64% of the total waste stripping amortisation charge in 2014 (2013: 48%).

	Year ended 31 December 2014	Year ended 31 December 2013
Other operating information (US\$ million)		
Waste cost capitalised	51.5	59.3
Waste stripping costs amortised	49.3	34.9
Depreciation and mining asset amortisation	15.2	16.0
Capital expenditure ¹	11.3	9.9

¹ Capital expenditure excludes movements in rehabilitation assets relating to changes in rehabilitation estimates.

Local currency waste cash cost per waste tonne mined decreased by 8% as a result of the newly negotiated mining contract and the use of larger equipment improving overall efficiencies. Following the estimation change in respect of the waste mined out of the surveying review, which was disclosed in 2012, waste costs will be recovered from the mining contractor over the eight year term of the new contract and this has been raised as a prepayment in the Statement of Financial Position. The impact on the waste stripping cost amortised in the current year due to the change in estimate is a credit of US\$0.9 million.

Corporate expenses

As a result of the streamlining of the corporate structure initiated in 2013, corporate expenses have further decreased, notwithstanding inflation, from US\$13.8 million in 2013 to US\$12.4 million in 2014, which now represents the full impact of the restructuring initiatives. Corporate expenses relate to central costs incurred by the Group and are incurred in both South African rand and British pounds.

Share-based payments

Share-based payment costs for the year amounted to US\$1.7 million compared to US\$0.9 million in 2013. There were two Long-term Incentive Plan (LTIP) options granted during March and June of 2014. In March, 625 000 nil-cost options were granted to certain key employees. The vesting of these options will be subject to the satisfaction of certain performance and service conditions classified as non-market conditions. In June, 609 000 nil-cost options were granted to the Executive Directors. The vesting of these options will be subject to the satisfaction of certain performance conditions over a three-year period. The share-based payment cost associated with the new awards had a US\$0.6 million impact on the current year charge.

Net finance income

Net finance income mainly comprises interest received from surplus cash from the Letšeng operation and the finance income adjustment relating to the impact of raising the non-current prepayment at fair value relating to the waste estimation change. This income was partially offset by the unwinding of the current environmental provisions and interest on interest-bearing liabilities.

Income tax expense

The Group's effective tax rate was 37.6%, above the UK statutory tax rate of 21.5%. This tax rate is driven by tax of 25% on profits generated by Letšeng, withholding tax of 10% on dividends from Letšeng and deferred tax assets not recognised on losses incurred in non-trading operations.

EBITDA and attributable profit

The impact of the positive trading activities for the year has resulted in underlying EBITDA of US\$104.2 million, up by US\$26.8 million (35%) from the prior year. The profit attributable to shareholders for the year was US\$33.2 million (up 57% from US\$21.2 million in 2013) equating to 24.0 US cents per share (up 57% from 15.3 US cents in 2013) on a weighted average number of shares in issue of 138 million.

Financial position and funding review

The Group's robust cash position was maintained, with US\$110.7 million cash on hand at year end, of which US\$99.4 million was attributable to Gem Diamonds and US\$0.2 million restricted. The Group generated cash flow from operating activities of US\$133.7 million before the investment in waste mining and capital expenditure.

Enhancing the Group's funding strategy of incorporating appropriate debt levels into the capital structure, additional debt funding of LSL140.0 million (US\$12.1 million) for the funding of the Coarse Recovery Plant, and US\$25.0 million to fund the remaining Phase 1 development spend at Ghaghoo was raised during the year. Both these facilities were fully drawn down by year end, resulting in a net cash position of US\$73.6 million, with undrawn facilities of US\$41.6 million still available as at 31 December 2014.

Investments in property, plant and equipment amounted to US\$101.3 million, the largest component of which was US\$54.0 million incurred in waste stripping costs at Letšeng. The Group also invested US\$11.3 million at Letšeng, in connection with the Coarse Recovery Plant, Plant 2 Phase 1 upgrade, additional resource extension drilling and other sustaining capital costs.

US\$35.1 million was invested in Ghaghoo, representing the remaining Phase 1 capital project costs (US\$26.2 million) together with six months' operational costs during the commissioning phase (US\$8.9 million). These costs continued to be recognised as part of the carrying value of the asset until such time as the mine is capable of operating at sustainable levels.

During the year, Letšeng declared dividends of US\$92.0 million of which US\$57.9 million flowed to Gem Diamonds and US\$34.1 million flowed outside of the Group representing withholding taxes of US\$6.5 million and payment to the Government of Lesotho of US\$27.6 million for its minority portion.

Outlook

Capital and cash management discipline has placed the Group in a well-funded position to recommend the payment of its maiden dividend of 5 US cents per share, which enforces its strategy of delivering additional value to its shareholders. This dividend is subject to shareholder approval at the scheduled AGM to be held on 2 June 2015, and would be anticipated to be paid on 9 June 2015. The total dividend would be US\$6.9 million, equating to 21% of 2014 net earnings.

Focus will be on converting the Ghaghoo mine from a development project into sustaining operational activities and achieving steady state production by the end of the first half of 2015. Optimising steady state production costs will be of high priority with the aim of generating a positive contribution to EBITDA.

Letšeng is operationally geared to mine a more consistent mix of Satellite and Main pipe ore. In addition, the potential added value benefits following the completion of the Coarse Recovery Plant and the Plant 2 Phase 1 project in the first half of 2015 provides a strong platform from which to build during 2015 and beyond.

The Group will continue to pursue cost control, operational efficiencies and growth opportunities on an ongoing basis to achieve its objectives of delivering shareholder return over the short, medium and long term.

Michael Michael
Chief Financial Officer

16 March 2015

OPERATING REVIEW



At Letšeng, **a year of solid operational performance** saw an **improvement** over the prior year's production results.



OPERATING REVIEW – LETŠENG

At Letšeng, plant improvements and improved blasting techniques, as well as greater access to ore from the higher-grade Satellite orebody resulted in an improvement in the grade, size and quality of the diamonds produced, exceeding all prior year production levels.

Letšeng

Operational highlights

Highest number of +20 carat diamonds recovered

The recovered grade outperformed the 2014 reserve estimate by 7%

Five +100 carat diamonds sold achieved US\$37.4 million in total, representing 14% of total sales

Early introduction of the new mining contract resulted in improved efficiencies and cost savings



Construction of the new Coarse Recovery Plant underway.

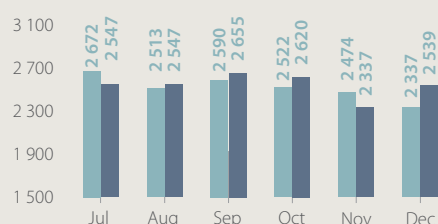


Improved blasting techniques implemented during 2014.



Aerial view of the Letšeng mine, with the Main pipe in the foreground and the Satellite pipe behind it. The processing plants, offices and site accommodation are on the right.

Letšeng rolling average US\$ per carat 2014



Large diamond recoveries

Frequency of recoveries of large diamonds at Letšeng

Number of diamonds*	2008	2009	2010	2011	2012	2013	2014
>100 carats	7	5	6	5	3	7	7
60 – 100 carats	16	10	10	19	13	16	21
30 – 60 carats	74	76	61	59	61	50	69
20 – 30 carats	88	98	89	91	110	71	101
Total diamonds >20 carats	185	189	166	174	187	144	198

* Letšeng's treatment plants only. (Excludes Contractor Plant production.)

Letšeng operational performance	Year ended 31 December 2014	Year ended 31 December 2013	% change
Tonnes treated	6 421 704	6 225 821	3
Waste tonnes mined	19 884 721	19 072 657	4
Carats recovered	108 569	95 053	14

Operational performance

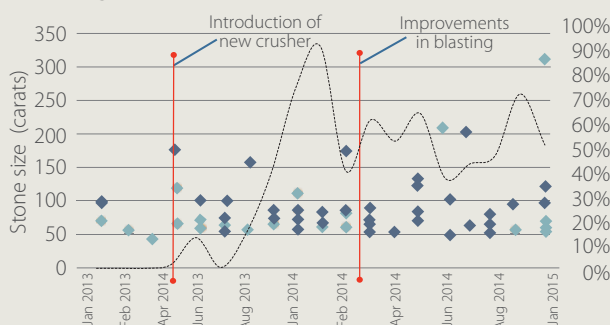
Letšeng reported a year of robust operational performance, exceeding all prior year production levels. For the year Letšeng treated a total of 6.4 million tonnes of ore compared to the 6.2 million tonnes in 2013. Of the total ore treated for the year, 69% was sourced from the Main pipe and 31% from the Satellite pipe, compared to 84% Main and 16% Satellite ore in 2013. The recovered grade has outperformed the 2014 reserve estimate by 7% and this can be attributed to a concerted effort to improve mining, treatment and geological controls, as well as the increased recovery of fine diamonds through improved liberation and dilution control. The higher recovered grade and increased Satellite pipe contribution to the mining mix resulted in 108 569 carats being recovered in 2014, a 14% increase from the prior year.

Waste stripping at Letšeng increased in line with the mine plan and the requirement to access the higher-grade Satellite ore in higher proportions. Waste moved was 19.9 million tonnes, up 4% from 2013. During the first half of 2014, the mining contractor delivered larger mining equipment that included five new 100 tonne dump trucks and two new 300 tonne hydraulic excavators, thereby improving the waste mining efficiency in line with the current and medium-term increase in waste mining.

Significant improvements to sidewall control and blasting of the pit slopes have allowed the slope angles of the mine to be increased safely. This will result in lower stripping ratios, thereby significantly reducing the total cost of mining over the life of the mine. Optimisation of the

Letšeng was awarded, for the second consecutive year, the highest possible rating for health, safety, social and environmental (HSSE) management according to the IRCA global system.

Letšeng +50 carats recoveries



long-term mine plan, taking into account the steeper slope angles, commenced toward the end of the year and will be ready for review early in 2015.

New mining contract

Letšeng successfully renegotiated its contract with the mining contractor a year ahead of the expiry of the previous contract. This has resulted in improved unit costs for eight years, effective from 1 January 2014. The introduction of the new larger mining equipment has resulted in improved loading and hauling efficiencies, contributing to reduced mining costs.

Focus on diamond damage

With diamond damage remaining a key focus area, a number of initiatives in both mining and processing were embarked upon during the past year to reduce diamond damage even further. Changes to mine blasting practices and operations have resulted in improved fragmentation of the ore for the treatment plants, which contributes to reducing diamond damage. These efforts, in conjunction with the installation of the secondary and tertiary crushers in 2013; the lining of the cyclone underflow boxes; and the optimisation of

crusher gaps and crusher operations have resulted in a reduced breakage trend in the valuable Type II diamonds.

Building on the successful installation of the crushers in 2013, further enhancements were made to the plants, which had a positive impact on the diamond breakage trend. New liner configurations for the Plant 1 and Plant 2 secondary crushers were finalised and adopted, resulting in improved throughputs, as well as better fragmentation.

Expansion and improvement programme

Following several studies it was decided that the Plant 2 Phase 1 upgrade would be implemented and that the Plant 2 Phase 2 upgrade project would be examined further after the implementation of Phase 1. The Plant 2 Phase 1 project was approved by the Board in June 2014 at a capital cost of US\$4.7 million and will be completed in Q1 2015. The Plant 2 Phase 1 upgrade project will increase Letšeng's production capacity by 250 000 tonnes per annum and is also expected to further reduce diamond damage.

Construction on the new Coarse Recovery Plant started in Q3 of 2014. Construction and

commissioning is expected to be completed by the end of Q2 2015. This new plant will create a single access, secure facility, and will use XRT sorters to process all of the +5mm diamond concentrate to ensure improved diamond recovery of the high-value Type II diamonds, which typically have a low fluorescence and are not easily recovered using regular fluorescence-based X-ray technology.

State of the art security systems have been designed for the new Coarse Recovery Plant, which will include X-ray scanning of all personnel exiting the recovery plant.

Skills

The issue of skills attraction and retention remains a material risk to the Letšeng operation. Aside from the normal factors ascribed to working in remote areas and remunerating skilled employees in a globally weak currency, localisation challenges, difficulties experienced in obtaining work permits for expatriates and increasing competition from other diamond companies in Lesotho for skilled personnel have exacerbated the risk.

An exercise focusing on a global search for qualified and experienced Lesotho citizens who were willing to work in Lesotho indicated that there is a limited pool of available skills.

Extensive engagements with Lesotho Government officials on this matter have commenced. Indications are that the stakeholders will adopt a collaborative approach to addressing the skills challenge. Furthermore, an intensified effort is being made to invest in the development of existing employees.

HSSE

Letšeng was awarded, for the second consecutive year, the highest possible rating for HSSE management according to the IRCA global system. The 2014 external



One of Letšeng's exceptional diamonds.



New larger equipment was delivered to site during the year.



Letšeng Plant 2.

HSSE audit resulted in a five star rating which reflects the continued focus on the effective management of risks to the health and safety of the mine's employees and project affected communities, as well as Letšeng's approach to safeguarding the natural environment in which it operates.

On 23 October 2014 Letšeng reached a significant milestone of 365 days without an LTI. Unfortunately, immediately following this milestone Letšeng experienced an LTI. The incident was comprehensively investigated, the root causes determined and appropriate corrective actions taken to prevent recurrences.

No major or significant environmental incidents were recorded at Letšeng during 2014.

To improve the lives and social well-being of the communities affected by mining activities, Letšeng continues to work closely with the project affected communities and relevant community and governmental forums. During 2014, Letšeng invested approximately US\$0.3 million towards community investment projects, the amount of which is anticipated to increase in 2015 in line with the maturity of the corporate social investment (CSI) plan and as more projects are implemented. The majority of Letšeng's investment spend went towards infrastructure development, small and medium enterprise and education. To this end, Letšeng's invested US\$59 587 towards educational scholarships and initiatives. Letšeng undertook a herd boys training campaign which was focused on outdoor survival skills to aid surviving harsh winter conditions in the Lesotho mountains. The operation also built and equipped three health posts in Lesotho during 2014. These health posts were handed over to the department of health as they continue to expand access to medical services in Lesotho.

At the end of 2014, 92% of Letšeng's workforce comprised Lesotho citizens with 18% originating from project affected communities.

Sustainable development in action

Indigenous plant nursery

Letšeng assisted the local community members in the neighbouring Khubelu valley with the establishment of an indigenous plant nursery. The project aims is to have the communities sell indigenous plants to local projects and businesses, thereby generating an income for the community and furthering self-sustainability.

The mine provided training to community members which included:

- conservation of endangered plant species;
- propagation of indigenous plants;
- establishing an environment conducive to plant growth; and
- nursery management.

The community is in the process of securing the correct infrastructure for the nursery and the project is well under way.



Focus for 2015

Complete the Plant 2 Phase 1 upgrade

Complete the construction and commissioning of the Coarse Recovery Plant

Complete mine planning studies incorporating steeper slope angles, reducing and delaying the peak of waste stripping and the optimal mining rates from both pits to derive optimal returns

Re-review the optimal timing for commencement of underground mining

Undertake further studies into the next phase(s) of the expansion programme

Improving efficiencies through continuous improvement programmes

Continuation of test work with new waste sorting techniques

Continuation of the drive to reduce diamond damage

OPERATING REVIEW – GHAGHOO

The Ghaghoo diamond mine was officially opened by His Excellency the President of Botswana, Seretse Khama Ian Khama, on 5 September 2014. The mine reached an important milestone with the completion of the Phase 1 capital project which entailed developing an access decline through 80 metres of sand overburden and three production tunnels in the first level of mining.

Ghaghoo

Operational highlights

The Phase 1 development of the Ghaghoo mine has been completed on time and on budget

Final commissioning and optimisation of the plant to achieve nameplate production output is in progress

A total of 10 167 carats recovered during commissioning, (including a 20 carat white diamond, a 17 carat white diamond and a three carat orange diamond)

TOTAL RESOURCE
20.5 million carats
(as at 1 January 2014)

IN-SITU VALUE
US\$4.9 billion
(as at 1 January 2014)



The access decline at Ghaghoo.



Some of Ghaghoo's first diamonds produced.



Lining the kimberlite tunnels with safety meshing.

Operational performance

The Ghaghoo diamond mine was officially opened by His Excellency the President of Botswana, Seretse Khama Ian Khama, on 5 September 2014.

The mine reached an important milestone with the completion of the Phase 1 capital project, which entailed developing an access decline through 80 metres of sand overburden and three production tunnels in the first level of mining.

The tunnels in the old sampling level (140 metres below surface) were intersected in August 2014. These tunnels were dewatered and inspected and found to be stable and free of harmful gases.

To facilitate production, two 1 200mm diameter ventilation holes were drilled and one has been equipped as an emergency escape route.

The planned ramp up to approximately 60 000 tonnes per month and final commissioning by December 2014 were delayed due to an unforeseen intersection of a major water fissure along the basalt rim tunnel of the first production level. The water fissure was successfully sealed and measures were taken to rehabilitate the underground workings, including the reinforcing of underground tunnels,

installing additional pumping and water handling capacities, drilling of dewatering boreholes around the kimberlite pipe and sealing of the water fissure.

During the year, production was drawn from the trial stope on Level 0, 134 metres below surface, and from the development tunnels in Level 1. The ore drawn from these was used in the commissioning of the processing plant. The processing plant is in the final stages of commissioning and further optimisation work is in progress. 48 023 tonnes of ore was treated, resulting in the recovery of 10 167 carats during the year. The recovered grade during the commissioning period has averaged just above 21 carats per hundred tonnes (cpht) compared to an expectation of approximately 27cpht, but was negatively impacted by highly diluted ore from the margins of the pipe and plant inefficiencies during early commissioning. During the latter part of the year, following an optimisation process at the treatment plant, the grade showed improvement and it is expected that reserve grades will be achieved as both the plant and mining operations reach steady state production levels.

HSSE

Ghaghoo is a maturing organisation that is improving its management systems, including the HSSE management system.

The operation was recognised for its improvement of HSSE management when it was awarded a four star rating for its external HSSE audit for a second consecutive year in 2014. Regrettably a fall of ground incident occurred on 11 January and resulted in the death of Mr Segolame Mashumba. A comprehensive and thorough accident investigation found that the incident was a result of a series of consecutive actions that combined to weaken the rock mass to such an extent that a very small amount of force was required to cause failure. Work practices have been revised and an extensive training programme has been implemented.

On 4 November 2014 a further fall of ground occurred, resulting in three LTIs. This incident was investigated and appropriate actions were taken to address the root causes to prevent recurrence of the incident.

Ghaghoo established a community trust in 2014. This trust is made up of representatives from the project affected communities as well as representatives from the mine.

No major or significant environmental incidents occurred during 2014.

Ghaghoo established a community trust in 2014. This trust is made up of representatives from the project affected communities as well as representatives from the mine. Ghaghoo has increased its CSI activity in local communities during the year, with a focus on education. The mine has adopted the Kaudwane Primary School as part of its social investment strategy and appointed a number of Kaudwane residents as part of its short-term labour project. The project is aimed at building capacity and providing local community members with work experience and skills. Other programmes have been identified as part of the CSI plan for implementation in 2015.

At year end, 93% of the Ghaghoo workforce were Batswana citizens, 19% of which originated from project affected communities.

Sustainable development in action

Adoption of the Kaudwane Primary School

Ghaghoo officially adopted the Kaudwane Primary School on 24 June 2014. An official adoption ceremony was held to mark this event and to facilitate good relations between the Ghaghoo diamond mine and the Kaudwane community. The school identified various projects that they required assistance with, including infrastructure and maintenance upgrades.

Extensive maintenance has been undertaken to improve the ablution facilities of the school, and the classrooms have been provided with electricity after the generator was serviced. More projects are planned for implementation during 2015.



Focus for 2015

Continue the transition of processes and systems from the project phase to operations phase

Continue ramping-up mining and production to nameplate capacity and maintain a focus on sustaining those levels. (Production is expected to ramp-up to reach steady state during the first half of 2015).

Optimise the processing plant

Advance the decline to open up Level 2 in 2015

Increase the number carats for sale and the frequency of tenders held (An initial sale of 10 096 carats took place in Gaborone and Antwerp during February 2015).



A 3 carat orange diamond recovered at Ghaghoo.



Underground equipment in the kimberlite tunnels in level 1.

The Group continues to invest in and grow the intellectual property in its sales, marketing and manufacturing operations, with the objective of ensuring that the highest returns are achieved for its rough and polished diamonds.

Sales, marketing and manufacturing

Operational highlights

US\$276.8 million* with an average price of US\$2 540* per carat was achieved for Letšeng's high-value production

59* rough diamonds for greater than US\$1.0 million each

Polished sales through the manufacturing division contributed US\$5.8 million in additional revenue to the Group

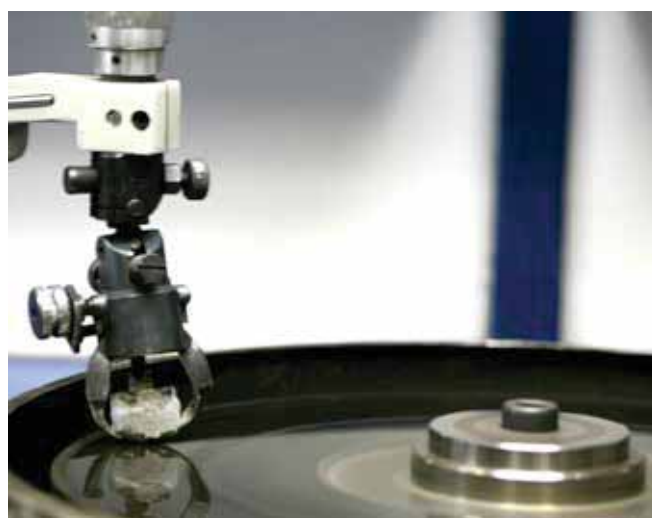
**Includes carats extracted for polishing at rough valuation.*

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Strategic Report
Operating review



An 11.02 carat, D colour, flawless round brilliant diamond, cut and polished at Baobab Technologies.



Baobab Technologies cutting and polishing facility.

SALES, MARKETING AND MANUFACTURING continued

Sales and marketing

The Group's rough diamond production is marketed by Gem Diamonds Marketing Services and sold through an electronic tender platform. The tender platform is designed to enhance engagement with customers by allowing continuous access, flexibility and communication, as well as ensuring transparency during the tender process. Although tender viewings of the Group's diamonds take place in Antwerp, the electronic tender platform allows customers the flexibility to participate in each tender from anywhere in the world. This flexibility together with the professional and transparent manner in which the tender is managed, as well as the high-calibre clients who participate in the tenders, contributes to the achievement of the highest market-driven prices for the Group's rough diamond production. In addition to the Letšeng production, Gem Diamonds Marketing Services will also be tendering the Ghaghoo rough diamond production in 2015, with viewings scheduled to take place in Gaborone and Antwerp.

Rough diamonds selected for polishing are manufactured at Baobab, and the resulting polished diamonds are sold by Gem Diamonds Marketing Services through direct selling channels to prominent high-end clients.

Focus for 2015

Sales and marketing – Gem Diamonds Marketing Services

Continue to achieve highest prices for the Group's rough and polished diamonds through optimised sales and marketing activities

Develop and implement the market strategy and sales channels for the Ghaghoo rough production to achieve highest prices

Identify diamond sales and marketing opportunities in other strategic jurisdictions

Analysis and manufacturing

Baobab Technologies' advanced mapping and analysis of Letšeng's exceptional rough diamonds assists the Group in assessing appropriate true values of its rough diamonds that are presented for sale on tender or sold through any other sales channel. This ensures that robust reserve prices are set for its diamonds at each tender and assists in the making of strategic selling, partnering or manufacturing decisions.

In order to access the highest value for its top-quality diamonds, the Group also selectively manufactures some of its own high-value rough diamonds through Baobab and places other exceptional diamonds into strategic partnership arrangements with select clients.

During 2014, Baobab Technologies received 933 carats of high-value diamonds for processing, with a rough market value of US\$12.9 million from Letšeng and continued to cut and polish third party goods. Included in this amount was the manufacture of two high-value diamonds a 124 carat diamond, which resulted in 12 exceptional polished diamonds with a total weight of 40.63 carats (including a 10 carat, D Flawless, Emerald cut), and a 95 carat diamond, which resulted in four exceptional polished diamonds with a total weight of 34.53 carats (including a 18 carat, D Flawless, Round and a 10 carat, D Flawless, Round). All of the polished stones from these two diamonds achieved Excellent grading for cut grade, polish and symmetry by the GIA.

Focus for 2015

Analysis and manufacturing – Baobab

Continue to analyse Letšeng's large, high-value diamonds to ensure deep understanding of product value on each Letšeng tender

Obtain best possible polished results for Letšeng's rough diamonds extracted for manufacturing

Increase business activities by polishing more high-value diamonds for customers outside the Group

MINERAL RESOURCE MANAGEMENT

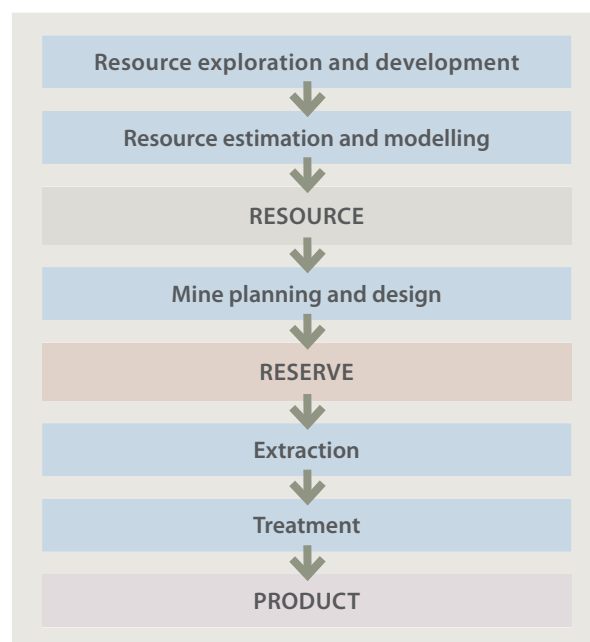
While the key concepts of the Mineral Resources Management (MRM) pipeline approach apply largely to the Letšeng operation at this stage, a similar approach is being taken at the developing Ghaghoo operation.

Unlocking value through effective mineral resource management Integrated mineral resource management

An integrated approach to MRM is crucial in ensuring optimal extraction of our mineral resources.

This entails understanding the in-situ resources, the modifying factors that govern the resource to reserve conversion process and the continued improvement and optimisation of the Group's exploitation strategy. Continuous improvement work streams that were initiated in 2013 are beginning to yield positive outcomes as is evident in the 2014 reserve performance.

While the key concepts of the MRM pipeline approach apply largely to the Letšeng operation at this stage, a similar approach is being taken at the developing Ghaghoo operation. MRM is reported in the following sections: reserve performance; resource development and mineral resource and reserve statements.



2014 Letšeng (Plant 1 and 2) reserve performance*

Letšeng Plant 1 and 2 reserves returned a net gain on expected values in 2014		
	Grade (carat per hundred tonnes)	Revenue (US\$/carat)
Actual	1.80	2 591
Expected	1.68	2 315
	↑ +7%	↑ +12%

* The expected 2014 reserve performance measurement indicators detailed above are based on 2014 reserve estimates as per the 2014 reserve statement summarised later in this section.

2014 Contractor Plant reserve performance*

Contractor Plant reserves returned a net gain on expected values in 2014		
	Grade (carat per hundred tonnes)	Revenue (US\$/carat)
Actual	0.97	1 972
Expected	0.94	1 931
	↑ +3%	↑ +2%

* The expected 2014 reserve performance measurement indicators detailed above are based on 2014 reserve estimates as per the 2014 reserve statement summarised later in this section.

MINERAL RESOURCE MANAGEMENT continued

Key points on 2014 Letšeng reserve performance

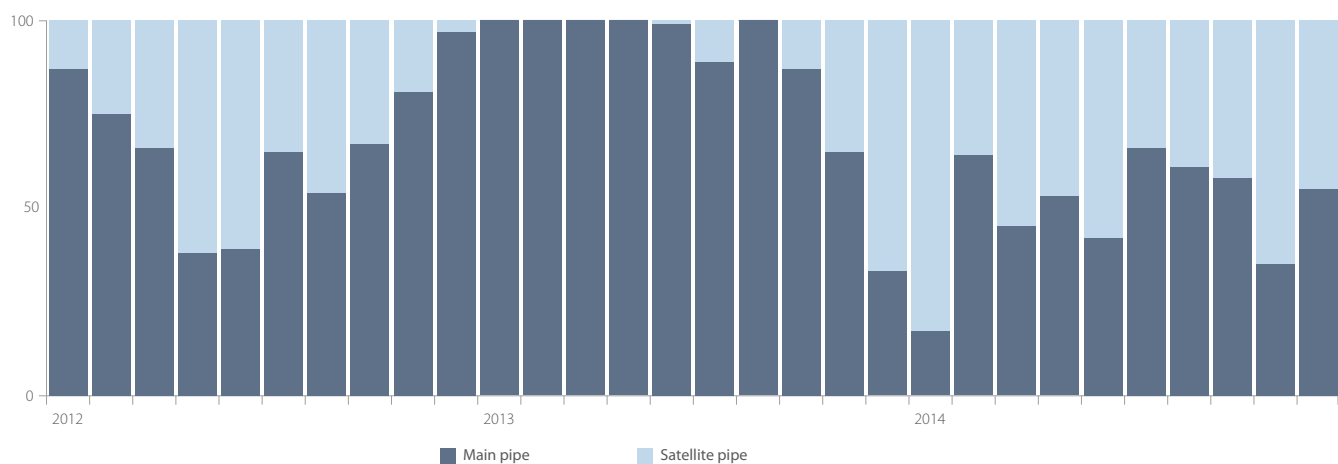
Plant 1 and 2 reserve grade was 7% above that expected from the ore mined. This over-performance was a result of increased recovery of fine diamonds through improved liberation and improved dilution control.

Plant 1 and 2 US\$ per carat reserve revenues outperformed 2014 expected values by 12%. This over-performance was mainly due to the improved recovery of large Type II diamonds. Market prices flattened at the end of the year after going up by 15% during the year.

Contractor Plant reserve grade was 3% above that expected from the ore mined. The US\$ per carat reserve revenues outperformed 2014 expected values by 2%.

Historical performance trends

Letšeng ore provenance



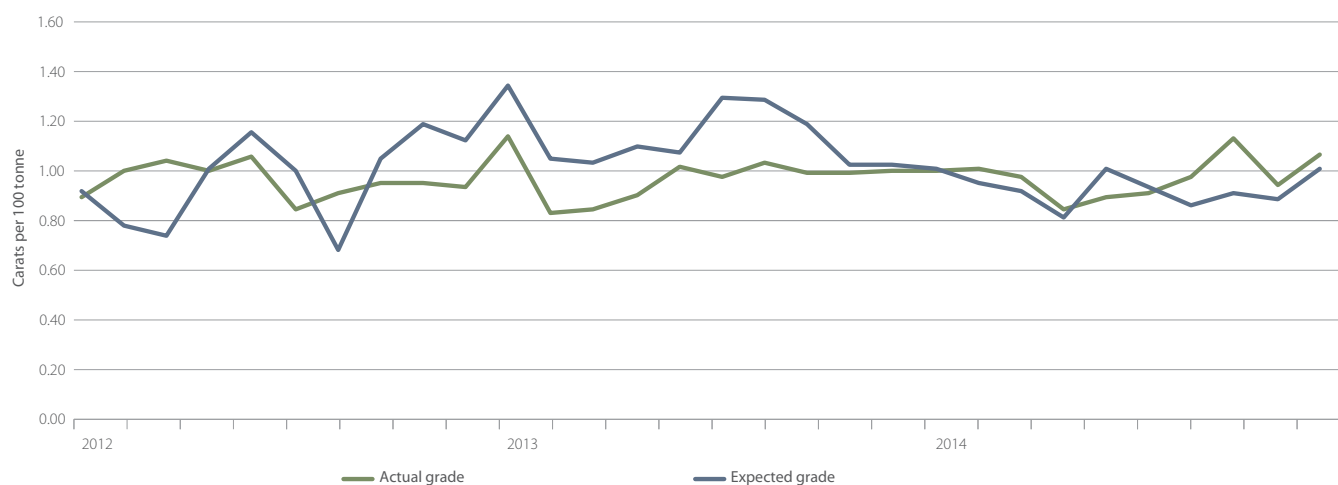
Diamond price performance



Grade performance – Plant 1 and 2



Grade performance – Contractor Plant



The graphs above illustrate that, notwithstanding short-term variability, the long-term predictability is continually improving as a result of initiatives undertaken.

2014 Ghaghoo reserve performance

Steady state production mining will only commence in 2015 and as such reserve performance measurements will start then.

Mineral resource development

Key points on Letšeng resource development

Good progress was made in discrete production sampling of the individual ore phases that commenced during 2013. A total of 1 583 271 tonnes of discrete samples were taken, which represents 29% of the available production days.

The 2013/2014 resource drilling programme was completed. 3D resource models are currently being updated to incorporate this work.

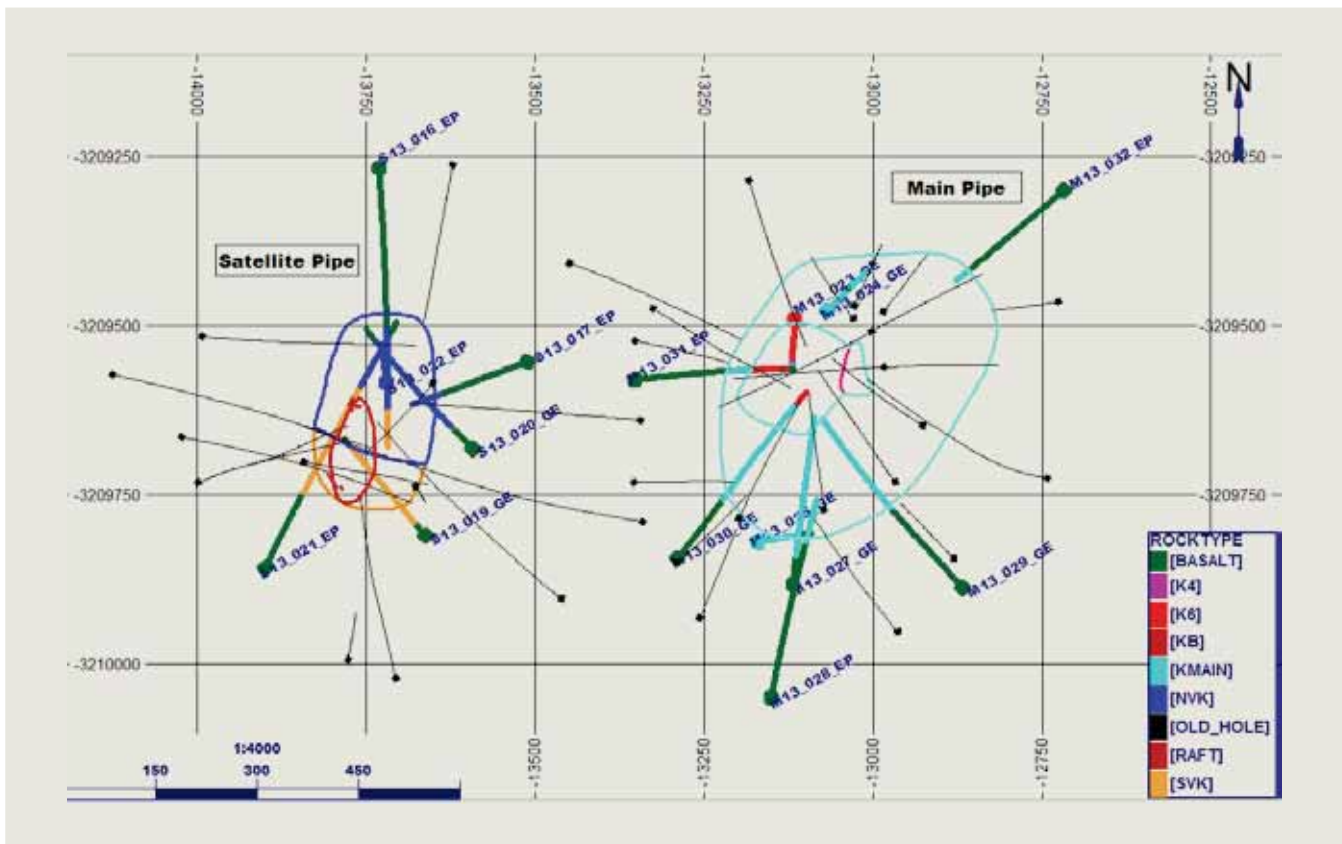
Encouraging results from initial microdiamond analysis.

2014 Letšeng resource development

The 2013/14 core drilling programme, largely aimed at improving the resolution and understanding of the upper portions of the resource, has been successfully completed. A total of 8 075 metres were drilled with 17 holes, 10 in the Main pipe and seven in the Satellite pipe.

MINERAL RESOURCE MANAGEMENT continued

Positions of the 2013/14 drill holes



Geological model improvement

External consultants have been engaged to further the understanding of the geology, petrography and emplacement models of both Letšeng pipes. This work will be incorporated in the 2013/14 drill holes and is expected to be completed by the end of 2015.

Also at Letšeng, initial results from microdiamond analysis have been received from a one tonne sample taken in the Main pipe for comparison with the historical De Beers results. The results were very encouraging with approximately three times the microdiamond grade being recovered compared to the historical results. Analysis of these initial results by an industry expert indicated that microdiamonds can be used at Letšeng to predict grade (and possibly even revenue) at depth. Further samples are planned and budgeted for in 2015 to further develop this understanding.

2014 Ghaghoo resource development

No resource development work was conducted on the Ghaghoo asset during 2014.

Mineral resource and reserve statements

Letšeng indicated resource base increases substantially

Mineral resources were re-estimated in 2014 with an effective statement date of 1 January 2014. The resource and reserve statements are available on the Gem Diamonds website: www.gemdiamonds.com under the Investors section. ⓘ

The updated 2014 statement reflects a significant increase in the Letšeng indicated resource category, which has been extended in depth from approximately 100 metres beneath the current pit bottoms (in previous statements) to a new depth

classification of approximately 350 metres below the current mine pits on both Satellite and Main pipe orebodies.

This increase in the indicated resource base is a result of improved confidence in the resource through infill drilling programmes, improved estimation techniques and detailed geological studies.

This extension has not only resulted in a significant increase in the indicated resource tonnage and contained carats but has also allowed for a significant increase in the Letšeng probable reserves, with the entire 22 year life of mine plan now classified as reserve.

The resources are stated inclusive of reserves and are stated as gross resources and reserves.

Gem Diamonds summary resource and reserve statement as at 1 January 2014																	
Resource		Probable reserves				Indicated resources				Inferred resources				Total resources			
	Ownership	Ore (mT)	Grade (cts/100T)	Carats (m)	US\$/ct	Ore (mT)	Grade (cts/100T)	Carats (m)	US\$/ct	Ore (mT)	Grade (cts/100T)	Carats (m)	US\$/ct	Ore (mT)	Grade (cts/100T)	Carats (m)	US\$/ct
Letšeng Lesotho	70%	131.9	1.71	2.26	2 045	187.1	1.73	3.23	2 086	106.8	1.67	1.78	2 051	293.9	1.71	5.01	2 073
Ghaghoo Botswana	100%	7.5	27.81	2.08	267	79.4	19.51	15.49	242	28.8	17.52	5.04	239	108.2	18.98	20.53	241
Total		139.4	3.11	4.34	1 191	266.5	7.03	18.72	560	135.6	5.03	6.82	712	402.1	6.35	25.54	601

Gem Diamonds summary resource and reserve statement as at 1 January 2013																	
Resource		Probable reserves				Indicated resources				Inferred resources				Total resources			
	Ownership	Ore (mT)	Grade (cts/100T)	Carats (m)	US\$/ct	Ore (mT)	Grade (cts/100T)	Carats (m)	US\$/ct	Ore (mT)	Grade (cts/100T)	Carats (m)	US\$/ct	Ore (mT)	Grade (cts/100T)	Carats (m)	US\$/ct
Letšeng Lesotho	70%	78.9	1.75	1.38	1 715	80.8	1.76	1.42	2 185	220.9	1.75	3.86	2 194	301.7	1.75	5.29	2 192
Ghaghoo Botswana	100%	7.5	27.81	2.08	246	79.4	19.51	15.49	222	28.8	17.52	5.04	220	108.2	18.98	20.53	222
Total		86.4	4.01	3.46	831	160.2	10.56	16.92	388	249.7	3.57	8.90	1 076	409.8	6.30	25.82	625

Key changes to the resource

- The Letšeng indicated resource base has increased in tonnage by 132%, to a total of 187.1 million tonnes, from a previous total of 80.8 million tonnes. This represents an addition of over 100 million tonnes to the indicated resource category.
- The Letšeng indicated resource base has increased in carat terms by 127%, to a total of 3.23 million carats, from a previous total of 1.42 million carats.

Key changes to the reserve

- The Letšeng probable reserves have increased in tonnage by 67%, to a total of 131.9 million tonnes, from a previous total of 78.9 million tonnes.
- The Letšeng probable reserves have increased in carat terms by 64%, to a total of 2.26 million carats, from a previous total of 1.38 million carats.
- The average diamond price for the Letšeng probable reserves has increased by 19% to US\$2 045 per carat, from a previous average of US\$1 715 per carat. This improved average reserve price reflects increased market pricing and improved recovery of large high-value Type II diamonds.

Auditing and compliance

Gem Diamonds' resources and reserves estimates were prepared in compliance with the SAMREC code under the supervision of the Group MRM Executive, Mr Andrew Allan, Pr Sci Nat (400127/11). Venmyn Deloitte independently reviewed and signed off the resources and reserves.

SUSTAINABLE DEVELOPMENT REVIEW

Gem Diamonds seeks to maximise the value of its assets through the mining, manufacturing and selling of diamonds and regards the well-being of people and the environment as a key priority. Our sustainable development approach is based on our moral obligation to do the right thing, both in the letter and the spirit of the law, within the context of the overall business strategy.

Gem Diamonds has produced its seventh Sustainable Development Report as a stand alone report, which can be accessed from the Gem Diamonds website [www.gemdiamonds.co.uk](#). The Sustainable Development Report is based on the framework as defined by the Global Reporting Initiative (GRI) and outlines the sustainable development framework applied by Gem Diamonds, as well as actions that the Group has implemented at its operations in order to ensure the long-term sustainability of the business.

The Sustainable Development Review below, comprises a brief summary of the progress made in 2014 in ensuring sustainable business.

Our approach to sustainability

Gem Diamonds acknowledges the importance of integrating sustainability throughout its business strategy. In order to derive the greatest benefit for its people and environment, the Group has implemented internationally recognised guidelines and standards and identified further areas of integration throughout the Group's operations.

Gem Diamonds strives to minimise its impact on economic, social and ecological systems, and follows a management approach based on a strict code of morals and ethics. This philosophy benefits future and current generations in a responsible and sustainable manner. Gem Diamonds' operations, as a minimum requirement, are required to comply with all host country legislation regarding HSSE business management. Operations are also required to implement international best practice standards and assess their compliance thereto. The implementation of these measures ensures that the Group's operations operate in a socially responsible manner that benefits society as a whole.

Creating sustainable value

Gem Diamonds' subsidiaries contribute to the economies of their host countries by complying with legal requirements such as the payment of statutory taxes and the fulfilment of other financial obligations such as royalties. The Group is also committed to creating a lasting and positive legacy that extends beyond the legal requirements of a country. This commitment has resulted in the establishment of socio-economic programmes primarily aimed at infrastructure, education and maximising the benefit associated with employment through small and medium enterprises (SMEs). Furthermore, the Group endeavours to create value in-country through its policies of local procurement and employment.

Group-wide local contributions 2014	US\$ million
Project affected community-based purchasing/procurement	4.2
Regional-based purchasing/procurement	37.8
Total in-country purchasing/procurement	139.3
Project affected community-based local employee costs	2.6
Regionally based local employee costs	4.4
Total in-country-based local employee costs	32.9
Total in-country purchasing/procurement and total employee costs	172.2

Governance

Gem Diamonds is listed on the London Stock Exchange and has committed to adhere to rigorous and widely recognised

international standards of best practice relating to financial, corporate governance and corporate social responsibility aspects and has implemented appropriate HSSE policies, procedures and management systems throughout its operations. Annual assessments of the operations are conducted to identify any possible areas of non-compliance and to outline a strategy to ensure ongoing compliance. The operations have dedicated and committed management structures that facilitate co-operative and transparent communication throughout the business as well as providing required assurance to the operational boards.

The Gem Diamonds HSSE Committee reports directly to Gem Diamonds' Board of Directors and provides assurance to the Board with regard to the appropriateness and adequacy of HSSE management at operations. The Gem Diamonds HSSE Committee supports the operations through the setting of Group policies as well as standards and strategic guidance with regard to HSSE matters.

Gem Diamonds is continually reviewing and refining its policies and procedures relating to anti-bribery and corruption. In 2014, no cases of bribery, corruption, anti-competitive behaviour, and anti-trust or monopoly practices were brought against the Group or any of its subsidiaries.

Gem Diamonds makes no financial contributions to political parties, politicians or any other politically affiliated structures, as is outlined in the Gem Diamonds governance policies. All financial contributions made to host country governments relate to regulatory taxes and other legal financial obligations such as royalties.

Compliance with international standards

In addition to adhering to host country legislation, appropriate best practice standards and guidelines are incorporated into management standards. The Group's operational HSSE management systems are based on the principles of the internationally applied British Standard for occupational health and safety management systems, OHSAS 18001, and the International Standards Organisations' standard on Environmental Management Systems, ISO 14001.

The GRI serves as the Group's sustainability reporting guidelines on all material business matters.

Our employees Creating a safe and healthy work environment

Gem Diamonds regards its employees as a key asset and sets the health and safety of its workforce as its highest priority. The Group actively promotes the creation of a caring, safe and healthy working environment in order to protect its employees and continues to build a culture of zero tolerance for non-conformance to safe, sustainable and responsible practices.

Gem Diamonds' health and safety management systems, which are based on both the principles of OHSAS 18001 and relevant international best practice standards, are independently audited on an annual basis in order to ensure continuously improved performance.

Gem Diamonds reported five LTIs across the Group in 2014, one of which, regrettably, was a fatality at Ghaghoo, where on 11 January, a fall of ground incident resulted in the death of Mr Segolame Mashumba. A further three LTIs occurred at Ghaghoo and one at Letšeng. These incidents were extensively investigated and appropriate measures were implemented to avoid future similar incidents. The Group-wide LTIFR for 2014 was 0.20, an increase from 0.13 recorded for 2013 and exceeding the Group target of zero. The 2014 Group-wide AIFR of 3.01 was well under the Group's ceiling value of 4.00.

The Group continued to focus on the proactive management of health and safety. The focus on proactive management

of health and safety was initiated in 2013, and further strengthened in 2014 when various measures, including proactive serious disease management and behaviour based safety initiatives, were implemented. There were 62 357 safety management actions during the year, which shows a significant increase from the 45 512 actions implemented in 2013. The Group believes that concentrated efforts on the proactive management of safety will assist in its pursuit of zero harm.

Gem Diamonds aims to assist employees by offering treatment, education and training as well as counselling services where necessary. This practice extends its health management efforts beyond mere occupational concerns. The Group also conducts environmental and serious disease management programmes to address the total well-being of its employees. The Group's health management programmes are in various stages of maturity at the operations and are being continuously improved.

Gem Diamonds goal remains to achieve zero harm in a sustainable manner, and continues to refine and improve its health and safety management systems.

Attracting, retaining and developing our employees

Gem Diamonds understands that its workforce plays a key role in achieving operational excellence. The Group therefore aims to engage, develop and retain first class employees and is committed to developing and growing the depth of its capabilities by resourcing appropriately. At year end, Gem Diamonds employed 449 own and 1 389 contractor employees. Absenteeism trends and staff turnover are continuously monitored across all operations in order to improve retention rates and better understand employee needs. The Group-wide absenteeism rate decreased to 0.90 in 2014 from 1.39 in 2013. Staff turnover across the Group decreased to 5% from 15% in 2013, with significant improvement seen at Ghaghoo as the mine transitioned into a steady-state operation.

Gem Diamonds implements and supports employee development programmes aimed at skills and career development. The Group recorded a 42% increase in

hours per capita vocational training in comparison to 2013. Letšeng recorded a 45% increase while Ghaghoo recorded a 15% increase in hours per capita training. Training at operations is provided via internal and external mechanisms and the Group remains committed to furthering the skills, growth and development of its workforce.

Performing annual career reviews at all of the operations remains a goal across the Group. Regrettably, there was a decrease in the number of employees who underwent career reviews in 2014: 14% compared with 16% in 2013. Work is ongoing to increase the number of career reviews conducted in the future.

Gem Diamonds is an equal opportunity employer and has a zero tolerance for discrimination on any basis. This is clearly outlined in the Group's Code of Ethics. Zero cases of discrimination were recorded for the third consecutive year. Even though Gem Diamonds is sensitive to gender issues and the empowerment of women, no women currently serve on the Gem Diamonds' Board. Letšeng, however, is headed up by a female Chief Executive Officer, Ms Mazvi Maharasoa. The Group retained a female staff complement of 18% in 2014, a decrease from 19.5% in 2013. This is due to an increase in employee numbers at Ghaghoo, of which the majority were male.

	Women	Men
Board members	0	9
Senior management	14	104
Group employees total in 2014	325	1 513

All Gem Diamonds employees are remunerated in line with market-related rates. The lowest graded employees are compensated well in excess of the host country's minimum legislated wage. The Group offers relevant benefits and incentives to its employees over and above the normal salaries payable.

Our social and relationship capital

The ultimate goal of Gem Diamonds is to mine its diamonds in such a way that promotes socially desirable developmental outcomes – including the reduction of

poverty, capacity building, empowerment and the creation of job opportunities.

Gem Diamonds supports localisation of its workforce. In 2014, 92% of Letšeng's workforce comprised Basotho nationals, and 93% of Ghaghoo's workforce comprised Batswana nationals. Gem Diamonds endeavours to continually refine policies, processes and procedures to further the human rights of its employees. A total of 122 hours of human rights training was provided to employees in 2014. None of Gem Diamonds operations and/or facilities are unionised, and labour relations at all operations remained stable throughout the Group during the year. Gem Diamonds recognises freedom of association as a core right of each employee. The Group experienced no strikes or lockouts during 2014.

The Group's strategy, business focus and value system combine to support the Group's conviction that diamond mining is, first and foremost, about the sustainable benefits stakeholders derive from this practice. Culturally appropriate CSI programmes, based on detailed needs analyses, were implemented by the operating mines in the communities in which they operate. In 2014 the Group-wide contribution towards CSI initiatives amounted to US\$0.6 million, compared to US\$0.5 million in 2013. Education formed the main thrust of CSI initiatives during the year; however investment was also made towards infrastructure development and environmental protection.

Gem Diamonds invested US\$0.1 million during the year in South Africa and Lesotho. The majority of this expenditure was allocated to the Sentebale Charity in Lesotho, which helps vulnerable children and victims of the HIV/Aids epidemic.

Building on the successful completion of the 2011 – 2013 CSI programme in 2013, Letšeng commenced with its 2014 – 2016 CSI programme in 2014. Based on a needs analysis, this CSI strategy outlined various projects that would benefit Letšeng's project affected communities. The majority of Letšeng's CSI expenditure went towards infrastructure development, small and medium enterprise development and education. During the year, Letšeng invested US\$0.3 million towards community investment projects. This

investment is anticipated to increase in 2015 in line with the maturity of the CSI plan and as more projects are implemented.

Based on a needs analysis, Ghaghoo expanded on its CSI activity to include various additional investment projects and initiatives whilst maintaining ongoing communication with its project affected communities. Ghaghoo invested US\$0.2 million towards CSI projects with the majority of investment being made towards education and health. The operation will be expanding its CSI strategy further in 2015.

Both Ghaghoo and Letšeng afforded employment opportunities to unskilled and appropriately skilled labour from their respective project affected communities. This resulted in an approximate US\$2.6 million capital injection into these largely unemployed communities through temporary and permanent employment. By year end 18% of Letšeng's and 19% of Ghaghoo's employees originated from project affected communities.

No resettlement of communities was undertaken during 2014 and it is not anticipated to be necessary at any future time for any of the current operations.

2014 marks the sixth consecutive year of Gem Diamonds achieving zero recorded major stakeholder incidents. The Group seeks to maintain open, transparent, respectful and mutually beneficial relations with its neighbours and all other stakeholders.

Our environment

Environmental protection forms a cornerstone of the Group's strategy and as environmental custodian, Gem Diamonds has implemented comprehensive environmental management programmes at its mining operations. The Group follows a precautionary approach aimed at mitigating the environmental impacts associated with its diamond mining activities.

Any mining activity undertaken is subjected to an extensive Social and Environmental Impact Assessment (SEIA). The SEIA process takes account of relevant international best practice standards and guidelines such as the International

Finance Corporation environmental, health and safety guidelines for mining and the Equator principles. The ultimate goal of undertaking SEIAs at Group operations is to identify, minimise, mitigate and manage any potential impacts on the environment as a result of mining.

Environmental impacts, which result from mining activities, are managed through an extensive and dynamic management system that is continuously updated to ensure that the most appropriate management approach is employed. Environmental performance of the operations are monitored throughout their lifecycles and informs the management approach, facilitates compliance with regulations and informs stakeholders as to the Group's endeavours to protect natural heritage.

During 2014, Gem Diamonds invested US\$1.0 million towards environmental protection. Initiatives undertaken at its operations included, amongst others, the training of staff and community members, specialist research and consultation, development of environmental protection measures and the purchase of environmentally friendly technology.

No significant or major environmental incidents were recorded during the year. However, there was an increase in the number of minor environmental incidents in comparison with 2013. This increase can be attributed to intensified mining activity at Ghaghoo as well as environmental awareness campaigns at the operations, which resulted in higher levels of incident reporting.

Planning for future rehabilitation of land leased by Gem Diamonds' operations is a key priority in order to achieve the Group's goal of conducting business in a sustainable manner. The Group leases 6 174 ha of land of which 38.95 ha was newly disturbed by mining activities during the year bringing the total disturbed land leased by Gem Diamonds to 548.49 ha. The Group continued with the annual review and improvement of comprehensive rehabilitation plans for its mining operations. Letšeng continued with extensive rehabilitation trials, which were initiated in 2012, in order to determine the feasibility and success of its planned rehabilitation strategies.

Water resources are under threat globally due to industrial development, population growth and ongoing pollution. Gem Diamonds recognises the importance of protecting valuable natural resources like water, and has therefore undertaken extensive programmes to understand and mitigate the impact of its operations on the quality and quantity of this precious resource. The Group monitors the quality of water at both of its operations and trends are accessed and addressed as, and when required.

Water quality challenges addressed in 2014 include pollution prevention, treatment of point of source contamination and the management and minimisation of nitrate levels observed in the water at Letšeng. Utmost care is taken at the operations to ensure that any water leaving the mine lease area is of an acceptable quality.

Waste generated by the Group's operations includes domestic and general waste from on-site accommodation and office facilities, restricted amounts of hazardous waste such as used oils and lubricants, sewage effluent, medical waste and a significant amount of mineral waste. Each of the Group's operations have implemented waste management plans to minimise the volume of waste generated, avoid environmental pollution and at the very least comply with host country legislation.

All on-site mineral waste structures are designed, maintained and managed in compliance with host country legislation and according to international best practice standards. The volume of mineral waste generated at Letšeng increased in line with the mine plan and decreased at Ghaghoo in comparison to 2013, as mining progressed into one development.

Gem Diamonds understands that in an ever changing global context, where natural resources such as water and fossil fuel are becoming increasingly strained, it is important to conduct business in such a way that it will reduce business reliance on natural resources to increase the resilience of the organisation. Gem Diamonds continually identifies process optimisation initiatives, and introduces environmental progressive technology to reduce the reliance on, and consumption of natural resources.

A Group-wide reduced dependency on natural resources would potentially enable greater access to natural resources by local communities and other businesses. Reduced natural resource consumption holds notable cost benefits and substantial benefits for the environment.

The Group's total energy consumption increased during the year as a result of increased mining activities at both operations. The Group measures energy intensity per carat to better understand operational energy consumption patterns and to identify possible energy efficiency opportunities. The Group-wide energy intensity remained stable in comparison with 2013, increasing by only 1% in spite of the increased mining activities.

The Group saw a 31% increase in water consumption in 2014, which can be attributed to increased surface water reliance at Letšeng. Site-specific water consumption at Letšeng increased by 34% in 2014 to a total of 5.3 million cubic metres, this increase can be attributed to very dry winter conditions and increased mining activities. However, water consumption at Ghaghoo remained consistent at 0.5 million cubic metres.

Gem Diamonds undertakes an annual carbon footprint assessment in order to gain a better understanding of the impact of Group activities on global greenhouse gas emissions. The annual assessment assists the Group in identifying emission reduction opportunities. Following the 2013 carbon footprint assessment, the Group formulated a comprehensive greenhouse gas emissions reductions strategy for future implementation. The total carbon footprint reported for the Group during 2014 was 138 046 tonnes CO₂e. This includes direct Greenhouse Gas Emissions (Scope 1), indirect Greenhouse Gas Emissions (Scope 2) as well as material scope 3 Emissions.

Product integrity

Gem Diamonds regards product quality and client satisfaction as a business imperative and is proud of its track record of supplying its clients with natural diamonds of the highest product integrity. To this end, the Group has developed a strong culture of corporate integrity and good corporate governance measures in

accordance with the UK Corporate Governance Code.

The Group complies with the provisions of the Kimberley Process industry standard and all rough diamonds are certified in terms of the Kimberley Process certification scheme. Letšeng undergoes an independent annual audit conducted by the Kimberley Process team and the Group has remained fully compliant since its inception in 2006.

The Group's full production of rough diamonds is exported bearing the original Kimberley Process certificate stamp of approval to ensure best practice and quality assurance. Strict controls are applied to ensure the Group's diamonds reach the targeted markets through the correct channels, and trade with Gem Diamonds is by invitation only.

Potential clients are identified subject to a strict screening process and selected clients are assessed to confirm and validate their good standing and compliance with internal and external anti-money laundering and anti-bribery and corruption protocols. Trust relationships are developed and maintained with clients and other stakeholders through continuous and transparent communication practices, which also form an integral part of the marketing and sales process.

Extensive diamond viewing opportunities are made available to clients prior to the conclusion of a tender and no warranties in respect of the diamonds are issued. Client confidentiality is respected in all instances and all tenders are governed by tender conditions that are agreed on by all clients. A complete list of the winning bids is electronically circulated to all tender participants on close of the tender, thus ensuring that the tender process is transparent and fair.

Diamond theft poses a major risk for the Group's operations and management of security and theft prevention are seriously considered by the Group. Risk profile assessments are an ongoing practice at all operations and recognised specialists and insurers are engaged on a regular basis to assess the status of the Group's security management systems and solutions to ensure that the Group's production remains secure.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group is exposed to a number of risks and uncertainties that could have a material impact on its performance and long-term development.

The effective identification, management and mitigation of these risks and uncertainties are a core focus of the Group, as they are key to the Company's objectives and strategy being achieved. Central to Gem's approach to risk management is having the right Board and Senior Management team in place, with such members combining extensive experience of diamond mining, corporate governance, risk management and the local operating conditions in Lesotho and Botswana.

Risk management is the overall responsibility of the Board, assisted primarily by the Audit and HSSE Committees, who together identify and assess any change in risk exposure, together with the potential financial and non-financial impacts and likelihood of occurrence.

Given the long-term nature of the Group's mining operations, the Group's risks are unlikely to alter significantly on a yearly basis. However, inevitably the level of risk can change, as could the Group's risk appetite. The Board and its Committees have identified the following key risks. This is not an exhaustive list, but rather a list of the most material risks facing the Group. The impact of these risks individually or collectively could potentially affect the ability of the Group to operate profitably and generate positive cash flows in the medium to long term. As a result, these risks are actively monitored and managed, as detailed below in no order of priority.

Description and impact	Mitigation	2014 actions and outcomes
Market risks Rough diamond prices Numerous factors beyond the control of the Group may affect the price and demand of diamonds. These factors include international economic and political trends, as well as consumer trends. The funding of growth plans could also be adversely affected by constrained cash flows impacted by negative market conditions.	Market conditions are continually monitored to identify current trends that will pose a threat or create an opportunity for the Group. The Group has flexibility in its sales processes and the ability to reassess its capital projects and operational strategies in light of current market conditions to preserve cash balances. Strict treasury management procedures are also in place to monitor cash and capital projects expenditure.	The market for rough and polished diamonds firmed over the first three quarters in 2014 before softening in the final quarter as a result of recent concerns over bank lending and liquidity. Despite this, diamond prices achieved outperformed the mineral reserve prices, improving Group revenues. Operational efficiency initiatives and current projects in the form of the new Coarse Recovery Plant and Plant 2 Phase 1 upgrade are geared to providing increased revenue and margin. The Group has a strong balance sheet with cash reserves of US\$110* million plus existing undrawn facilities of US\$42* million. <i>*As at 31 December 2014.</i>
Operational risks Mineral resource risk The Group's mineral resources influence the operational mine plans and affect the generation of sufficient margins. Under-performance of its mineral resources could affect the Group's ability to operate profitably in the medium to long term.	Various bulk sampling programmes combined with geological mapping and modelling methods significantly improve the Group's understanding of and confidence in the mineral resources and assist in optimising the mining thereof.	Letšeng resource drilling and bulk sampling programmes were successfully completed during the year. The results of these programmes together with other geological work have resulted in a significant increase in the indicated resource category and probable reserves. The entire open pit life of mine plan is now classified as reserve.

Description and impact	Mitigation	2014 actions and outcomes
Operational risks continued A major production interruption The Group may experience material mine and/or plant shutdowns or periods of decreased production due to a number of different events. Any such event could negatively affect the Group's operations and impact both profitability and cash flows.	The Group continually reviews the likelihood and consequence of possible different events and ensures that the appropriate management controls, processes and business continuity plans are in place to mitigate this risk.	Letšeng sources its power through the Lesotho Electricity Corporation, which in turn is sourced from the South African electricity provider, Eskom, who have had challenges in providing consistent power in South Africa and neighbouring dependent states. In light of this, improvements in power monitoring and the provision of backup power supply were undertaken at Letšeng, reducing the impact of lengthy outages. In addition, a review of critical spares for the treatment plants; improved sidewall control; and geotechnical monitoring during the year were undertaken, which further mitigate possible production down time. Following significant water ingress at Ghaghoo in July, improved water handling and management systems have been introduced.
Diamond theft Theft is an inherent risk factor in the diamond industry.	Security measures are constantly reviewed and implemented in order to minimise this risk.	The new Coarse Recovery Plant, which incorporates enhanced security features, is well underway and on target to be completed by the end of the second quarter of 2015. Upgrades to the existing security systems and facilities continued at Letšeng throughout the year. The Phase 1 capital project at Ghaghoo was completed and included appropriate diamond security systems and facilities.
Diamond damage Letšeng's valuable Type II diamonds are highly susceptible to damage during the mining and recovery process and the opportunity to reduce such damage creates potential upside for the Group.	Diamond damage is regularly monitored and analysed. Continuous studies are conducted to further implement modifications and identify opportunities to reduce such damage.	Building on the success of the new crushers installed in the prior year, numerous further initiatives continue to be implemented with the aim of reducing diamond damage, with improved blasting practices having had a significant impact. The Plant 2 Phase 1 upgrade, which was approved during the year and on track to be completed by the end of the first quarter of 2015, is further aimed at reducing the impact of diamond damage.
Expansion and project delivery The Group's growth strategy is based on delivery of expansion projects, premised on various studies, cost indications and future market assumptions. In assessing the viability, costs and implementation of these projects, risks concerning cost overruns and/or delays may affect the effective implementation and execution thereof.	Project governance structures have been implemented to ensure that the projects are monitored and risks managed at an appropriate level. Flexibility in the execution of projects allows the Group to react quickly to changes in market and operational conditions.	Studies on the Letšeng expansion projects continued to advance during the year. The new Coarse Recovery Plant and Plant 2 Phase 1 upgrade projects were approved and completion thereof is anticipated on time and within budget by the end of the second quarter of 2015. The Phase 1 development of Ghaghoo was completed within budget. The initial ramp up was delayed due to significant water ingress, however, improved water handling and management systems, which were quickly introduced, have reduced the impact of the delay and as a result, the mine is on track for delivery by the end of the first half of 2015.

Description and impact	Mitigation	2014 actions and outcomes
Operational risks continued <i>HSSE-related risks</i> The risk that a major health, safety, social or environmental incident may occur within the Group is inherent in mining operations.	The Group has reviewed and published policies in this regard and significant resources have been allocated to continuously improve, review, recommend, implement and monitor compliance throughout the various operations within the Group. This is overseen by the HSSE Committee of the Board. Further to this, the Group engages independent third parties to review and provide assurance on processes currently in place. The Group actively participates and invests in corporate social initiatives and the involvement of members of the communities who sit on the respective corporate social responsibility committees is critical to the success thereof.	While the Group's overall safety performance remains satisfactory, a fatality was recorded at the Ghaghoo underground mine. Letšeng and Ghaghoo maintained their five-star and four-star ratings respectively for their external HSSE audits. Corporate social investment into the Group's project affected communities continued throughout the year.
Strategic risks <i>Political risks</i> The political environments of the various jurisdictions that the Group operates within may adversely impact the ability to operate effectively and profitably. Emerging market economies are generally subject to greater risks, including regulatory and political risk, and are potentially subject to rapid change.	Changes to the political environment and regulatory developments are closely monitored. Where necessary, the Group engages in dialogue with relevant government representatives in order to remain well informed of all legal and regulatory developments impacting its operations and to build relationships.	Political unrest was experienced during the year in Lesotho; however no disruptions were experienced at the Letšeng Mine. The Group took part in its ongoing dialogues with representative stakeholders, gaining insight into the progress and status of the political developments leading up to the elections in February 2015. The Group further implemented specific procedures to mitigate the impact of any unrest. There were no strikes or lockouts during the year at either operation.
Retention of key personnel and skills shortages The successful achievement of the Group's objectives and sustainable growth depends on its ability to attract and retain key suitably qualified and experienced personnel, especially in an environment and industry where skills shortages are prevalent and in jurisdictions where localisation policies exist. A global review for qualified and experienced Lesotho citizens undertaken during the year confirmed this skills shortage.	The Group's human resources practices, which are regularly reviewed, are designed to identify areas of skills shortages, and actions such as development programmes are implemented to mitigate such risks. In addition, these practices are designed to attract, incentivise and retain individuals of the appropriate calibre through performance based bonus schemes and long-term reward and retention schemes.	An intensified effort is being made to invest in the development of existing identified key employees through structured training and development programmes. Extensive engagements with respective government departments are ongoing as part of the effort to develop plans for local upskilling. A review and amendments of remuneration policies and the Employee Share Option Plan (ESOP) were implemented during the year. The amendments to the ESOP incorporated a broader base of participants.
Financial risks <i>Exchange rates</i> The Group receives its revenue in US dollars, while its cost base is incurred in local currencies of the various countries within which the Group operates. The weakening of the US dollar relative to these local currencies and the volatility of these currencies trading against the US dollar will impact the Group's profitability.	The impact of the exchange rates and fluctuations are closely monitored. It is the Group's policy to hedge a portion of future diamond sales when weakness in the local currencies indicates it to be appropriate. Such contracts are generally short term in nature.	Local currencies in the jurisdictions in which the Group operates have weakened against the US dollar during the year. This has had a positive impact on the Group's results. Numerous hedges were taken out in the latter part of the year to take advantage of the weakened currencies.

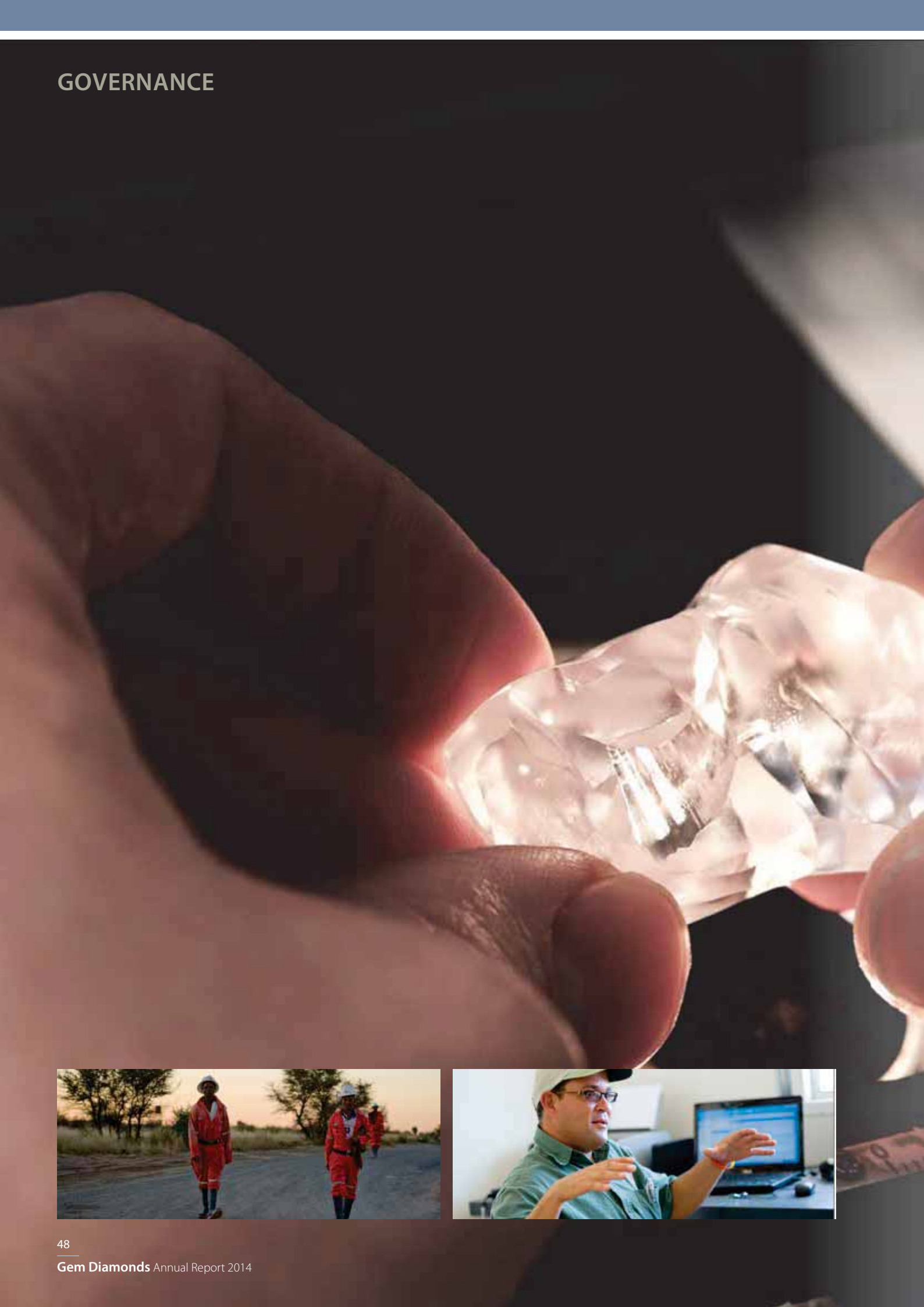
SIGN OFF OUR STRATEGIC REPORT

Our Strategic Report, as set out on pages 2 to 46, has been reviewed and approved by the Board of Directors on 16 March 2015.

Roger Davis

Non-Executive Chairman

16 March 2015



Robust corporate governance supports the Group's **ability to create value for its stakeholders.**

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Governance



DIRECTORATE

Non-Executive Directors



ROGER DAVIS
(58)

Non-Executive Chairman
MA (Oxon)

Roger spent eight years at Barclays, latterly as the Chief Executive Officer of the UK banking operation and as a member of the Board of Barclays Plc. Under his leadership, the UK business was significantly restructured. Prior to that, he spent 10 years in investment banking in London and held various positions in China and India for Flemings and BZW. Roger started his career with a 12-year service in the British Army. Roger is currently the non-Executive Chairman of Sainsbury's Bank Plc and of GRC Limited, and is also a non-Executive Director at Experian Plc.

Appointed

Roger was appointed as Chairman of the Gem Diamonds Board in February 2007.

Key skills and experience

Commercial and capital markets and public company board governance.

Board committee membership

Audit, Remuneration and Nominations Committees.



MIKE SALAMON
(59)

Senior Independent Director

BSc (Mining Engineering) (University of the Witwatersrand); MBA (London Business School)

Mike is a mining engineer with an MBA and has over 30 years' experience in the mining sector. He was a founding Director of Billiton and was instrumental in Billiton's IPO on the London Stock Exchange in 1997 and the subsequent merger with BHP in 2001. Mike retired from his position as Executive Director at BHP Billiton in 2006. Thereafter, Mike was appointed Executive Chairman of New World Resources and led its IPO on the London Stock Exchange in 2008. He retired from this position in 2012 and is a non-Executive Director of Ferrexpo Plc.

Appointed

Mike was appointed to the Gem Diamonds Board in February 2008.

Key skills and experience

Operational mining, projects, health and safety, sustainability, corporate social responsibility and capital markets.

Board committee membership

Nominations, HSSE and Remuneration Committees.



GAVIN BEEVERS
(65)

Non-Executive Director
BSc Hons (Mechanical Engineering) (Lancaster Polytechnic)

Gavin was the Director of Operations at De Beers from April 2000 until his retirement in 2004. He had joined De Beers in 1979 and was based in Botswana for 11 years. Thereafter, he was appointed Assistant General Manager at De Beers Marine in Cape Town until 1994, whereafter he returned to Botswana as General Manager at the Orapa and Lethlakane mines. From January 1996 to March 2000, Gavin held the position of Deputy Managing Director of Debswana Diamond Company.

Appointed

Gavin was appointed to the Gem Diamonds Board in February 2007.

Key skills and experience

Operational mining, health and safety, sustainability and corporate social responsibility.

Board committee membership

HSSE Committee.



RICHARD WILLIAMS
MBE MC (48)

Non-Executive Director
BSc Economics (University College London); MBA (Cranfield University); MA International Security Studies (King's College London)

Richard spent 20 years in the British Army, latterly as the Commanding Officer of 22 SAS Regiment, during which time he saw service across the Middle East, Latin America and Africa. Richard has worked as an adviser to a number of London and New York-based financial institutions. He is Chief of Staff at Barrick Gold Corporation. He is also a strategic adviser to Olive Company LLC, a global risk management business.

Appointed

Richard was appointed to the Gem Diamonds Board in February 2008.

Key skills and experience

Security, capital markets and political risk.

Board committee membership

Audit and Remuneration Committees.



DAVE ELZAS
(48)

Non-Executive Director
BSc Business Engineer (Vrije Universiteit Brussel); Master's in Business and Technologies (Handelsingenieur) (Solvay Business School)

Dave has over 15 years' experience in international investment banking. Between 1994 and 2000, Dave served as a Senior Executive and subsequently Managing Director of the Beny Steinmetz Group. Dave is currently the Senior Partner and Chief Executive Officer of the Geneva Management Group, an international wealth management and financial services company and was appointed as a non-Executive Director of Zanaga Iron Ore Co Limited in November 2010.

Appointed

Dave was appointed to the Gem Diamonds Board in October 2005.

Key skills and experience

Finance, diamond industry trading and capital markets.

Board committee membership

Audit and Remuneration Committees.

Executive Directors



CLIFFORD ELPHICK
(54)

Chief Executive Officer
BCom (University of Cape Town); BCompt Hons (University of South Africa)

Clifford joined Anglo American Corporation in 1986 and was seconded to E. Oppenheimer and Son as Harry Oppenheimer's personal assistant in 1988. In 1990, he was appointed Managing Director of E. Oppenheimer and Son, a position he held until leaving in December 2004. During that time, Clifford was also a Director of Central Holdings, Anglo American and DB Investments. Following the privatisation of De Beers in 2000, Clifford served on the De Beers Executive Committee. Clifford is also the non-Executive Chairman of Zanaga Iron Ore Co Limited and Jumelles Holdings Limited.

Appointed
Clifford formed Gem Diamonds in July 2005.

Key skills and experience
Diamond and mining industries and commercial and capital markets.

Board committee membership
Nominations Committee.



ALAN ASHWORTH
(60)

Chief Operating Officer
BSc (Mining Engineering) (Nottingham University), South African Mine Managers Certificate of Competency

Alan holds a BSc in Mining Engineering and has almost 40 years' experience in the mining industry. During his career, he has worked in various countries, including South Africa, Namibia, Botswana, Guinea, Ghana, Russia, Indonesia and Australia. He spent 28 years within the De Beers Group, including four years as the General Manager of the Namdeb Diamond Corporation and four years as the Group Manager, Operations and Head of Operations for De Beers Consolidated Mines. From January 2006 until August 2007, he was the Managing Director of Gold Fields' Ghana operations in West Africa.

Appointed
Alan joined Gem Diamonds in November 2007 and was appointed to the Board in April 2008.

Key skills and experience
Operational diamond industry, mineral resource management, mining (surface and underground), health and safety, sustainability and corporate social responsibility.



MICHAEL MICHAEL
(44)

Chief Financial Officer
BCom Hons (Rand Afrikaans University); CA(SA)

Michael Michael has over 20 years' experience in financial management. He joined RSM Betty & Dickson in Johannesburg, South Africa in January 1993 and became audit partner at the firm in March 2000. From August 2006 to February 2008 Michael was seconded to Gem Diamonds Limited to assist with the financial aspects of the Main London Listing including the financial reporting, management accounting and tax relating to the Initial Public Offering. In March 2008 Michael joined Gem Diamonds on a full-time basis as the Group Financial Manager. On 2 April 2013 he was promoted to the position of Chief Financial Officer.

Appointed
Michael joined Gem Diamonds in March 2008 and was appointed to the Board in April 2013.

Key skills and experience
Finance, diamond industry and capital markets.



GLENN TURNER
(54)

Chief Legal and Commercial Officer and Company Secretary
BA LLB (University of Cape Town); LLM (Cambridge)

Glenn was called to the Johannesburg Bar in 1987 where he spent 14 years practicing as an advocate specialising in general commercial and competition law, and took silk in 2002. Glenn was appointed De Beers' first General Counsel in 2002 and was also a member of the Executive Committee. Glenn was responsible for a number of key initiatives during his tenure, including overseeing De Beers' re-entry into the USA.

Appointed
Glenn joined Gem Diamonds in May 2006 and was appointed to the Board in April 2008.

Key skills and experience
Diamond industry and legal.

Board committee membership
HSSE Committee.

CHAIRMAN'S OVERVIEW OF CORPORATE GOVERNANCE

Key focus areas confirmed by the evaluation process were the Board's commitment to applying best practice with regard to internal and external communication, decision-making, strategy and risk management.

It is fundamental that the Group is managed with openness, honesty, and transparency. This can only be achieved by maintaining the highest standard of corporate governance. The responsibility for good corporate governance lies with the Board. The Directors and I regard the setting and maintenance of high standards across the Group as an essential part of our work.

The Board is ultimately responsible to shareholders for the Group's activities, its strategy and financial performance, for the efficient use of the Group's resources and for health, safety, social and environmental matters. With the assistance of the Audit Committee, the Board, therefore, approves the Group's governance framework and reviews its risk management and internal control process. I believe this leads to a more effective Board and also facilitates my leadership role.

During the year, our governance framework has taken into account the introduction, in September 2014, of the latest additions to the UK Corporate Governance Code (the Code) which will be applicable to the Group in 2015. The most significant amendments have been to the Directors' Remuneration and Audit Committee Reports.

Corporate governance is embedded in the way we organise our business, with local boards and audit committees taking responsibility for our operations in local markets. This helps us to do the right thing for our shareholders, customers, employees, suppliers, local communities and the environment. Therefore, while I am ultimately responsible for the application of the various provisions of the Code, specific responsibility is delegated to individuals whose task it is to ensure adoption.

These individuals include the Company Secretary and the Chairmen of the various committees. After eight years of service as Company Secretary, André Confavreux retired on 11 January 2015. Following André's retirement, Glenn Turner has added

the role of Company Secretary to his current duties as Executive Director.

Notwithstanding the September 2014 revision, I am pleased to confirm that during the year the Company adhered to the principles of the Code published in September 2012.

During 2014, we undertook a Board evaluation process to review the Board's approach to strategy, particularly in relation to process and initiatives. The evaluation was carried out by way of a questionnaire administered by Bruce Wallace Associates, an external contractor. A detailed description of the evaluation process is set out on pages 56 and 57.

Key focus areas confirmed by the evaluation process were the Board's commitment to applying best practice with regard to internal and external communication, decision-making, strategy and risk management.

In the following pages, you will find overviews of our primary four committees, together with detailed information regarding their overall operation within the governance framework.

A key concern for good corporate governance is to eradicate bribery, fraud and corruption. I am confident that we now have a uniform system in place throughout the Group, including a programme for the system to be monitored and reviewed on an annual basis through our internal audit function.

We have found that in the last year our whistleblowing hotline, used to report suspected fraud, corruption and irregularities, has been used more frequently. Following investigation, none of the cases were significant and they were resolved without serious consequences.

We value this system, which gives staff the opportunity to voice their concerns in a way that draws attention to the matter, without fearing reprisals for speaking out.

Board composition is very important, with three critical dimensions:

- the balance of skills and experience;
- maintaining a strong level of independence and objectivity; and
- ensuring that all members have sufficient knowledge of the Group and the context in which we operate.

As we act in shareholders' interests, it is right that shareholders have the opportunity to vote on the re-election of every Director on an annual basis. Some non-Executive Directors will have served for approximately nine years by the holding of the 2015 AGM, which will provide an opportunity to review our Board composition.

I would like to take this opportunity to set out our approach to diversity in the boardroom. At present, our Board comprises four Executive Directors and five non-Executive Directors representing different nationalities and disciplines (the detail of which you will find in the biography for each individual). We acknowledge the importance of diversity, including gender, to the effective functioning of our Board and commit to supporting diversity in the boardroom. We value diversity of business skills and experience because Directors with a range of skill sets, capabilities and experience gained from different geographic and cultural backgrounds, enhance the Board by bringing a wide spectrum of perspectives to the business. More information about our Board diversity policy can be found under the UK Corporate Governance Code Compliance Report on page 57.

Looking ahead, we recognise that corporate governance is central to our continuing success and will strive to maintain the high standards that we have set to date.

Roger Davis
Non-Executive Chairman

16 March 2015

The Board has continued to review and assess all policies and practices throughout the organisation in light of the changes made in 2014 to the UK Corporate Governance Code.

This report combines the Directors' Report, the Strategic Report and the Group's compliance with the principles and provisions of the UK Corporate Governance Code 2012 (the Code), and details the key policies, processes and structures that apply to the Company. It also includes sections on the role and work of the Audit, Remuneration, Nominations and HSSE Committees, as required by the Disclosure and Transparency Rules (DTR).

The Board considers it core to the Group's philosophy and development to comply with the highest standard of corporate governance best practice.

The Board has continued to review and assess all policies and practices throughout the organisation in light of the changes made in 2014 to the UK Corporate Governance Code, applicable for the financial years beginning on or after 1 October 2014. In addition, the Board has been kept apprised of all revisions and market practice updates introduced by institutional investor bodies, such as NAPF and IMA. The Company has remained below the FTSE 350 for the past two consecutive financial years and, therefore, is subject to the provisions applicable to the smaller company regime. The Company considers that it is compliant with all provisions of the Code.

Board of Directors

The role of the Board

The Board is responsible for the overall conduct of the Group's business.

The Board is responsible for:

- setting the Group's strategy and for the management, direction and performance of the business;

- monitoring and understanding the risk environment in which the Group operates;
- providing accountability to shareholders for the proper conduct of the business;
- safeguarding the long-term success of the Group and taking into consideration the interests of all stakeholders; and
- ensuring the effectiveness of and reporting on the system of corporate governance.

The Board has a schedule for each Board meeting, which includes discussion and decision-making surrounding:

- verbal reports given by the Chairman of each committee on the committee's activities;
- overall Group strategy, new business, and long-term plans;
- operational reviews;
- major capital projects;
- latest financial reports;
- annual budget and operating plans;
- the Group's financial structure, including tax and treasury;
- annual and half-year financial results and shareholder communications;
- system of internal control and risk management; and
- administrative matters including corporate governance issues.

The Board is responsible to shareholders for the performance and governance of the Group, within a framework of policies and controls, which provide for effective risk identification, assessment and management, taking into account the latest code requirements in this area.

The Board provides leadership and articulates the Group's objectives and strategy to achieve those objectives. The Board sets standards of conduct, which provide an ethical framework for all of the Group's business functions. While the Board focuses on strategic issues, such as financial performance, risk management, and other critical business concerns, it also has a formal schedule of reserved matters that it does not delegate. These reserved matters, which are documented in a comprehensive list of authorisation levels and prior approval requirements for key corporate decisions and actions, are reviewed annually and, if appropriate, updated by the Board. Such matters reserved for the Board include, but are not limited to, approval of budgets and business plans, major capital expenditure, major acquisitions and disposals and bank borrowings and were last reviewed in March 2014.

While all Directors have equal responsibility in terms of the law for managing the Group's affairs, it is the role of the executive management to run the business within the parameters laid down by the Board and to produce clear, accurate and timely reports to enable the Board to monitor and assess management's performance. The executive management draws on the expertise and experience that the non-Executive Directors bring from their various business careers.

All Directors are free to express their views and may ask that these be recorded in the minutes where appropriate.

UK CORPORATE GOVERNANCE CODE COMPLIANCE continued

Board composition during 2014

Name	Title	Held appointment during 2014	Committee chairmen and number of members
Executive Board members (4)			
CT Elphick	Chief Executive Officer	✓	
AR Ashworth	Chief Operating Officer	✓	
M Michael	Chief Financial Officer	✓	
GE Turner	Chief Legal and Commercial Officer	✓	
Non-Executive Board members (5)			
RW Davis	Chairman	✓	Nominations (3)
GA Beevers		✓	HSSE (3)
DJ Elzas		✓	Audit (3)
M Salamon	Senior Independent Director	✓	
RJ Williams		✓	Remuneration (4)

The non-Executive Directors possess a range of experience and competencies and are able to bring independent judgement to bear on issues of strategy, performance, and resources that are vital to the success of the Group.

All of the non-Executive Directors are regarded as independent by the Board as defined in the Code, as was the Chairman on his appointment.

Board and Committee meetings

Five scheduled Board meetings were held during 2014, all in the United Kingdom. Attendance by Directors at Board and committee meetings is shown below.

There are six formally constituted committees of the Board, each of which has specific terms of reference. Those for the Audit, Remuneration, Nominations and HSSE Committees can be viewed on the Group's website together with the matters reserved for the Board, at www.gemdiamonds.com. The remaining two committees (Standing and Share Scheme) facilitate the administration of the Board's delegated authority.

In the event that Board-approval is required between Board meetings for such matters as capital expenditure, where approvals come within the threshold determined by

the matters reserved for the Board, Board members are emailed with the details, including a justification. The decision of each Board member is communicated and recorded at the following Board meeting.

The terms of reference for each committee require members to be renominated every three years (subject to annual re-election). This was undertaken in respect of Mike Salamon (who sits on the Remuneration, Nominations and HSSE Committees), Richard Williams (Audit Committee) and Glenn Turner (HSSE Committee).

Attendance at Board and committee meetings during 2014

	Number of meetings held				
	Board	Audit	Remuneration	Nominations	HSSE
Director					
RW Davis	5/5	5/5	4/4	4/4	–
CT Elphick	5/5	–	–	4/4	–
GA Beevers	5/5	–	–	–	4/4
DJ Elzas	5/5	5/5	4/4	–	–
M Salamon	5/5	–	4/4	4/4	4/4
RJ Williams	5/5	5/5	4/4	–	–
AR Ashworth	5/5	–	–	–	–
M Michael	5/5	–	–	–	–
GE Turner	5/5	–	–	–	4/4

Non-Executive Directors' meetings

Before each scheduled Board meeting, the non-Executive Directors meet independently of the Executive Directors, in accordance with a practice adopted by many listed companies. During the year, four such meetings were held.

Chairman and Chief Executive Officer

A clear separation is maintained between the responsibilities of the Chairman and the Chief Executive Officer. This separation was established during 2007 with the appointment of Roger Davis as Chairman.

The Chairman is responsible for creating the conditions for the effective working of the Board. The Chief Executive Officer is responsible for the leadership, operations and management of the Group within the strategy and business plan agreed by the Board. Their individual responsibilities, together with the responsibilities of the Senior Independent Director (SID) and non-Executive Directors are detailed below.

Roles of the Chairman and Chief Executive Officer

The role of the Chairman Roger Davis	The role of the Chief Executive Officer Clifford Elphick
The effective operation and leadership of the Board and setting the highest standards of corporate governance.	Developing a business strategy for the Group to be approved by the Board on an annual basis.
Providing strategic guidance to the executive team.	Producing the business plans for the Group to be approved by the Board on an annual basis.
Setting the agenda, style and tone of Board discussions.	Overseeing the management of the executive resource and succession planning processes and presenting the output from these to the Board and Nominations Committee annually.
Through the Nominations Committee, ensuring that the Board comprises individuals with an appropriate mixture of skills, experience and knowledge.	Ensuring that effective business and financial controls and risk management processes are in place across the Group, as well as compliance with all relevant laws and regulations.
Ensuring that the Company maintains effective communication with shareholders and that the Board understands their views and concerns.	Making recommendations to the Board on the appropriate delegation of authority within the Group.
Working with the Chief Executive Officer to ensure that the Board receives accurate and timely information on the performance of the Group.	Keeping the Board informed about the performance of the Group and bringing to the Board's attention all matters that materially affect, or are capable of materially affecting, the performance of the Group and the achievement of its strategy.
Leading the evaluation of the performance of the Board, its committees and individual Directors.	Developing, for the Board's approval, appropriate values and standards to guide all activities undertaken by the Group.
Encouraging a culture of openness and discussion to foster a high-performing and collegial team of Directors that operates effectively.	Providing clear and visible leadership in responsible business conduct.
Ensuring that relevant stakeholder and shareholder views, as well as strategic issues, are regularly reviewed, clearly understood and underpin the work of the Board.	
Facilitating the relationship between the Board and the Chief Executive Officer.	
Ensuring that adequate time is available for discussion on all agenda items.	

Roles of the SID and non-Executive Directors

Senior Independent Director Based in the UK	Non-Executive Directors
Acting as a sounding board for the Chairman.	Scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance.
Serving as an intermediary for other Directors if necessary.	Reviewing the integrity of financial information and determining whether internal controls and systems of risk management are robust.
Being available to shareholders if concerns they have raised with the executive team and/or the Chairman have not been satisfactorily resolved.	Determining the Company's policy for executive remuneration, as well as the remuneration packages for the Chairman and Executive Directors through the Remuneration Committee.
	Providing a wide range of skills and independence, including independent judgement on issues of strategy, performance and risk management.

Board skills, balance and independence

As a mining company, the efficiency of the day-to-day operations, in both the medium and long term, is essential to the Group's progress in producing shareholder value. In addition, security plays a significant role in maintaining the flow of the high-value diamonds produced by Letšeng and Ghaghoo.

As the Group has operations in cutting and polishing, and as sales and marketing strategies are being rolled out, knowledge of the diamond industry is crucial in order to foster new business opportunities. Financial resources and capability are also necessary to ensure fulfilment of the Group's strategy, both financially and corporately. The biographies, which can be found on pages 50 and 51, provide more information on each Director's competencies. All Directors allocate sufficient time to the Group to discharge their responsibilities effectively.

The Company complies with the requirement of the Code that there should be a balance of Executive and non-Executive Directors so that no individual or group can dominate the Board's decision-taking.

Non-Executive Directors should be independent in character and judgement. All five non-Executive Directors are considered by the Board to be independent of management and the Group. In applying the independence test, the Board considers relationships with management, major shareholders, subsidiary and associated companies and other parties with whom the Company transacts business against predetermined materiality thresholds.

The letters of appointment for the non-Executive Directors and the contracts of the Executive Directors are available for inspection at the place of business of the Company in London.

The Board annually reviews the composition and chairmanship of its primary committees, namely the Audit, Remuneration, Nominations and HSSE Committees.

Appointments and re-elections to the Board (see also Board diversity on page 57)

The Code requires there to be a formal, rigorous and transparent procedure for the appointment of new Directors, which should be made on merit, against objective

criteria and with due regard to the benefits of diversity on the Board, including gender (B.2). Since 2007, recruitment to the Board has been on the basis of recommendation; thus no outside consultants have been employed. The Board currently comprises a broad and highly relevant skill set and the Nomination Committee will continue to make appointments based on merit while taking into account diversity and the specialist skill set which is required by the business.

The Nominations Committee's section of this report is set out on page 64.

It is required that all Directors retire at the Annual General Meeting and, if appropriate, offer themselves for re-election in accordance with Code provision B.7.1. This practice will continue for future re-elections. The Nominations Committee has considered and concluded that the Board has demonstrated commitment to its role. The Committee is also satisfied that the collective skills, experience, background and knowledge of the Company's Directors enables the Board and its committees to conduct their respective duties and responsibilities effectively.

Continuing Board development, access to independent professional advice and the Company Secretary

All Directors are aware that they may take independent professional advice, at the expense of the Company, in the conduct of their duties, subject to prior consultation with the Chairman. Furthermore, all Directors have access to management and the advice and services of the Company Secretary. The Company Secretary is accountable to the Board for ensuring that all governance matters are complied with and assisting with professional development as required.

Board-approved arrangements ensure that new Directors receive a full, formal and tailored induction on joining the Board. In addition, ongoing support and resources are provided to Directors, enabling them to extend and refresh their skills, knowledge and familiarity with the Group. Professional development and training are provided through three complementary measures:

- delivering regular updates on changes (actual or proposed) in laws and regulations affecting the Company or its businesses;

- making arrangements, including site visits, to ensure Directors are familiar with the Group's operations, particularly its commitment to and application of the Group's corporate social responsibility policies; and
- creating opportunities for professional and skills training, such as committee chairmanship and formal professional seminars, designed by appropriate advisers.

Board evaluation

Aim

The Board understands the importance of ensuring that excellent standards of behaviour and governance are maintained, not only by the Directors, but integrated through all levels of the Group.

One of the overarching objectives of the 2014 Board evaluation was to carry out a comprehensive review on the effectiveness of the Board, not only as a unit, but also to assess and evaluate the contributions made by individual Directors.

The Board evaluation exercise looked at composition of the Board and Committees of the Board, conduct and decision-making; how strategy is approached and addressed; risk management, management information and reporting; training, development and succession planning; and internal and external communication.

Approach

In line with best practice on Board evaluation, as set out in Code provision B.6.2 of the Code, the Board appointed Bruce Wallace Associates to undertake an externally facilitated independent review of Board effectiveness during December 2014 and January 2015. The scope of the 2014 evaluation exercise was agreed with the Chairman and Company Secretary and implemented by means of a questionnaire. The questionnaire was sent to each Director and their responses were collated by Bruce Wallace Associates who then presented its analysis, findings and recommendations in a report to the Board.

Analysis

The report from Bruce Wallace to the Board noted that considerable progress had been made addressing recommendations in the 2013 Board evaluation, particularly with regard to strategy and governance which, together with conduct of effective and

efficient meetings were identified in the 2014 Board evaluation as the three main areas in which the Board performs well. Strategy sessions and Board debate on strategy during 2014 were found to be working well and it was considered that focus on communication, timing of non-Executive Director involvement and more measurement of performance against strategy would further enhance the strategy process. It was also clear that, consistent with recommendations from the 2013 Board evaluation, the Nominations Committee had started to review composition of the Board and succession planning during 2014. The Board was encouraged to consider the Nomination Committee's progress, output from the review and any recommendations made.

Next step

The findings and recommendations have been discussed with the Board by the Chairman. The Board agreed that continued focus on developing and achieving strategy was of key importance and that the recommended enhancements to the strategy process be implemented. The Board also confirmed that composition of the Board and succession planning would be further considered by the Board in the forthcoming months.

Conflicts of interest

The UK Companies Act requires that Directors avoid any situation where they may have a direct or indirect interest that conflicts, or may conflict, with the Group's interests, unless approved by the non-interested Directors. In accordance with this Act, the Directors are allowed to authorise conflicts and potential conflicts where appropriate. The Company operates a procedure to ensure the disclosure of conflicts and, if appropriate, for the consideration and authorisation of them by non-conflicted Directors. The Board maintains a register of 'conflicts of interest' that it reviews annually (most recently in November 2014). The Company voluntarily complies with this requirement.

Dealings in shares

The Company has a policy based on the Model Code, published in the FCA's UK Listing Rules, which covers dealings in securities and applies to all Directors, persons discharging managerial responsibilities and employee insiders. This

policy was last reviewed in November 2012 and was circulated to all insiders in January 2014. The insider list is reviewed and updated routinely.

Directors' remuneration

While the Board is ultimately responsible for Directors' remuneration, the Remuneration Committee, consisting of Independent non-Executive Directors, is responsible for determining the remuneration and conditions of employment of Executive Directors, as well as the Chairman. The details of all Directors' remuneration are covered in the Directors' Remuneration Report and the Annual Report on Remuneration on pages 68 to 85.

Bribery Act

The Company has implemented a review of its policies and procedures in line with the Bribery Act and the principles set out in the related Ministry of Justice Guidance. Ernst & Young LLP (EY) supported the Senior Management of the Group in this review. The review was completed in 2012, and a new Group policy was adopted and circulated to staff identified by the Group as potentially exposed to bribery and corruption. All identified individuals received formal training in 2012. The Group policy and its application is subject to regular monitoring by the Group's internal audit function.

The Group's terms of business have been updated to require all customers and third parties with whom business is transacted to adopt the same zero tolerance approach to bribery and corruption as implemented by the Board.

Board diversity

The Board continues to support diversity of all types on its Board and strives to improve the gender balance within the Group with an increasing number of suitably qualified females being employed at senior levels throughout the organisation.

More information on gender-based employment is contained in the Sustainability Development Review on page 41.

Communication of business development during the year

Detailed information on the Group's business developments and projects can be found on the Company's website

(www.gemdiamonds.com) in the investors' section, where all published information and shareholder communication is available. This includes trading updates; year-end and half-year results; analysts' briefings, resource and reserve statements and all other announcements.

Accountability and audit Financial reporting

The Board is conscious of its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects and is satisfied that it has met this obligation. The current assessment can be found in the Strategic Report on pages 2 to 46. The Responsibility Statement of the Directors in respect of the Annual Report and Financial Statements is set out on page 92.

Information and financial reporting systems

The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. Financial reporting to the Board is continuously modified and enhanced to cater for changing circumstances. The Group's comprehensive planning and financial reporting procedures include detailed operational business plans for the year ahead and a three-year rolling plan. The Board reviews and approves the Group's annual business plan.

These are prepared in co-operation with all Group functions on the basis of specified economic assumptions. Performance is monitored and relevant action taken throughout the year through monthly reporting of key performance indicators and updated forecasts for the year, together with information on key risk areas.

In addition, routine management reports on an operational and consolidated basis, including updated forecasts for the year, are prepared and presented to the Board. These reports form the cornerstone of the Group's system of internal control. Detailed consolidated management accounts, as well as an executive summary, are circulated prior to each scheduled Board meeting. Between Board meetings, summary update reports covering matters such as operational performance, sales figures, cash flow and progress on strategic issues are circulated to Board members and Senior Executives.

Internal control

The Board of Directors has responsibility for the Group's overall approach to risk management and internal control, which are embedded in all key operations. In accordance with the Turnbull Guidance recently replaced by the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting Guidance published by the Financial Reporting Council in September 2014, the Board has defined the processes adopted for its ongoing monitoring and assessment and relies on reviews undertaken by the Audit Committee throughout the year, as well as the approval of the Annual Report and Financial Statements. In addition, regular management reporting, providing a balanced assessment of key risks and controls, is an important component of Board assurance.

The Audit Committee reviewed the effectiveness of the system of internal control by considering regular reports from management on the operation of the risk assessment process throughout the Group. These included:

- key risks identified;
- mitigating actions and controls;
- management representations and assertions; and
- reports covering the independent assessment of internal control systems from internal audit, together with other assurance providers such as health, safety, social and environmental reports.

The principal aim of the system of internal control is the management of business risks that significantly threaten the fulfilment of the Group's business and strategic objectives, with a view to enhancing the value of shareholders' investments and safeguarding assets. The internal control systems have been designed to manage, rather than eliminate, the risk of failure, to achieve business objectives and to provide reasonable, but not absolute, assurance that the Group's business objectives will be achieved within the risk tolerance levels identified by the Board. The Directors confirm that they have reviewed the effectiveness of the system of internal control. For the review, the Audit Committee considered reports dealing with internal audit plans and outcomes, as well as risk logs and sign-off from external audit and management representations. These did not reveal any significant failings or weaknesses.

Internal audit

The internal audit function, established in 2007, is an important element of the overall process by which the Audit Committee and the Board obtain the assurance it requires that risks are being effectively, managed and controlled.

A risk-based internal audit plan was prepared for 2014 and approved by the Audit Committee, with reports on the achievement of the risk-based audit plan and findings presented to the Audit Committee for consideration and approval.

The risk-based audit plan covers all operating units, focusing in particular on the most significant risks and related internal controls identified in the risk self-assessment process. Findings and agreed actions are reported to management and the Audit Committee.

A review of the Group internal audit function during 2014 resulted in a full time Group internal auditor being appointed, reporting directly to the Audit Committee, who is responsible for co-ordinating the Group's risk-based approach to internal audit to ensure the appropriate focus of work.

The appointment resulted in the internal audit function realigning itself from a full outsourced function, performed by KPMG Services Proprietary Limited (KPMG), to a co-sourced function managed through the Group internal audit function. The objective of the co-sourced agreement will be that KPMG will perform certain internal audits on behalf of the Group internal audit as and when required.

Risk assessment and management

The Board, through the Audit Committee, considers effective risk management as an essential element of professional management and has implemented risk assessment and control systems across the Group, with the assistance of KPMG. In accordance with the Turnbull Guidance, a process has been established for continually identifying, evaluating and managing the Group's most significant risks. The Group's risk management policy aims to cover and review all important business risks faced by the Group, including, but not limited to, operational, financial, commercial, legal, regulatory and compliance risks, which could undermine the Group's ability to achieve its strategic and business objectives.

These risks are reviewed at least once a year. A more comprehensive report of the Group's key risks and the means by which these are managed and/or mitigated can be found on pages 44 to 46 in the Strategic Report.

The Company's approach to risk management is value driven and has the stated objective of ensuring an environment in which it can grow shareholder value through protecting and enhancing the Group's assets, the environment in those locations in which it operates, its reputation and its staff. The process is thorough and robust and is an essential element of business planning.

All of the Group's operations carry out comprehensive annual self-assessment risk reviews and update their risk registers accordingly. Objectives in the business plan are aligned with risks and a summary of the key risks, related internal controls, accountabilities and further mitigating actions are reviewed and approved by the Audit Committee and, if necessary, the Board, for appropriateness and effectiveness.

Progress against plans, significant changes in the business risk profile and actions taken to address controls and mitigate risks are reported at each of the Group's operating unit's board meetings, thereafter to the Company's Audit Committee and, if appropriate, to the Company's Board.

The results of the process have been reviewed by management with all of the Group's operations and submitted to the Company's Audit Committee.

Investment appraisal

Capital expenditure is managed by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals are submitted to the Board. There is an approval procedure for investment appraisal, which includes a detailed calculation of return based on assumptions that are consistent with those included in management reports.

Reviews are carried out after the project is completed and, for some projects, during the development period of the investment, to monitor progress against plan. All major overruns are investigated. Commercial, legal and financial due diligence work, using outside consultants as appropriate, is undertaken in respect of acquisitions and disposals.

External audit

A principle of the Code is that the Board should establish formal and transparent arrangements for considering how it should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Group's external auditors, EY. These responsibilities are delegated to and are discharged by the Audit Committee, whose work is described on pages 60 to 63.

Whistleblowing programme

The Company has implemented a formal means of reporting suspected fraud, corruption and irregularities via independently operated and confidential toll-free phone hotlines in each country in which the Group operates. Employees can report any breach of the Group's business principles, including, but not limited to, bribery, breaches of ethics and fraud.

All incidents reported are fully investigated, and the results are reported to the boards of local operations and the Company's Audit Committee. The whistleblowing procedures are reviewed to make sure they are effective and up to date. The process was reviewed in 2012, and each operation was required to reissue literature to all employees detailing the whistleblowing tool and the relevant contact details.

The Board is satisfied that the whistleblowing programme is being utilised in the correct manner by concerned individuals and that all queries raised during the year have been properly investigated and reported.

Relations with shareholders

Majority interest in shares

On 6 March 2015, the following major interests (at or above 3%) in the issued ordinary shares of the Company had been notified to the Company in accordance with the DTR 5:

Shareholders	Number of ordinary shares	% shareholding
Graff Diamond International Limited	20 906 699	15.12
Lansdowne Partners Limited	20 721 413	14.99
Gem Diamonds Holdings Limited	9 325 000	6.74
FMR LLC	7 776 396	5.62
Capital Group Companies Inc.	6 855 495	4.96
BlackRock	6 317 181	4.57
Lazard Asset Management	4 874 803	3.53
Norges Bank Investment Managers	4 733 934	3.42
JP Morgan Asset Management	4 478 598	3.24
Fidelity International Limited	4 451 132	3.22
Majedie Asset Managers	4 180 971	3.02
State Street Global Advisors	4 171 898	3.02

There has been no change reported to the Group since 6 March 2015.

Dialogue with shareholders

The Board places importance on effective communication with its shareholders and maintains regular dialogue with, and gives briefings to, analysts and institutional investors, which the Board believes ensures that members of the Board develop an understanding of the views of major shareholders about the Company. The responsibility for investor relations is that of the Chief Legal and Commercial Director, Glenn Turner, who is based at the Company's London office. Presentations are given by the Executive Directors after the Group's announcement of the year-end and half-year results. Any concerns raised by shareholders in relation to the Group and its affairs are communicated to the Board as a whole, and a summary of shareholders' views are presented at each Board meeting.

Glenn Turner keeps in contact with the Company's institutional and other shareholders, as well as industry experts on a regular basis. It is his task to ensure a good flow of reliable information between the Company and its investors.

The Executive Directors also conduct quarterly roadshows to engage with a number of the Group's larger investors and allow them to express any concerns.

The shareholder base comprises 138.27 million issued ordinary shares of US\$0.01 each. There are 119 institutional shareholders who hold 128.21 million shares (93%) and 500 private shareholders who hold 10.06 million shares (7%).

The Company's Senior Independent Director, Mike Salamon, is available to shareholders if contact through normal channels has failed to resolve their concerns, or if such contact would be inappropriate.

Constructive use of the Annual General Meeting (AGM)

The Code urges boards to use the AGM to communicate with all investors. All Directors attend the AGM, where shareholders are invited to ask questions during the meeting and to meet Directors after the formal proceedings have ended. Shareholders attending the Company's next scheduled meeting will be advised as to the level of proxy votes received, as well as the percentages for and against in respect of each resolution.

If the Board considers that a significant proportion of votes have been cast against any resolution, the directors will explain how they intend to engage with shareholders to assess their concerns.

The results of the resolutions will be announced through the Regulatory News Service and on the Company's website (www.gemdiamonds.com). All shareholders can access the Group's annual and half-year reports; trading updates; and other published and current information about the Group through the Company's website at www.gemdiamonds.com.

Care is taken to ensure that any price-sensitive information is released to all shareholders, institutional and private, at the same time, and in accordance with both the DTR and Group policy. This policy was most recently reviewed by the Board in November 2012 and updated as appropriate. It was recirculated to each operation in 2014.

Details of the resolutions to be proposed at the AGM can be found in the notice of the AGM. In accordance with the Code, notice of the AGM and related papers will be sent to shareholders a minimum of 20 business days before the meeting, which is due to be held on Tuesday, 2 June 2015.

AUDIT COMMITTEE

“The primary role of the Audit Committee is to ascertain that shareholders can rely on the financial reports of the Company by establishing that effective measures and internal controls for the oversight of the financial reporting and audit process are in place and proficiently applied throughout the financial reporting period”. – Dave Elzas, Chairman

Composition, meetings and attendance in 2014

In accordance with provision C.3.1 of the Code, all members of the Audit Committee should be non-Executive Directors, independent in character and judgement, and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement. The Audit Committee comprises three non-Executive Directors: Dave Elzas (Chairman of the Committee), Roger Davis and Richard Williams MBE MC.

Dave Elzas is considered to be independent. The association of Dave Elzas and Geneva Management Group (UK) Limited (GMG) in no way compromises his independence. The fees for the work performed by GMG for the Group are immaterial in relation to the overall income of GMG. With his experience of running several businesses, serving as a member of several boards (both private and UK listed) and as a partner at GMG, Dave Elzas is regarded as having appropriate financial experience as referred to in provision C.3.1.

Five meetings of the Audit Committee were held in 2014. The Chief Executive Officer, the Chief Financial Officer and a representative of the Company's internal and external auditors normally attend each meeting by invitation. Other Directors of the Company and Senior Executives may also attend by invitation and speak, but not vote, at any meeting of the Audit Committee.

Committee members	Member throughout 2014	Number of meetings held/attended 2014
DJ Elzas – Chairman	√	5/5
RW Davis	√	5/5
RJ Williams	√	5/5

The role and focus of the Audit Committee

The Audit Committee's primary role is to ensure:

- the integrity of financial reporting and the audit process; and
- that an appropriate risk management and internal financial control system is maintained.

By fulfilling this role, the Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls. Additional requirements in relation to the viability of the Group and the extension of the period to be covered by the going concern statement introduced in the 2014 changes made to the Code will be assessed by the Audit Committee for further consideration by the Board during 2015.

Activities of the Audit Committee during 2014

Internal controls and risk	External auditors	Financial reporting
– Received reports from the external and internal auditors on their assessment of the control environment. – Reviewed feedback from the reports submitted by managers across the Group, prior to approval of the half-year and annual financial statements and before the audit. – The management reports cover areas involving significant judgement, estimation or uncertainty, including assessment of fair values, impairment reviews of goodwill, quality of earnings, taxation, treasury, reserves and resources, legal matters and the appropriateness of preparing the financial statements on a going-concern basis. – Approved a risk-based internal audit plan and reviewed the Group's internal audit function during 2014 and agreed on the appointment of a full time Group internal auditor, reporting directly to the Audit Committee. – Examined the effectiveness of the Group's risk management system, including its risk management process and profile, and the Group's internal control systems. – The Committee received reports of the internal control environment in place at its subsidiaries which were considered to be effective. These included: – procedures for identifying business and operational risks and control of their impact on the Group; – budgeting and forecasting systems, financial reporting systems and controls; – procedures for detecting fraud and serious breaches of business conduct including whistleblowing; – procedures for ensuring compliance with relevant regulators and eliminating bribery; – operational effectiveness of the Audit Committee structures; and – overseeing the adequacy of the internal controls and allocation of responsibilities for monitoring internal financial controls. – Assessed the effectiveness of the Group's internal control environment and approved the statement on the process by which the Committee and the Board review the effectiveness of internal control.	– Reviewed reports on audit findings. – Considered the independence of the auditors and their effectiveness, taking into account: – non-audit work undertaken by the external auditors and compliance with the Group's policy; and – the Committee's own assessment. – Agreed on the audit approach and scope of the audit work to be undertaken by the external auditors and the fees for the same. – Considered key focus areas for the 2014 audit, including going-concern assessment, impairment reviews, significant judgements applied (specifically in terms of 'production start date' of when a mine moves into its production phase) and revenue recognition. – Recommended to the Board the reappointment of the external auditors following an evaluation of their effectiveness and confirmation of auditor objectivity and independence.	– Reviewed the annual financial (2013) and half-year (2014) statements and the significant financial reporting judgements and the Auditors' Report thereon. – Reviewed the trading announcements published in January and July including the two interim management statements. – Reviewed the liquidity risk and the basis for preparing the Group accounts on a going-concern basis and reviewed the related disclosures in the Annual Report. – Reviewed disclosures in the Annual Report in relation to internal controls, risk management, principal risks and uncertainties and the work of the Committee. – Reviewed management's considerations on impairment. – Reviewed the appropriateness of the Group's accounting policies.

AUDIT COMMITTEE continued

Internal controls and risk	External auditors	Financial reporting
– Ensured that there is a system of control in place for identifying and managing risk in the Group. The Board, through the Audit Committee, reviewed the systems that have been established for this purpose, including whether the processes continued to meet evolving external governance requirements. – Considered and approved the structure, scope of cover and renewal terms of the Group's insurance programme. – Reviewed matters reported to the external whistleblowing hotline and reports on the findings of the investigations. There were no matters reported which were considered significant. – Evaluated the performance of the Committee and its terms of reference. – The Board conducted reviews of the effectiveness of the Group's systems of risk management and internal controls in accordance with the UK Corporate Governance Code (including the Turnbull Guidance). These covered financial, operational and compliance controls and risk assessment. Management presented an assessment of the material business risks facing the Group. The reviews were overseen by the Audit Committee, with findings and recommendations reported to the Board where appropriate. In addition, the Board received an assessment of the effectiveness of internal controls over key risks identified through the work of the Board Committees. The Board was satisfied that the effectiveness of the internal controls was properly reviewed. – Reviewed foreign exchange management, including investment hedging and related foreign exchange exposure. – Reviewed litigation matters affecting all Group Companies, monitored their status and progress and, where appropriate, made recommendations regarding future action. – Received routine reports on cash management (including the negotiation of committed facilities) to ensure adequate resources were available for future trading and capital expenditure, and to underpin the going concern assumptions.	– Adhered to the Financial Reporting Council's consultation of audit firm rotation, and their rotation of audit partners. As such, there is no intention of considering their replacement. – Managed the relationship with the external and internal auditors covering terms of engagement, remuneration and effectiveness.	– Assisted the Board in assuring the integrity of the financial statements which the Chief Executive Officer and Chief Financial Officer have certified as representing a true and fair view of the Group. – Evaluated the effectiveness of the Group's internal control over financial reporting based on the established framework and criteria. No material weaknesses in the Group's internal controls over financial reporting were identified by management.

Meetings with auditors and management

Following each Audit Committee meeting, separate meetings were held with each of the following:

- external auditors;
- internal auditors; and
- the executive management.

Matters discussed during these meetings include, but are not limited to, the transparency of the auditors' interactions with management, confirmation that there has been no restriction of scope placed on them by management, independence of their audit and how they have exercised professional scepticism. In particular, the primary areas of judgement considered by the Committee in relation to the 2014 accounts, and how these were addressed, were:

- Impairment testing of property, plant and equipment and goodwill:

The judgements in relation to asset impairment largely relate to the assessment of whether indicators of impairment exist and the key assumptions used in the impairment test. For both impairment and going concern, the achievement of the long-term business plan and macro-economic assumptions underlying the valuation process and going concern assumptions are primary judgements. The Committee addresses these matters through receiving reports from management outlining the basis for the assumptions used, of which the business plan is the most significant, which is approved by the Board. In addition, this area is a primary source of audit focus and accordingly EY provides detailed reporting to the Committee.

- Critical accounting estimates and judgements applied, specifically in relation to the production start date of Ghaghoo.

The judgement in relation to 'production start date' is to determine when a mine moves from its construction phase into its production phase. The criteria used to assess the start date are determined by the unique nature of each mine's construction project. Various relevant criteria is considered to assess when the mine is substantially complete and ready for its intended use and moves into the production phase at which point the capitalisation of certain mine construction costs ceases and depreciation of the mine asset commences.

The Committee addresses these issues through a range of reporting from management and a process of challenging the appropriateness of management's view. In addition, this is a primary source of audit focus and accordingly EY provides verbal and written reports to the Committee.

- Revenue recognition:

The judgement in relation to revenue recognition is around determining the timing of the risks and rewards of ownership transfer on all rough diamond sales and in particular on the uplift element with regards to rough diamonds sold into partnership arrangements. The Committee addresses these issues through a range of reporting from management and a process of challenging the appropriateness of management's views on the accounting of all revenue streams. This is also an area of higher audit risk and accordingly the Committee receives detailed verbal and written reporting from EY on this matter.

EY further provides the Group with a detailed audit plan identifying its assessment of the key risks. These risks are tracked throughout the year and the Committee challenges the work performed by the auditors to test management's assumptions and estimates. The Committee assesses the

effectiveness of the audit process in addressing those matters through the reporting we receive from EY.

Auditors' independence and non-audit work

The Audit Committee has a formal policy governing the conduct of non-audit work by the external auditors, which ensures that the Company is in compliance with the requirements of the Code and the Ethical Standards for Auditors published by the Auditing Practices Board.

The external auditors are permitted to provide non-audit services that are not in conflict with auditor independence. Periodic reports are made to the Audit Committee detailing non-audit fees paid to the external auditors.

The fees for such work amounted to US\$0.2 million in total. This was against external audit fees of US\$0.6 million representing approximately 33% of external audit fees.

When commissioning non-audit services, the Company is very conscious of ensuring that there is no conflict which could compromise the auditors' independence.

Recommendation of auditor

The Audit Committee's assessment of the external auditor's performance and its independence underpins its recommendation to the Board to propose to shareholders the reappointment of EY (which was first appointed as the Company's auditor in 2006) until the conclusion of the Company's AGM in 2015. This assessment includes a review of EY policies for maintaining independence, including its policy for rotating audit partners, which requires that a new lead audit partner be appointed every five years. In accordance with this policy a new lead audit partner was appointed in 2011. Resolutions to authorise the Board to reappoint and determine the external auditor's remuneration will be proposed at the Company's AGM on Tuesday, 2 June 2015.

NOMINATIONS COMMITTEE

“The Nominations Committee continued its work of ensuring that the Board and committee’s composition is correct and that there is the appropriate balance of skills, knowledge, experience and independence to ensure their continued effectiveness in supporting our strategy”. – Roger Davis, Chairman

Composition, meetings and attendance in 2014

Committee members	Member throughout 2014	Number of meetings held/ attended 2014
RW Davis – Chairman	√	4/4
M Salamon	√	4/4
CT Elphick	√	4/4

The Nominations Committee comprises two non-Executive Directors and one Executive Director. The Committee’s terms of reference provide for a formal and transparent procedure for the Committee to follow in discharging its responsibilities. The Committee has responsibility to identify, evaluate and recommend candidates for Board vacancies and to make recommendations on Board composition and balance. Four meetings were held in 2014. All recommendations for Board appointments are made on merit and against objective criteria. No appointments were made in 2014.

The role and focus of the Nominations Committee

The key objective of the Nominations Committee is to ensure that the Board of the Company comprises individuals with the requisite skills, knowledge and experience. This enables the effective discharge of the Board’s responsibilities, which includes supporting the Group’s strategy.

Responsibilities include:

- Leading the process for identifying and making recommendations in relation to the structure, size and composition of the Board, including its diversity and balance of skills, knowledge and experience as well as the independence of non-Executive Directors.

- Making recommendations to the Board regarding the composition of the Nominations Committee and the composition and chairmanship of the Audit, Remuneration and HSSE Committees.
- Identifying and making recommendations to the Board regarding candidates for appointment as Directors, which includes considering succession planning and the leadership needs of the Group.
- Overseeing the performance evaluation of the Board, its Committees, and individual Directors.

The Board acknowledges that diversity extends beyond the boardroom and supports management in its efforts to build diversity throughout the Group. It endorses the Group’s policy to attract and develop a highly qualified and diverse workforce, to ensure that all selection decisions are based on merit and that all recruitment activities are fair and non-discriminatory. The policy acknowledges the contribution of diversity, including gender, to the effective functioning of the Board. When recruiting additional Directors and/or filling vacancies which arise when Directors do not seek re-election, the Nominations Committee will seek to appoint new Directors who fit the skills

criteria and gender balance that are in line with the Board’s aspiration. Recognising that Directors with diverse skill sets, capabilities and experience, gained from different geographic and cultural backgrounds, can enhance the Board’s effectiveness, the Nominations Committee continues to encourage and support a diversity of business skills and experience. Details, including the proportion of women in senior management, can be found in the “Attracting, retaining and developing our employees” section of the Sustainable Development Review on page 41.

Activities of the Nominations Committee during 2014

The Nominations Committee in 2014 deliberated upon:

- succession planning for all Directors and Senior Executives;
- the composition of various committees; and
- the effectiveness of the Nominations Committee.

In the year ahead, the Committee will continue to assess the Board’s composition, as well as evaluating the composition of various committees. It will also continue to monitor developments in corporate governance, to ensure the Group remains at the forefront of good governance practices.

HSSE COMMITTEE

“The safety and well-being of our employees and contractors continues to be our first priority. We strive to identify and mitigate potentially hazardous tasks and conditions so that safe working procedures are implemented and embedded throughout all levels in the organization. Putting health and safety first, being environmentally responsible, legally compliant and adding value to our stakeholders and the communities in which we operate, ensures our social licence to operate”. – Gavin Beevers, Chairman

Committee members	Member throughout 2014	Number of meetings held/ attended 2014
GA Beevers – Chairman	√	4/4
M Salamon	√	4/4
GE Turner	√	4/4

The role and focus of the HSSE Committee

The overall role and responsibility of the Committee is to give the Board assurance that the policies and guidelines approved by the Board have been implemented and that the management of health, safety, social and environmental matters throughout the Group is carried out in accordance with these policies as well as being legally compliant with all relevant legislation. The policies and procedures take account of international best practice and are continuously reviewed to ensure they remain effective and current.

The Committee achieves this by regularly:

- monitoring HSSE policies and guidelines, and ensuring they take account of minimum requirements and international best practice;

- having oversight of and providing assurance to the Board on the Group's compliance with applicable legal, regulatory and international best practice requirements associated with HSSE;
- assessing the effectiveness of management's approach to managing risks, particularly with respect to all aspects of HSSE;
- reviewing significant incidents and considering causative factors, consequences and actions including the impact on employees, third parties and reputational risk;
- recommending to the Board the Group's key performance indicators with regard to HSSE matters and monitoring the performance against these targets;

- reviewing the Group's external reporting, regulatory and public disclosures on HSSE matters and approving these as necessary;
- reviewing and reporting to the Board developments, HSSE trends and sustainability matters which may be relevant to the Group's operations, its assets or employees; and
- providing the Board with guidance on key global HSSE issues.

Activities of the HSSE Committee during 2014

In 2014, members of the HSSE Committee visited the Group's operations in order to gather first-hand knowledge of current practices and the management of HSSE matters at the operations to assist in their assessment of the effectiveness of the Group's HSSE policies and procedures.

HSSE COMMITTEE

Specific activities of the HSSE Committee in 2014 included the following:

Health	Safety	Social	Environment	Governance
– Reviewed reports on project affected communities and employee health indicators and trends. – Monitored the effectiveness of on-site clinics at Letšeng and Ghaghoo. – Reviewed the effectiveness of health risk mitigation strategies at the mine sites in Botswana and Letšeng.	– Reviewed the implementation of the strategic plan to improve safety. – Monitored the implementation of Behaviour Based Safety programmes at the mines in Botswana and Letšeng. – Received reports from, and interviewed accountable managers on, all serious safety incidents. – Reviewed reports on investigation into root causes of all serious safety incidents to avoid similar future incidents. – Reviewed reports on key safety indicators and trends. – Recognised the risk associated with water and slimes storage facilities; ensured that the risk is mitigated at operational level through the implementation of specialist research recommendations. – Recognised the risk associated with the use of contractors and ensuring that the correct measures were developed and implemented at operational level to mitigate this risk, including the further development and implementation of a contractor safety system, which ensures contractors follow approved systems and practices as required by the Group.	– Identified material social governance risks and addressed the risks through the implementation of effective mitigation measures as per the Group's policies and guidelines. – Received reports from and interviewed accountable managers on implemented community development initiatives. – Reviewed reports on project affected community socio-economic indicators and trends. – Monitored the implementation at operational level of corporate social investment plans at the mines in Botswana and Letšeng.	– Reviewed key sustainability-related risks and associated mitigation plans. – Reviewed reports on key environmental indicators and trends. – Recognised the importance of safeguarding the quality of water at the Group's operations and initiated water impact mitigation measures in order to address the upward trending levels of contaminants in process water at operations. – Identified material environmental risks and ensured that the risks were adequately addressed through the implementation of effective mitigation measures as per the Group's policies and guidelines. – Reviewed reports on the Group's key indicators and trends.	– Reviewed reports on the Group's key indicators and trends. – Reviewed changes to local and international best practice guidelines on safety, health and environmental governance. – Considered changes to the Global Reporting Initiative reporting standard and agreed the indicators to be disclosed in the 2014 Sustainable Development Report.

ANNUAL STATEMENT ON DIRECTORS' REMUNERATION

“Our remuneration policy is designed to support our business strategy, to achieve sustainable growth and maximise long-term sustainable shareholder returns. The Directors’ Remuneration Policy was approved by shareholders at the 2014 AGM.” – Richard Williams, MBE MC, Chairman

Chairman’s statement

Dear shareholder,

On behalf of the Board I am pleased to present the Remuneration Committee’s Directors’ Remuneration Report for 2014.

In line with last year, this report is split into three sections: the Annual Statement, the Directors’ Remuneration Policy and the Annual Report on Remuneration. Our Remuneration Policy, detailed on pages 68 to 75, remains consistent with that approved by shareholders at the 2014 AGM, and is reproduced in full for both ease of reference and to provide context to the decisions taken by the Committee during the year.

Our Remuneration Policy is designed to support our business strategy to achieve sustainable growth and maximise long-term sustainable shareholder returns.

A substantial proportion of the total remuneration package is linked to the achievement of demanding financial and non-financial performance targets in the short term and shareholder returns in the long term. We seek to set the total remuneration package at an appropriate level to reflect the competitive markets in which the Group operates and the Group’s overall performance, and exercise downwards discretion in determining incentive outcomes where warranted by Group performance.

As disclosed in last year’s report, the Committee concluded a review of the ESOP in 2014, and made a number of revisions to make the plan’s performance criteria more aligned with the Group’s strategy, more resilient to uncontrollable factors, and to reflect recent remuneration trends in the mining sector. For awards made in 2014 and subsequent years, the maximum award opportunity has been increased from 100% to 125% of salary in performance shares, and will vest based on total shareholder return (TSR) versus FTSE 350 mining companies, and profit and production objectives, and will be measured over a three-year performance period. Shareholders approved the plan at the 2014 AGM, and awards of 75% of salary were made to the Executive Directors in June 2014.

For 2014, both the achievement of the annual bonus scorecard objectives in terms of growth, operating performance targets and HSSE performance and the achievement of personal objectives in terms of the year were strong, scoring 100% of maximum for all the Executive Directors. As such, the remuneration outcomes for the Directors for the year were as follows:

	2014 ¹ £	2013 £	% change
Basic salaries	1 290 258	1 269 560	1.6
Benefits	75 225	74 031	1.6
Annual bonuses	1 083 883	758 422	42.9
Pension contribution equivalent	174 306	171 470	1.7
Other ²	–	481 983	(100.0)
ESOP ³	–	–	0.0
Total remuneration of Executive Directors	2 623 672	2 755 466	(4.8)
Non-Executive Director fees	310 000	310 000	0.0
Total of all Directors	2 933 672	3 065 466	(4.3)
Total Group base salaries, benefits, pensions, bonuses and ESOP	13 565 919	13 332 710	1.7

¹ The detail by individual Director can be found on page 77.

² KM Burford retired on 1 April 2013 and received a lump sum payment of £341 578 equivalent to 12 months’ notice period (base salary; pension; and benefits) and £56 492 in lieu of annual leave entitlement at date of leaving. He also received £65 688 in lieu of annual leave entitlement in relation to 2012. M Michael and GE Turner received £26 765 and £57 148, respectively, in lieu of annual leave entitlement in 2013. Further details pertaining to the payments in lieu of annual leave entitlement are disclosed in the 2013 Annual Report on Remuneration.

³ ESOP: value at vesting of awards vesting on performance over the three-year period ended 31 December 2013 (for ESOP 2011) and 31 December 2014 (for ESOP 2012) (the latter lapsed in full in March 2015).

In September 2014, the FRC introduced changes to the Code recommending that companies introduce pre-vesting performance adjustments (malus) and post-vesting clawback provisions for Executive Directors’ incentive plans. The Remuneration Committee sought professional advice and guidance on the merits of implementing these provisions and it was agreed that no changes would be effected at this time. The Committee will review the appropriateness of malus and clawback provisions when the current policy expires, based on prevailing market practice at that time.

The Executive Directors’ salaries were reviewed in March 2015, and all save the Chief Financial Officer, M Michael, received an increase of 3%, in line with the general practice of applying inflation as a base for salary increases across the Group. M Michael was promoted to the Chief

Financial Officer role on a below-market level salary in 2013, and it was intended that his salary would be increased each year to reflect his demonstrated development in the role and subject to Company performance. For 2015, the Committee awarded M Michael a 25.5% increase to his salary, which reflects his continued strong performance in his role and significant contribution to the business and to bring his salary more in line with market.

The Annual Report on Remuneration will be subject to an advisory vote at the forthcoming AGM. We continue to value feedback from shareholders and hope to receive your support at the AGM.

Richard Williams, MBE MC
Chairman of the Remuneration Committee

16 March 2015

DIRECTORS' REMUNERATION POLICY

The Company's remuneration policy is designed to provide a level of remuneration which attracts, retains and motivates executives of a suitable calibre to carry out the Company's business strategy and maximise long-term shareholder wealth

The report has been prepared in accordance with the principles of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Regulations require our auditors to report to shareholders on the audited information within this report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act. The auditors' opinion is set out on pages 93 to 95 and we have clearly marked the audited sections of the report.

The Company's remuneration policy

The Company's remuneration policy is designed to provide a level of remuneration which attracts, retains and motivates executives of a suitable calibre to carry out the Company's business strategy and maximise long-term shareholder wealth. It is intended that, as far as possible, remuneration policies and practices will conform to best practice in the markets in which the Company operates and will be

aligned with shareholder interests and promote effective management of business risk.

The Committee takes into account the UK Listing Rules (UKLA), the principles and provisions of the Code and the guidance provided by institutional investor representative bodies in determining executive remuneration arrangements. In deciding on the appropriate structure and quantum of remuneration, the Committee reviews remuneration practices at comparator companies, comprising mining companies and UK-listed companies of a similar size and complexity, to ensure remuneration policies reflect, as appropriate, prevailing industry and market conditions. Furthermore, remuneration policies have taken, and will continue to take account of pay and employment conditions elsewhere in the Group.

The Committee's policy is to weight remuneration towards variable pay. The aim is to provide base salaries and benefits that are fair, and variable pay incentives linked to the achievement

of realistic performance targets relative to the Company's strategy and corporate objectives.

The Directors' remuneration policy was put to shareholders for approval in a binding vote at the AGM in 2014, and having received 95% support formally came into effect from 10 June 2014, the date of the AGM. The report below is as disclosed in the 2013 Directors' Remuneration Report save a number of minor changes as follows:

- references to financial years have been updated where appropriate;
- pay-for-performance scenario charts have been updated to reflect 2015 salaries; and
- approach to remuneration on recruitment has been updated for the clarification note released following publication of the Directors' Remuneration Report and prior to the AGM.

Remuneration policy of the Company

Executive Directors

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
Salary	– To offer a market competitive base salary to recruit and retain individuals of the necessary calibre to execute the Company's business strategy.	– Base salaries are reviewed annually, with changes effective from 1 April. – Salaries are typically set after considering the salary levels in companies of a similar size, complexity and risk profile, the responsibilities of each individual role, progression within the role, and individual performance. – In setting salaries for Executive Directors, the Committee takes note of the overall approach to salary reviews for the wider workforce.	– No prescribed maximum annual increase. – It is expected that salary increases for Executive Directors will ordinarily be (in percentage of salary terms) in line with those of the wider workforce in countries of a similar inflationary environment. – In certain circumstances (for example where there is a change in responsibility, role size or complexity, or progression in the role), the Committee has discretion to award a higher increase to ensure salary levels remain competitive.	N/A
Benefits	– To provide competitive benefits taking into account market value of role and benefits offered to the wider UK management population, in line with the Company's strategy to keep remuneration simple and consistent.	– Executive Directors receive a cash allowance in lieu of non-cash benefits.	– Benefit value may vary by role; the value of benefits received during 2014 ranged between 5.5% and 6% of base salary for the Chief Executive Officer and other Executive Directors respectively. – It is not anticipated that the cost of benefits will exceed this level over the term of this policy, though the Committee retains discretion to approve a higher cost in exceptional circumstances (for example relocation or increase in insurance premiums).	N/A

DIRECTORS' REMUNERATION POLICY continued

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
Pension	– To provide retirement benefits that are appropriately competitive.	– No formal pension provision is made by the Company.	– Executive Directors receive a cash allowance in lieu of pension which is currently equivalent to 14.5% and 13.0% of base salary for the Chief Executive Officer and other Executive Directors respectively. – It is not anticipated that the cash allowance in lieu of pension will exceed this level over the term of this policy, though the Committee retains discretion to approve a higher cost if deemed appropriate.	N/A
Annual bonus	– To drive and reward performance against personal objectives and selected financial and operational KPIs which are directly linked to business strategy.	– The executive incentive scheme is reviewed annually by the Committee at the start of the year to ensure the opportunity and performance measures are appropriate and continue to support business strategy. – The Committee has discretion to adjust the formulaic outcome of the bonus to more accurately reflect business and personal performance during the year. – The annual bonus is paid entirely in cash.	– Maximum opportunity of up to 100% of base salary. – For threshold level and target level performance, the bonus earned is 50% and up to 68% of maximum opportunity, respectively.	– Performance is determined by the Committee on an annual basis by reference to a scorecard of Group targets as detailed in the Group's business plan and encapsulated in specific KPIs as well as a discretionary assessment of personal performance. – Group scorecard targets may include growth (incorporating Letšeng growth plans; Ghaghoo development; M&A activity including associated financing), which is judged by the Committee on a discretionary basis, HSSE and operating performance, and will typically be weighted at least 70% in any one year. – Details of the measures and weightings for the current year are provided in the Annual Report on Remuneration.

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
Employee Share Option Plan (ESOP)	– To balance the delivery of absolute and relative returns to shareholders in the long term, support alignment with shareholders, and attract, retain and motivate executives of the appropriate calibre.	– Executive Directors are granted awards of performance shares and/or options as determined by the Committee, which vest after a minimum of three years based on performance. – Awards are normally made annually after the announcement of the full-year results but may be made at other times deemed appropriate by the Committee. – The Committee may vary the ratio of performance shares and options from year to year, but it is the current intention of the Committee that only awards of performance shares are made over the term of this policy. – The Committee will consider the impact of any external factors when determining the final vesting outcome of awards under the ESOP. – Any such discretion would be disclosed and explained in the following year's Annual Report on Remuneration. – For performance shares, any dividends paid would accrue over the vesting period and would be paid only on those awards that vest.	– Maximum opportunity is up to 125% of salary in performance shares and 250% in performance options (subject to overall maximum with fair value equivalent to 125% of salary in performance shares). – For threshold performance, 20% of the maximum award vests.	– Awards vest based on continued employment and the Company's performance over a three-year period. It is the Committee's current intention that the performance measures be based on relative TSR, profit and production, but may for future awards include additional measures such as HSSE or strategic objectives, as determined by the Committee. – Vesting is ultimately also subject to the Committee's assessment of the Company's underlying performance.

DIRECTORS' REMUNERATION POLICY continued

Notes to policy table

Payments from existing arrangements

Executive Directors will be eligible to receive remuneration or other payment in respect of any award granted or payment agreed prior to the approval and implementation of the policy, or prior to the individual becoming a director. Such payments include awards made to M Michael under the 2007 LTIP and under the ESOP prior to his appointment to the Board in 2013, awards made to other Executive Directors under the ESOP prior to the revisions being proposed at the 2014 AGM, as well as payments in lieu of annual leave entitlements under the previous policy on annual leave entitlements.

Details of any such awards or payments are disclosed in the Annual Report on Remuneration.

Selection of performance measures (bonuses and ESOPs)

The performance measures used in the Company's executive incentive scheme have been selected to ensure incentives reinforce the Company strategy and align executive interests closely with those of shareholders.

Performance targets are set to be stretching and achievable, taking into account the Company's strategic priorities and the economic environment in which the Company operates. Targets are set taking into account a range of reference points including the Group's business plan. The Committee believes that the performance targets set are adequately stretching, and that the maximum outcomes are achievable only for exceptional performance.

Remuneration policy for other employees

The approach to salary reviews is consistent across the Group, with consideration given to the level of responsibility, experience, individual performance, market levels and the Company's ability to pay.

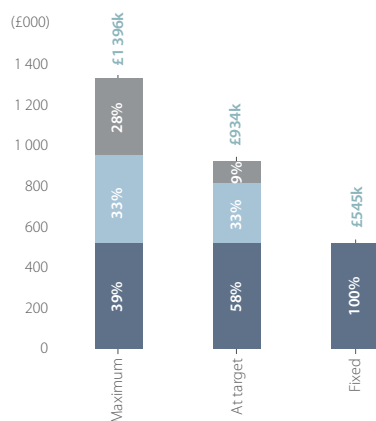
Below Board level Senior Management participate in an annual bonus scheme on a similar basis as the Executive Directors, although the more senior the individual, the higher the weighting on Group performance measures. A number of Senior Management also receive ESOP awards. Performance conditions and award sizes vary to be appropriate to the organisational level.

Pay for performance: scenario analysis

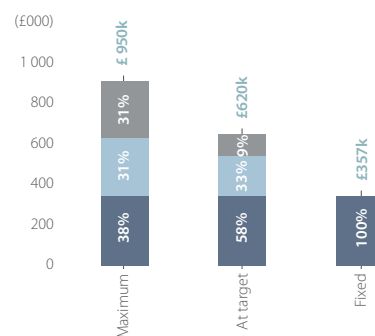
The following graphs provide an estimate of the potential future remuneration for the Executive Directors and the potential split between the different elements of

pay under three performance scenarios: 'fixed', 'at target' and 'maximum'. Potential remuneration is based on the policy that will apply in 2015, applied to the salaries effective 1 April 2015. For the annual bonus, the amounts illustrated are those potentially receivable in respect of performance for 2015 (ie a maximum of 100% of salary). ESOP values are based on the proposed number of shares to be awarded in 2015 and the average share price from 1 October 2014 to 31 December 2014 of 172.2p. Note that the projected values exclude the impact of any share price movements and dividend accrual.

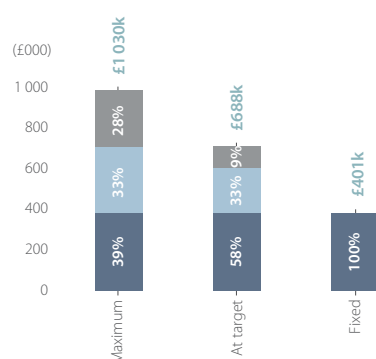
Chief Executive Officer



Chief Financial Officer



Chief Operating Officer



Chief Legal and Commercial Officer



■ Salary, pension and benefits
■ Annual bonus
■ Long-term incentives

The 'fixed' scenario includes base salary, pension and benefits only.

The 'at target' scenario includes fixed remuneration as above, plus a target payout of 68% maximum annual bonus and 20% vesting under the ESOP.

The 'maximum' scenario includes fixed remuneration, plus full payout/vesting of all incentives.

Approach to remuneration on executive recruitment

In recruiting new Executive Directors, the Committee will typically follow the existing remuneration policy as set out in the policy table, but retains the discretion to offer remuneration that is outside of the policy if necessary to enable the recruitment of an individual of the appropriate calibre. The Committee will pay no more than is appropriate while seeking to secure the necessary world-class Executive Directors

required to deliver the Company's strategy and create value for shareholders.

On appointment of an external Executive Director, any arrangement specifically established to recruit an individual would be capped at the limits described in the policy table. The Committee does not envisage a payment such as a 'golden hello' would be offered, although the Committee may consider it appropriate to compensate for incentive arrangements the Director forfeits on leaving his/her current employer. Any such buy-out compensation would be on a comparable basis taking into account factors including the performance conditions attached to these awards, the likelihood of conditions being met, and the remaining vesting period of these awards. The Committee would use the remuneration components under the regular policy to make such buy-out awards but may also exercise its

discretion under Listing Rule 9.4.2 if an alternative incentive structure was required.

In the case of internal promotions, any commitments made prior to promotion and the approval of the remuneration policy, will be honoured.

Service contracts

The Company's policy is to limit termination payments on termination to pre-established contractual arrangements. In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans. Details of the Executive Directors' service contracts are summarised in the table below.

Directors	Contract date	Unexpired term	Notice period ¹	Contractual termination payment ²
CT Elphick	13 February 2007	Rolling contract	12 months	Pay salary on summary termination. Benefits are payable only at the Committee's discretion.
M Michael	22 April 2013	Rolling contract	12 months	
GE Turner	1 July 2008	Rolling contract	12 months	
AR Ashworth	1 March 2008	Rolling contract	12 months	

¹ At the Remuneration Committee meeting held on 4 March 2013 and after having reviewed market practice of FTSE-listed companies and other companies in the mining sector, the Committee approved the extension of the notice period for the Executive Directors to 12 months (both from the Company and from the Director). This revision took effect as of 1 March 2013.

² There are no special provisions in the contracts extending the notice period on a change of control or other corporate events.

Payments for loss of office under all service contracts

If an Executive Director's contract is terminated, payments equal to salary in lieu of notice can be made monthly during the notice period. Benefits are payable only at the Committee's discretion. Payment in lieu of unused annual leave entitlement can be made at the effective salary rate at the point of termination.

The table below provides details of exit payments under different leaver scenarios.

Incentive plan	Scenario	Time of payment/vesting	Calculation of payment/vesting
Annual bonus	– Death, disability, ill health, redundancy, retirement, or any other reasons the Committee may determine (normally not including resignation or where there are concerns as to performance).	– Normal payment date, although the Committee has discretion to accelerate (eg in relation to death).	– Performance against targets will be assessed by the Committee at the end of the year and any resulting bonus is pro rated for proportion of the year worked.
	– Change of control (whether or not employment is terminated as a result).	– On change of control.	– Performance against targets will be assessed by the Committee up to the date of change of control and any resulting bonus is pro rated for time.
	– All other reasons	– Ineligible	– N/A

DIRECTORS' REMUNERATION POLICY continued

Incentive plan	Scenario	Time of payment/vesting	Calculation of payment/vesting
ESOP	– Death, disability, ill health, redundancy, retirement, or any other reasons the Committee may determine (normally not including resignation or where there are concerns as to performance).	– Normal vesting date, although the Committee has discretion to accelerate.	– Unvested awards will be pro rated for time unless the Committee decides otherwise, and based on performance.
	– Change of control (whether or not employment is terminated as a result).	– On change of control.	– Unvested awards will be pro rated for time unless the Committee decides otherwise, and based on performance up to the date of change of control. Executive Directors can elect to exchange ESOP awards for those of the acquiring company, if offered.
	– All other reasons.	– Awards lapse.	– N/A

Non-Executive Directors

Non-Executive Directors do not receive benefits from the Company and they are not eligible to participate in any bonus or share incentive scheme.

Details of the policy on non-Executive Director fees are set out in the table below.

Purpose and link to strategy	Operation	Opportunity
– To attract and retain a high-calibre Chairman and non-Executive Directors with experience relevant to the Company.	– Fees are reviewed annually, with any changes effective from 1 April. – Fees are typically set after considering current market levels and taking into account time commitment and responsibilities involved. – All non-Executive Directors, including the Chairman, are each paid an all inclusive fee. No additional fees are paid for chairmanship of committees. – All fees are payable in cash in arrears. – The non-Executive Directors do not participate in any of the Group's incentive plans. No other benefits or remuneration are provided to non-Executive Directors.	– No prescribed maximum annual increase. – It is expected that fee increases will typically be in line with market levels of fee inflation. – In certain circumstances (for example where there is a change in time commitment required or a material misalignment with market), the Committee has the discretion to make adjustments to fee levels to ensure they remain competitive.

On appointment, a new non-Executive Director's fees would be on the same basis as that disclosed above.

Non-Executive Directors' appointment terms

Non-Executive Directors do not have service contracts. Summary details of terms and notice periods for non-Executive Directors are included below.

Directors	Contract date	Unexpired term	Notice period	Contractual termination payment
RW Davis	1 February 2007	Rolling appointment	Three months	No provision for payment of compensation
DJ Elzas	1 February 2007	Rolling appointment	Three months	
GA Beevers	1 February 2007	Rolling appointment	Three months	
M Salmon	3 February 2008	Rolling appointment	Three months	
RJ Williams	3 February 2008	Rolling appointment	Three months	

Considerations of conditions elsewhere in the Group

The Committee considers the remuneration and employment conditions elsewhere in the Group when determining remuneration for Executive Directors. Although the Committee does not currently consult specifically with employees on the executive remuneration policy, it receives regular updates from the Chief Financial Officer on the pay conditions for employees around the Group, and takes these into account when determining Executive Director remuneration.

Considerations of shareholder views

The Committee always welcomes feedback from shareholders on the Company's remuneration policy and commits to undergoing shareholder consultation in advance of any significant changes to

policy. Detail on the votes received on the Directors' Remuneration Report at the prior AGM is provided in the Annual Report on Remuneration.

External directorships

Executive Directors are permitted to accept external directorships with prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Group's activities and the experience gained will be beneficial to the development of the individual. Where fees are payable in respect of such appointments, these would be retained by the Executive Director. Refer to page 85 for further details.

Richard Williams, MBE MC
Chairman of the Remuneration Committee

16 March 2015

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Composition of the Remuneration Committee

The Committee comprises the following members:

Committee members	Member throughout 2014	Number of meetings held/attended 2014
RJ Williams – Chairman	√	4/4
RW Davis	√	4/4
DJ Elzas	√	4/4
M Salamon	√	4/4

The Chief Executive Officer and the Chief Financial Officer attend Committee meetings by invitation and assist the Committee in its deliberations except when issues relating to their own remuneration are discussed. Representatives of Kepler Associates also attend the meeting by invitation.

Role of the Remuneration Committee

The Committee is a formal committee of the Board. Its terms of reference are available on the Company's website and conform to the Code.

The Committee's main responsibilities are to:

- consider and agree on the Company's executive remuneration policies for adoption by the shareholders at the AGM;
- determine individual remuneration packages for the Chairman, the Executive Directors and the Company Secretary together with certain Senior Managers;
- monitor and recommend the level and structure of remuneration for Senior Management;
- approve the design of performance-related pay schemes operated by the Group and approve total annual payments;

- review the design of all share-based incentive plans and approve the awards to be made;
- determine the basis for calculating bonuses payable to the Executive Directors and Senior Management;
- make recommendations to the Board on the fees offered to the non-Executive Directors; and
- consider major changes in employee remuneration in the Group and select and appoint consultants to advise the Committee.

The Committee's policy is to encourage an open and transparent dialogue with shareholders on remuneration matters and would seek to consult with major shareholders prior to implementing any significant changes to the remuneration policy.

Activities of the Remuneration Committee in 2014

The activities of the Committee are governed by its terms of reference which reflect best practice. A review of the Committee's terms of reference and the Committee's effectiveness was carried out in March 2014. There were no material issues identified or action arising therefrom.

During the year, activities undertaken by the Committee included:

- approving the Directors' Remuneration Report for 2013;
- agreeing the basis of the award of annual bonuses;
- reviewing share plan performance;
- reviewing changes to performance measures and targets of the ESOP applicable to grants made to all participants;
- reviewing Senior Management remuneration in light of developments in best practice and market trends;
- reviewing and approving the base salary and benefits of the Chairman, Executive Directors and Company Secretary;
- setting and approving targets for 2014 cash bonuses applicable to Executive Directors and Senior Management;
- reviewing share awards for the Executive Directors; and
- reviewing operating unit incentive plans.

Advisers to the Committee

Kepler Associates appointed by the Committee in February 2010 provided independent remuneration advice to the Committee and attended Committee meetings during 2014. Kepler Associates provide remuneration advice to a large portfolio of clients including many in the FTSE 350; this gives the Committee comfort that the advice provided is appropriate and relevant. Kepler Associates provide no non-remuneration services to the Group and are in no other way connected to the Group and therefore considered to be independent. The fees payable in relation to 2014 were £31 319 (US\$51 600) excluding VAT.

Voting outcome for 2013

The table below shows the results of the advisory vote on the 2013 Directors' Remuneration Report at 10 June 2014 AGM.

		For	Against	Total votes cast	Abstentions
Directors' Remuneration Policy	Total number of votes	117 681 350	5 616 314	123 297 664	4 100
	Percentage of votes cast (%)	95.4%	4.6%	100%	
Annual Report on Remuneration	Total number of votes	123 291 751	5 913	123 297 664	4 100
	Percentage of votes cast (%)	100.0%	0.0%	100%	

Audited

Total single figure of remuneration for Directors

The table below sets out the total single figure remuneration received by each Director for 2014 and the prior year.

	Salary and fees ¹		Cash payments in lieu of other non-cash benefits ²		Bonuses ³		Cash payments in lieu of pension ²		ESOP ⁴		Other ⁵		Total 2014	Total 2013
	2014 £	2013 £	2014 £	2013 £	2014 £	2013 £	2014 £	2013 £	2014 £	2013 £	2014 £	2013 £	2014 £	2013 £
CT Elphick	438 121	428 480	24 097	23 566	367 190	262 230	63 527	62 130	–	–	–	–	892 935	776 406
AR Ashworth	324 419	317 280	19 465	19 037	271 896	181 484	42 175	41 246	–	–	–	–	657 955	559 047
M Michael ¹	234 220	165 000	14 053	9 900	198 815	139 040	30 449	21 450	–	–	–	26 765	477 537	362 155
GE Turner	293 498	287 040	17 610	17 222	245 982	175 668	38 155	37 315	–	–	–	57 148	595 245	574 393
Total of Executive Directors	1 290 258	1 197 800	75 225	69 725	1 083 883	758 422	174 306	162 141	–	–	–	83 913	2 623 672	2 272 001
RW Davis	100 000	100 000	–	–	–	–	–	–	–	–	–	–	100 000	100 000
GA Beevers	52 500	52 500	–	–	–	–	–	–	–	–	–	–	52 500	52 500
DJ Elzas	52 500	52 500	–	–	–	–	–	–	–	–	–	–	52 500	52 500
M Salamon	52 500	52 500	–	–	–	–	–	–	–	–	–	–	52 500	52 500
RJ Williams	52 500	52 500	–	–	–	–	–	–	–	–	–	–	52 500	52 500
Total of non-Executive Directors	310 000	310 000	–	–	–	–	–	–	–	–	–	–	310 000	310 000
Total of all Directors	1 600 258	1 507 800	75 225	69 725	1 083 883	758 422	174 306	162 141	–	–	–	83 913	2 933 672	2 582 001

Audited

¹ Salary and fees: amount earned for the year.

² Benefits and pension: cash payments in lieu.

³ Bonuses: payment for performance during the year.

⁴ ESOP: value at vesting of awards vesting on performance over the three-year periods ended 31 December 2013 (for ESOP 2011) and 31 December 2014 (for ESOP 2012) (the latter lapsed in full in March 2015).

⁵ M Michael and GE Turner received £26 765 and £57 148, respectively, in lieu of annual leave entitlement in 2013. Further details pertaining to the payments in lieu of annual leave entitlement are disclosed in the 2013 Annual Report on Remuneration.

Note: Although the Group's reporting currency is US dollars these figures are stated in sterling as the Directors' emoluments are paid in this currency.

Pensions and other benefits

No formal pension provision is made by the Company. Instead Executive Directors received a cash allowance in lieu of pension which was equivalent to 14.5% and 13.0% of base salary for the Chief Executive Officer and other Executive Directors respectively. Executive Directors received a cash allowance in lieu of other non-cash benefits the value of which ranged between 5.5% and 6% of base salary during 2014.

2014 annual bonus

Executive Directors participate in a discretionary annual bonus arrangement designed to focus participants on the following business critical factors: (i) growth strategy implementation; (ii) funding; (iii) financial and operational performance; (iv) health, safety, social, environment, sustainability, image and relationships; and (v) sales, marketing and manufacturing, all of which are underpinned by specific key performance indicators and which are included in the business plan approved by the Board. The maximum bonus payable to Executive Directors is 100% of base salary with 80% linked to a business scorecard and 20%

linked to a discretionary assessment of personal performance.

Details of the business scorecard split used for 2014 are shown below.

Scorecard

The executive bonus scheme for 2014 was based on the 2014 business plan objectives and premised on a similar structure to that of the 2013 bonus scheme. In 2014 the executive bonus scheme was based on:

- business performance: 80%; and
- personal performance: 20%.

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Business performance

The following key metrics were considered under business performance in 2014:

Performance measure	Weighting % of maximum
Growth (incorporating Letšeng growth plans, Ghaghoo development, and M&A activities including associated funding)	30
Operating performance	50
HSSE performance	20

The growth component of the bonus is assessed at the discretion of the Committee. In terms of performance against the Group's growth targets the Committee considered the excellent progress made in the year in completing the development of Ghaghoo in relation to budget, in managing the political challenges experienced at Letšeng, and in the Executive Directors' efforts in assessing possible strategic activities. The Committee concluded that the growth component of the bonus deserved a payout of 24% (relative to a maximum of 30%).

Operating performance comprised the following key elements with threshold and stretch targets as set out in the table:

Performance measure (operating performance)	Weighting %	Threshold % business plan target (50% payout)	Stretch % to business plan target (100% payout)	Actual performance	Payout %
Underlying EBITDA	20	80	120	Above stretch	20
Earnings per share	20	80	120	Above stretch	20
Waste tonnes mined	20	95	100	Above stretch	20
Ore tonnes treated	20	95	105	Above stretch	20
Productions – carats recovered	20	85	115	Below threshold	0
Total					80

HSSE performance comprised the following key elements with threshold and stretch targets as set out in the table:

Performance measure (HSSE performance)	Weighting %	Threshold % business plan target (50% payout)	Stretch % to business plan target (100% payout)	Actual performance	Payout %
Fatalities	25	Zero	Zero	Below threshold	0
All injury frequency rate	25	80	100	Above stretch	25
Major environmental or community incidents	25	Zero	Zero	Stretch	25
HSSE legal compliance	25	Subjective	Subjective	Stretch	25
Total					75

The business performance targets, in respect of the 2014 bonus, have not been disclosed in this year's report as they are considered commercially sensitive by the Board given the close link between performance targets and business strategy. The Committee will keep this under review and targets will be disclosed at a point in the future when they are no longer considered sensitive.

Personal performance

The personal performance measures were based on individual KPIs as agreed with the Chief Executive Officer.

These included but were not limited to:

- manage and develop investor relations programme;
- discussions with key stakeholders;
- business development;
- delivery of strategic projects;
- HSSE objectives;
- operation performance;
- growth; and
- bank financing projects.

Actual bonuses awarded for 2014

Based on business and personal performance actual bonuses for 2014 were as follows:

	% of salary	Bonus £
CT Elphick	83.2	367 190
AR Ashworth	83.2	271 896
M Michael	84.9	198 815
GE Turner	83.2	245 982

Audited

2012 Employee Share Option Plan (ESOP)

On 20 March 2012, the Executive Directors received awards of shares and options under the ESOP. Vesting of awards was subject to the achievement of challenging performance conditions based on the Company's three-year relative TSR. TSR performance was measured relative to two benchmarks as follows:

- 50% of the award based on the Company's performance relative to a peer group of global diamond mining and exploration companies; and
- 50% of the award is based on the Company's performance relative to the FTSE 250 Index (excluding investment trusts).

The global diamond benchmark was based on the average TSR of the diamond companies weighted by their market capitalisation at the start of the three-year performance period. Weighting individual comparator TSRs by their market caps helps reduce the sensitivity of ESOP outcomes to the smaller comparator companies which are likely to have more volatile TSRs than the Company.

The diamond peer group for the 2012 cycles comprised Mountain Province Diamonds, Petra Diamonds, Rockwell Diamonds, Shore Gold and Trans Hex Group. African Diamonds Limited was taken over by Lucara Diamond Corp in December 2010. Lucara Diamond Corp therefore replaced African Diamonds Limited for the 2012 grant. Vaaldiam Resources was taken over by BCKP Limited in July 2012 and Namakwa was delisted in

2013. Both of these companies were subsequently removed from the diamond peer group for the 2012 grant.

25% of the award vests if the Company's three-year TSR is in line with benchmark performance with full vesting if the Company's TSR exceeds that of its benchmark by 12% per annum which the Committee believes is broadly equivalent to upper quartile performance. There is straight-line pro rata vesting for performance between benchmark and benchmark +12% per annum.

The three-year period over which performance was measured ended on 31 December 2014. Actual TSR was 16.1% per annum below the diamond peer group and 19.7% per annum below the FTSE 250 (excluding investment trusts). As a result, the awards will lapse on 20 March 2015.

The table below sets out the awards held by Executive Directors under the March 2012 ESOP.

Executive Directors	Awards	Awards held	Vesting %	Interest vesting	Date vesting	Exercise price
CT Elphick	Performance shares Performance options	45 000 90 000	Nil	Nil	20 March 2015	\$0.01 300.05p
AR Ashworth	Performance shares Performance options	34 000 68 000	Nil	Nil	20 March 2015	\$0.01 300.05p
M Michael ¹	Performance shares Performance options	20 000 40 000	Nil	Nil	20 March 2015	\$0.01 300.05p
GE Turner	Performance shares Performance options	30 000 60 000	Nil	Nil	20 March 2015	\$0.01 300.05p

Audited

¹ These awards were granted to M Michael before he became a Director in April 2013. The performance conditions are the same as those for awards made to the other Executive Directors in 2012 (ie relative TSR).

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ESOP awards made during 2014

As set out in the 2013 Directors' Remuneration Report, the Remuneration Committee conducted a review of the existing ESOP, with a view to ensuring the plan's performance criteria was more aligned with the Group's strategy and more resilient to uncontrollable factors and to reflect recent remuneration trends in the mining sector. The revised plan was subsequently approved by shareholders at the 2014 AGM.

Under the revised ESOP, Executive Directors have a maximum opportunity of 125% of salary in performance shares (or 250% in performance options subject to an overall maximum, with fair value equivalent to 125% of salary in performance shares). In June 2014, awards of performance shares with a face value of 75% of salary were made to the Executive Directors.

Executive Director	Date of grant	Awards made during the year	Share price on date of award £	Face value on date of award £	Face value as % of salary
CT Elphick	10 June 2014	206 000	1.61	331 372	75
AR Ashworth	10 June 2014	153 000	1.61	246 116	75
M Michael	10 June 2014	112 000	1.61	180 163	75
GE Turner	10 June 2014	138 000	1.61	221 987	75

These awards will vest based on relative TSR (25% of the award), profit (37.5%) and production (37.5%) measured over the three-year performance period ending 31 December 2016.

The TSR element will be based on the Company's relative TSR ranking against the constituents of the FTSE 350 Mining Index. 20% of the maximum award will vest for TSR in line with the median, 80% will vest for TSR in line with 75th percentile and there will be full vesting only for TSR in line with 85th percentile. For performance in between these points, the award will vest on a straight-line basis.

Under the profit element, 20% of the maximum award will vest for achieving 80% of the business plan, 80% will vest for 120% of the business plan and there will be full vesting for achieving 132% of the business plan; straight-line vesting applies between these points. Under the production element, 20% of the maximum award will vest for achieving an average of 90% of the business plan, 80% will vest for 110% of the business plan and there will be full vesting for achieving an average of 121% of the business plan; straight-line vesting applies between these points. The precise profit and production performance ranges will be disclosed after the

performance period has ended as these targets relate to the Company's business plan and medium and long-term strategy and are therefore considered commercially sensitive.

The Committee is satisfied that the performance targets set for the 2014 awards (as described above) are sufficiently stretching and full vesting is achievable only for exceptional performance.

Exit payments/payments to previous Directors

No exit payments or payments to previous Directors were made during the year.

Implementation of remuneration policy for 2015

The Committee approved the following salary increases from 1 April 2015:

Executive Director	2014 salary £	2015 salary £	% increase
CT Elphick	441 334	454 574	3.0
AR Ashworth	326 798	336 602	3.0
M Michael	238 960	300 000	25.5
GE Turner	295 651	304 521	3.0

Audited

M Michael was appointed to the Board in 2013 on a salary that was below the median level for companies of similar size and sector and significantly below the levels of the other Executive Directors. The Committee's intention was to gradually increase his salary each year to reflect his demonstrated development in his role as Chief Financial Officer and the performance of the business. In this context, the Committee increased M Michael's salary by 25.5% to £300 000 effective 1 April 2015. This increase reflects M Michael's continued strong performance in his role and significant contribution to the business.

Pension and benefits

Executive Directors will continue to receive cash supplements in lieu of pension and benefits in line with the current policy.

Annual bonus

In 2015, the annual bonus will have the same maximum opportunity and will operate on broadly the same basis as for 2014. The measures have been selected to reflect a range of financial and operational goals that support the key strategic objectives of the Group. The performance measures and weightings will be similar to those in 2014 but may vary at the Committee's discretion. The targets are commercially sensitive at this time and will therefore not be disclosed until a time the Committee determines to be appropriate.

As mentioned in the Chairman's Statement in September 2014, the FRC introduced changes to the Code recommending that companies introduce prevesting performance adjustments (malus) and post-vesting clawback provisions for

Executive Directors' incentive plans. The Remuneration Committee considered the matter and agreed that no changes would be effected at this time in relation to both the annual bonus and ESOP. The Committee will review the appropriateness of malus and clawback provisions when the current policy expires based on prevailing market practice at that time.

ESOP

In advance of each ESOP cycle the Committee reviews the performance measures and corresponding targets to ensure they are appropriately stretching over the performance period. For 2015 the ESOP will continue to operate on the same basis as in 2014. The Chief Executive Officer will receive an award of 230 000 performance shares (equivalent to 87% of salary) and the other Executive Directors will each receive an award of 170 000 performance shares (equivalent to between 87% and 98% of salary). Vesting will be based on the TSR versus the constituents of the FTSE 350 Mining Index

(25% of the award), profit (37.5%) and production (37.5%) objectives measured over the three-year performance period ending on 31 December 2017. The relative TSR targets remain unchanged from 2014 and the profit and production targets will be disclosed after the performance period has ended as these targets relate to the Company's business plan and medium and long-term strategy and are therefore considered commercially sensitive.

Chairman and non-Executive Director fees

Chairman and non-Executive Director fees were last reviewed in March 2014 when it was agreed no changes would be made at this time. Fees were also reviewed in March 2015 when it was agreed that the Chairman's fee would be increased by 10% from £100 000 to £110 000 and the non-Executive Directors' fees by 4.8% from R52 500 to R55 000 in line with market fee levels for companies of similar size and sector.

The percentage increase in Chief Executive Officer remuneration (salary, benefits and annual bonus) compared with employee pay 2014

	CT Elphick			Other employees		
	2014 £	2013 £	% increase	2014 £	2013 £	% increase
Base salaries	438 121	428 480	2	11 968 035	10 950 685	9
Benefits	24 097	23 566	2	1 110 625	931 855	19
Annual bonuses	367 190	262 230	40	2 201 672	1 369 135	61
Total	829 408	714 276	16	15 280 332	13 251 675	15

Audited

Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (that is dividends and share buy-backs) from the financial year ended 31 December 2013 to the financial year ended 31 December 2014.

	2014 US\$	2013 US\$	%
Distribution to shareholders	6 913 491	Nil	N/A
Employee remuneration ¹	25 193 146	21 949 159	15

Audited

¹ Includes salary pension and benefits bonus accounting charge for the ESOP employer's NI but excludes employees' NI.

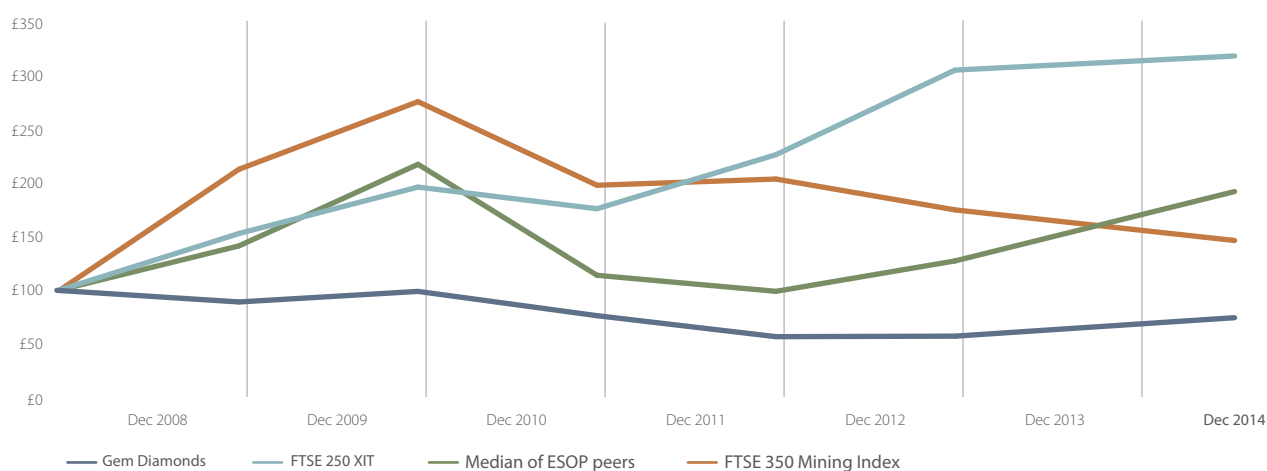
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Pay for performance

The graph below shows the Company's TSR performance compared with the performance of the FTSE 250 (excluding investment trusts) and the ESOP comparator group over the six-year period to 31 December 2014. The former has been selected to reflect broad market movements and the latter has been selected because the Group believes it is affected by similar commercial and economic factors to the comparator group.

Value of £100 invested on 1 January 2009

Gem Diamonds versus ESOP global mining and exploration comparators and FTSE 250 XIT INDEX



	2009	2010	2011	2012	2013	2014
Chief Executive Officer single figure of remuneration (£)	640 150	726 050	797 755	564 419	776 406	892 935
Annual bonus outcome (% of maximum)	54	67	75	13	61	83
ESOP vesting outcome (% of maximum)	Nil	Nil	Nil	Nil	Nil	Nil

Audited

Dilution

ESOP awards may be satisfied with newly issued shares subject to aggregate dilution limits. The issue of shares to satisfy awards under the Company's share schemes will not exceed 10% of the Company's issued ordinary share capital in any rolling 10-year period. As of 31 December 2014, 1 673 333 shares (1.21% of issued share capital) have been or may be issued pursuant to all awards made over the last 10 years.

Details of awards of performance shares to Directors

Directors	Performance shares ¹ as at 1 January 2014	Exercised in the year	Granted in the year	Lapsed in the year ²	Exercise price US\$	Market value at date of grant US\$	Date of grant	Earliest normal exercise date	Expiry date	Performance shares at 31 December 2014
CT Elphick	50 000	–	–	(50 000)	0.01	131 700	13 June 2011	13 June 2014	13 June 2021	–
	45 000	–	–	–	0.01	135 023	20 March 2012	20 March 2015	20 March 2022	45 000
	–	–	206 000	–	0.01	331 372	10 June 2014	10 June 2017	10 June 2024	206 000
										251 000
AR Ashworth	34 000	–	–	(34 000)	0.01	89 556	13 June 2011	13 June 2014	13 June 2021	–
	34 000	–	–	–	0.01	102 017	20 March 2012	20 March 2015	20 March 2022	34 000
	–	–	153 000	–	0.01	246 116	10 June 2014	10 June 2017	10 June 2024	153 000
										187 000
M Michael	20 000	–	–	(20 000)	0.01	52 680	13 June 2011	13 June 2014	13 June 2021	–
	20 000	–	–	–	0.01	60 010	20 March 2012	20 March 2015	20 March 2022	20 000
	24 000 ³	–	–	–	0.01	42 624	11 September 2012 ³	1 January 2016	31 December 2023	24 000
	–	–	112 000	–	0.01	180 163	10 June 2014	10 June 2017	10 June 2024	112 000
										156 000
GE Turner	30 333	–	–	(30 333)	0.01	79 897	13 June 2011	13 June 2014	13 June 2021	–
	30 000	–	–	–	0.01	90 015	20 March 2012	20 March 2015	20 March 2022	30 000
	–	–	138 000	–	0.01	221 987	10 June 2014	10 June 2017	10 June 2024	138 000
										168 000

Audited

¹ Conditional right to acquire shares.

² 2011 awards were granted on 13 June 2011. The vesting criteria runs on a calendar year basis. Based on performance to 31 December 2013, it was determined that none would vest on 13 June 2014.

³ These awards were granted to M Michael before he became a Director. The terms of the awards made in September 2012 differ from the ESOP performance conditions for Executive Directors and were only granted to senior managers. In brief, the scheme provides that a third of the awards granted in 2012 will vest in 2014, 2015 and 2016 based on performance in each of the 2013, 2014 and 2015 financial years. The extent to which the awards vest will depend on the achievement of Group and individual targets (weighted 70 and 30 of the total respectively) in each of the three one-year performance periods. Any awards that vest will be banked and may only be exercised at the end of the three-year performance period. As soon as reasonably practicable, following the end of the performance periods, the achievement of the targets for each of the 2013, 2014 and 2015 financial years are calculated. Based on performance in 2013 and 2014, 77% of M Michael's award will be banked.

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Details of awards of performance options to Directors

Directors	Performance shares ¹ as at 1 January 2014	Exercised in the year	Granted in the year	Lapsed in the year ²	Exercise price GB pence	Date of grant	Earliest normal exercise date	Expiry date	Performance shares at 31 December 2014
CT Elphick	100 000	–	–	(100 000)	263.40	13 June 2011	13 June 2014	13 June 2021	–
	90 000	–	–	–	300.05	20 March 2012	20 March 2015	20 March 2022	90 000
									90 000
AR Ashworth	68 000	–	–	(68 000)	263.40	13 June 2011	13 June 2014	13 June 2021	–
	68 000	–	–	–	300.05	20 March 2012	20 March 2015	20 March 2022	68 000
									68 000
M Michael	40 000	–	–	(40 000)	263.40	13 June 2011	13 June 2014	13 June 2021	–
	40 000	–	–	–	300.05	20 March 2012	20 March 2015	20 March 2022	40 000
	48 000 ³	–	–	–	177.60	11 September 2012	1 January 2016	31 December 2023	48 000
									88 000
GE Turner	60 667	–	–	(60 667)	263.40	13 June 2011	13 June 2014	13 June 2021	–
	60 000	–	–	–	300.05	20 March 2012	20 March 2015	20 March 2022	60 000
									60 000

Audited

¹ Option is a right to acquire shares granted under the plan including, unless indicated otherwise, a nil-cost option. The market price of an ordinary share at the year end was 174.75 pence. The highest and closing prices in the year were 221.50 pence and 141.00 pence respectively. Details of the vesting conditions, which are subject to audit, for awards made under the ESOP are included in Note 24 of the financial statements and a full set of the rules will be available for inspection at the AGM.

² 2011 awards were granted on 13 June 2011. The vesting criteria run on a calendar year basis. Based on performance to 31 December 2013, it was determined that none would vest on 13 June 2014.

³ These awards were granted to M Michael before he became a Director. The terms of the awards made in September 2012 differ from the ESOP performance conditions for Executive Directors and were only granted to senior managers. In brief the scheme provides that a third of the awards granted in 2012 will vest in 2014, 2015, and 2016 based on performance in each of the 2013, 2014 and 2015 financial years. The extent to which the awards vest will depend on the achievement of Group and individual targets (weighted 70% and 30% of the total respectively) in each of the three one-year performance periods. Any awards that vest will be banked and may only be exercised at the end of the three-year performance period. As soon as reasonably practicable following the end of the performance periods, the achievement of the targets for each of the 2013, 2014 and 2015 financial years are calculated. Based on performance in 2013 and 2014, 77% of M Michael's award will be banked.

Directors' shareholdings and interests in shares

Details of interests in the share capital of the Company of those Directors in office as at 31 December 2014 are given below. It is confirmed that there were no changes to the Directors' holdings between 31 December 2014 and up to the date of this report. No Director held an interest in the shares of any subsidiary company.

In addition to these interests in shares, the Executive Directors, along with other employees, also have conditional rights to acquire shares under the Company's long-term incentive plan disclosed in Note 24 to the financial statements.

Executive Directors

	Performance shares held			Performance options held		
	Shares owned outright as at 31 December 2014	Subject to performance conditions	Vested but not exercised	Subject to performance conditions	Vested but not exercised	Total shareholding
CT Elphick	9 325 000 ¹	251 000	Nil	90 000	Nil	9 666 000
AR Ashworth	21 900	187 000	Nil	68 000	Nil	276 900
M Michael	10 000	156 000	Nil	88 000	Nil	254 000
GE Turner	400 000	168 000	Nil	60 000	Nil	628 000

Audited

¹ CT Elphick is interested in these ordinary shares by virtue of his interest as a potential beneficiary in a discretionary trust which has an indirect interest in those ordinary shares.

Non-Executive Directors

	Number of shares as at 31 December 2014 held in own right
RW Davis	1 267 752
GA Beevers	159 964
DJ Elzas	144 664
M Salamon	316 944
RJ Williams	164 664

Audited

Directors' external appointments

Apart from private Group interests listed in the prospectus dated 1 April 2009, no Executive Director holds any significant executive directorship or appointments outside the Group with the exception of Clifford Elphick, who was appointed non-Executive Chairman of Jumelles Holdings Limited in 2009 and Zanaga Iron Ore Co Limited, which listed on the AIM Market of the London Stock Exchange in November 2010. Total fees paid to Clifford Elphick by Zanaga is £83 000. Dave Elzas was also appointed a non-Executive Director of Zanaga Iron Ore Co Limited in November 2010. Any fees paid to Clifford Elphick or Dave Elzas in fulfilling these external roles are retained by them.

By order of the Board

Richard Williams MBE MC

Chairman of the Remuneration Committee

16 March 2015

DIRECTORS' REPORT

Under the requirements of the Companies Act, 2006, the Directors have prepared a Strategic Report and a Directors' Report to inform shareholders of the Company and help them assess the extent to which the Directors performed their duty to promote the success of the Company.

The Directors take pleasure in submitting the financial statements of the Group for the year ended 31 December 2014.

As a BVI registered company, Gem Diamonds Limited is not obliged to comply with the Companies Act, 2006.

However, the Directors have elected to conform to the requirements of the Companies Act, 2006.

This requires that the Directors present a Strategic Report and a Directors' Report to inform shareholders of the Company and help them assess the extent to which the Directors performed their duty to promote the success of the Company.

For the purposes of compliance with DTR 4.1.5R(2) and DTR 4.1.8R, the required content of the 'Management Report' can be found in the Strategic Report and the Directors' Report, including the sections of the Annual Report and Accounts incorporated by reference.

The Strategic Report has been prepared to provide the Company's shareholders with a fair review of the business of the Company and a description of the principal risks and uncertainties facing it. It may not be relied upon by anyone, including the Company's shareholders, for any other purpose.

The Strategic Report and other sections of this report contain forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties and future assumptions because they relate to events and/or depend on circumstances that may or may not occur in the future which could cause actual results and outcomes to differ materially from those expressed or implied by the forward-looking statements. No assurance can be given that the forward-looking statements in the Strategic Report will be realised. Statements about the Directors' expectations, beliefs, hopes, plans, intentions and strategies are

inherently subject to change and are based on expectations and assumptions about future events, circumstances and other factors which are, in some cases, outside the Company's control. The information contained in the Strategic Report has been prepared on the basis of the knowledge and information available to Directors at the date of its preparation and the Company does not undertake any obligation to update or revise the Strategic Report during the financial year ahead. It is believed that the expectations set out in the forward-looking statements are reasonable, but they may be affected by a wide range of variables which could cause actual results or trends to differ materially. In particular, the forward-looking statements should be read in context. The Company's shareholders are cautioned not to place undue reliance on the forward-looking statements. Shareholders should note that the Strategic Report has not been audited, but the Auditors' Report does include a statement that the Strategic Report is consistent with the financial statements herein.

Related-party transaction

Other than those disclosed in Note 22 of the financial statements, the Company did not have any transactions with, nor made loans to related parties during the period in which any Director is or was interested.

Exploration and resource development

Resource development activities were concentrated at Letšeng with the 2013/14 resource drilling programme which was completed in the first quarter of 2014. The drilling programme was largely aimed at improving the resolution and understanding of the upper portions of the resource on both the Main and Satellite pipes. This drilling programme contributed to the extension of the Letšeng indicated resource base by 127%.

Discrete production sampling of both orebodies at Letšeng continued in 2014 together with detailed geological and petrographical analysis of the orebodies. Further details can be found in the Mineral Resource Management section on pages 35 to 39.

No resource development work was conducted on the Ghaghoo asset during 2014.

Results and dividends

The Group's attributable profit after taxation amounted to US\$33.2 million (2013: US\$21.2 million).

The Group's detailed financial results are set out in the financial statements section on pages 92 to 144.

The current focus of the Group is on internal growth and surplus cash is invested into its capital projects at Letšeng and Ghaghoo. However, as already indicated to the market during 2014 the Board recommends that a dividend be declared for the 2014 financial year. The Board has adopted a policy that will determine the appropriate dividend each year, based on consideration of the Company's cash resources; the level of free cash flow and earnings generated during the year; and expected funding commitments for capital projects relating to the Group's growth strategy, and will aim to pay a total dividend at an approximately consistent proportion of sustaining net earnings. Dividends are expected to be declared by the Board annually with the full-year results. A dividend representing a total amount of US\$6.9 million or 5 US cents per share will be proposed at the 2015 AGM.

Corporate social responsibility and sustainability

A review of health, safety, corporate social responsibility, environmental performance

and community participation is presented in the Sustainable Development Review on pages 40 to 43.

Greenhouse gas emissions

The total carbon footprint for the Group in 2014 was 138 046 tCO₂e (2013: 137 082 tCO₂e). This figure includes direct (Scope 1), indirect GHG emissions (Scope 2) and material Scope 3 emissions. The major contributing emission sources were fuel combustion (mobile and stationary) and electricity consumption. The source that contributed the largest amount of carbon was electricity consumption which accounted for 73 053. Fuel combustion accounted for 50 808 while other operational consumption accounted for 14 185. No heat, steam or cooling sources are used by the Group and therefore no data is provided.

As outlined above, the Group recorded an increased carbon footprint in 2014 when compared to the 2013 footprint. The Group also tracks the tonnes CO₂ emitted per carat recovered. In 2013, the Group emitted 1.31 tonnes CO₂ per recovered carat; this decreased in 2014 to 1.27 tonnes CO₂ per recovered carat.

The 2014 Group carbon footprint was calculated with boundaries clearly defined as per guidance from the GHG Protocol corporate accounting and reporting standard. Where international averages have been used to determine activity data, the most up to date, industry standard/or accepted values were used.

The Group understands that undertaking a carbon footprint assessment is not the only step to a better understanding and effective reduction of GHG emissions. A GHG emissions reduction strategy was formulated in 2014 with a view to pursuing the Group's goal of zero harm to the environment in connection with the Group's operations. This strategy will be implemented going forward.

Political donations

The Group made no political donations in 2014.

The Group's CSI expenditure supports initiatives that benefit the project affected communities in the areas of health, education, infrastructure development, development of small to medium

enterprises, regional environmental initiatives and general donations to relevant causes in project affected communities. In 2014, the Group contributed US\$0.6 million to these social initiatives.

Employee policies and involvement

This report is to be read with the information on employment matters contained in the Sustainable development review on pages 40 to 43 together with the full 2014 Sustainable Development Review, which can be found on the Company's website, www.gemdiamonds.com. 

The Group's employment practices have been developed to ensure that the Group attracts and retains the required calibre of management and staff by creating an environment which incentivises enhanced performance. The health, safety and effective performance of employees, together with the maintenance of positive employee relations is of key importance across the Group's operations.

Employees are kept informed about the performance and objectives of the Group through direct involvement and access to the Company's website, published information, the circulation of 'press cuttings' and Group announcements, as well as continuous communication between employees and management which is achieved through initiatives such as the Visible Felt leadership initiative at Letšeng and Ghaghoo.

It is the Group's policy to communicate openly with employees and encourage dialogue between employees and management.

The Company always seeks to have a direct relationship between its employees and business function management, founded on quality, leadership, effective communication and trust. For details on the Company's ESOP, refer to Note 24 of the financial statements

The Group is committed to the principle and achievement of equal opportunities in employment, irrespective of gender, religion, race or marital status. Full consideration is given to applications from people with disabilities who apply for

positions which they can adequately fill, having regard for their particular abilities and aptitude. Where existing employees become disabled, it is the Group's policy, where practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever possible.

The Group sets guidelines and frameworks in respect of Company policy on remuneration benefits, performance management, career development and succession planning, recruitment and expatriate employment and for the alignment of human resources management and policy with international best practice. Each operating unit manages its human resources requirements locally, within the Group's guidelines and framework.

Corporate governance

The UK Financial Conduct Authority's Disclosure and Transparency Rules (DTR 7.2) require that certain information be included in a corporate governance statement set out in the Directors' Report. The Group has an existing practice of issuing a separate Corporate Governance Code Compliance Report as part of its Annual Report. The information required by the Disclosure and Transparency Rules and the UK Financial Conduct Authority's Listing Rules (LR 9.8.6) is located on pages 53 to 59 of this Annual Report.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 46. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Report on pages 20 to 23. In addition, Note 23 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit and liquidity risk.

DIRECTORS' REPORT continued

After making enquiries which include reviews of forecasts and budgets, timing of cash flows, borrowing facilities and sensitivity analyses and considering the uncertainties described in this report either directly or by cross-reference, the Directors have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Annual Report and accounts of the Company.

Directors

The Directors, as at the date of this report, are listed on pages 50 and 51 together with their biographical details. Details of the Directors' interests in shares and share options of the Company can be found in the Annual Report on Remuneration on pages 84 and 85.

Directors who held office during the year and date of appointment/resignation

Executive Directors

CT Elphick	20 January 2006
AR Ashworth	22 April 2008
GE Turner	22 April 2008
M Michael	22 April 2013

Non-Executive Directors

DJ Elzas	18 October 2005
GA Beevers	1 February 2007
RW Davis	1 February 2007
M Salamon	3 February 2008
RJ Williams	3 February 2008

Re-election of Directors

The Articles of Association (81) provides that a third of Directors retire annually by rotation and, if eligible, offer themselves for re-election. However, in accordance with the Code, at each AGM all the Directors retire and, subject to being eligible, offer themselves for re-election. Each Director has been the subject of a Board evaluation.

Protection available to Directors

By law, Directors are ultimately responsible for most aspects of the Group's business dealings. Consequently, they face

potentially significant personal liability under criminal or civil law, or the UK Listing, Prospectus and Disclosure and Transparency Rules and face a range of penalties including private or public censure, fines and/or imprisonment. In line with normal market practice, the Group believes that it is in its best interests to protect the individuals prepared to serve on its Board from the consequences of innocent error or omission, as this enables the Group to attract prudent individuals to act as Directors.

Therefore, the Group has, and continues to maintain, at its expense, a Director and Officer's liability insurance policy to provide indemnity, in certain circumstances, for the benefit of Directors and other Group personnel. The insurance policy does not provide cover where the Director or Group personnel member has acted fraudulently or dishonestly.

In accordance with the Company's Articles of Association, the Company has and continues to maintain indemnities granted by the Company to the Directors of the Company and the Company's associated companies to the extent permitted by and consistent with BVI law and the UK Companies Act, 2006 and rules made by the UKLA.

Details of payments for loss of office under the Directors' service contracts (of which there are none) are included in the Directors' Remuneration policy on pages 73 and 74.

Directors' remuneration

The ESOP contains provisions relating to a change of control. Under these, outstanding options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Annual General Meeting (AGM)

Details of the resolutions which will be put to the AGM are given in the notice of the AGM, which is contained in a separate document from the Annual Report.

Share capital and voting rights

Details of the authorised and issued share capital of the Company, including the rights pertaining to each share class, are set out in Note 14 to the financial statements.

As at 16 March 2015, there were 138.27 million fully paid ordinary shares of £0.01 each in issue and listed on the Official List maintained by the FCA in its capacity as the UK Listing Authority.

The Company has one class of ordinary shares. Shareholders have the right to receive notice of and attend, speak and vote at any general meeting of the Company. Each shareholder who is present in person (or, being a corporation, by representative) or by proxy at a general meeting on a show of hands has one vote and, on a poll, every such holder present in person (or, being a corporation, by representative) or by proxy shall have one vote in respect of every ordinary share held by them. To be valid, the appointment of a proxy to vote at a general meeting must be received not less than 48 hours before the time appointed for holding the meeting. In addition, the holders of ordinary shares have the right to participate in dividends and other distributions according to their respective rights and interests in the profits of the Company.

There are no shareholders who carry any special rights with regard to the control of the Company. The Company is not aware of any agreements between holders of securities which may result in restrictions on transfers or voting rights, save as mentioned below.

There are no restrictions on the transfer of ordinary shares other than:

- as set out in the Company's Articles of Association;
- certain restrictions may from time to time be imposed by laws and regulations; and
- pursuant to the Company's share dealing code whereby the Directors and employees of the Company require approval to deal in the Company's ordinary shares.

At the AGM held in 2014, shareholders authorised the Company to make on-market purchases of up to 13 826 980 of its ordinary shares, representing approximately 10% of the Company issued share capital at that time. During 2014, the Company did not make any on-market or off-market purchases of its shares or shares under any buy-back programme. Shareholders will be asked at the 2015 AGM to renew this authority. The Directors have no present intention to exercise this authority, if granted. Details of deadlines for exercising voting rights and proxy appointments will be set out in the 2015 notice of AGM.

Major interests in shares

Details of the major interests (at or above 3%) in the issued ordinary shares of the Company are set out in the UK Corporate Governance Code Compliance Report on page 59.

Directors' interests

No Director had, at any time during the year, a material interest in any contract of significance in relation to the Company's business. The interest of Directors in the shares of the Company is included in the Annual Report on Remuneration on pages 84 and 85.

Creditors' payment practice

In view of the international nature of the Group's operations, there is no specific Group-wide policy in respect of payments to suppliers. Individual operating companies are responsible for agreeing terms and conditions for their business transactions and ensuring that suppliers are aware of the terms of payment. It is Group practice that payments are made in accordance with those terms, provided that all trading terms and conditions have been met by the supplier. Trade creditors at 31 December 2014 represented 62 days of the Company's annual purchases.

Subsequent events

Refer to Note 27 of the financial statements for details of events subsequent to the reporting date.

Electronic copies of documents

Copies of the 2014 Annual Report, HSSE policies and other corporate publications, reports, press releases and announcements are available on the Company's website, www.gemdiamonds.com. 

Disclosure of information and auditor re-election

The lead audit partner is based in London, UK.

As required under section 418 of the Companies Act, 2006, to which the Directors have voluntarily elected to conform, each Director confirms that to the best of his knowledge and belief, there is no information relevant to the preparation of the Auditors' Report of which the Company's auditors are unaware and that each Director has taken all reasonable steps as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

A resolution to reappoint EY as the Company's auditors and to authorise the Board to determine the auditors' remuneration will be proposed at the 2015 AGM.

The Strategic Report, the Directors' Report and the Directors' Remuneration Report were approved by the Board on 16 March 2015.

By order of the Board

Glenn Turner
Company Secretary

16 March 2015



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The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with International Financial Reporting Standards (IFRS).



RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with International Financial Reporting Standards (IFRS). Having taken advice from the Audit Committee, the Board considers the report and accounts taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Strategic Report and Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Preparation of the financial statements

The Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing the Group financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

- state whether they have been prepared in accordance with IFRS;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose, with reasonable accuracy at any time, the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole. In addition, suitable accounting policies have been selected and applied consistently.

Information, including accounting policies, has been presented in a manner that provides relevant, reliable, comparable and understandable information and additional disclosures have been provided when

compliance with the specific requirements in IFRS have been insufficient to enable users to understand the financial impact of particular transactions, other events and conditions on the Group's financial position and financial performance. Where necessary, the Directors have made judgements and estimates that are reasonable and prudent.

The Directors of the Company have elected to comply with certain Companies Act and Listing Rules (LR) which would otherwise only apply to companies incorporated in the UK – namely:

- (a) the Directors' statement under LR 9.8.6R(3) (statement by the Directors that the business is a going concern); and
- (b) the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 of the United Kingdom pertaining to Directors' remuneration that UK quoted companies are required to comply with.

Michael Michael

Chief Financial Officer

16 March 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GEM DIAMONDS LIMITED

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its profit for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards (IFRS).

What we have audited

We have audited the Group financial statements of Gem Diamonds Limited (the Group) for the year ended 31 December 2014 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and IFRS.

This report is made solely to the Company's members, as a body, in accordance with the terms of our engagement letter dated 11 March 2015. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 92, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they

give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

In addition, the Company has also instructed us to report, whether in our opinion:

- the Directors' Report and the Strategic Report for the financial year for which the Group financial statements are prepared are consistent with the financial statements;
- the information given in the Corporate Governance Statement with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements;
- the section of the Directors' Remuneration Report that is described as audited has been properly prepared in accordance with the basis of preparation described therein;

Report if we are not satisfied that:

- adequate accounting records have been kept (including returns from those branches which have not been visited);
- the accounts are in agreement with the records and returns; or
- we have obtained all the information and explanations which we consider necessary for the purpose of the audit; and

Review the Directors' Statement in relation to going concern as set out on pages 87 and 88, which, for a premium listed UK incorporated company, is specified for review by the Listing Rules of the Financial Conduct Authority.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GEM DIAMONDS LIMITED continued

Our assessment of focus areas and response

We identified the following risks that had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Details of why we identified these issues as focus areas and our audit response are set out in the table below.

Area of focus	How our audit addressed the area of focus
Revenue recognition	
<i>Refer to the Audit Committee Report on page 63 and the revenue disclosures in Note 2 to the annual financial statements</i>	
Diamonds are sold through three revenue streams as follows: – rough diamonds sold on tender; – selected diamonds sold through partnership arrangements; and – diamonds extracted for purposes of own manufacturing and sold thereafter in polished form. We focused on this area due to the inherent risk related to the recognition and measurement of revenue, particularly on partnership arrangements and diamonds extracted for purposes of own manufacturing. For partnership arrangements, revenue is earned on the sale of the rough diamond, with an additional uplift recognised on the polished margin achieved. Judgement is involved in determining when the risks and rewards of ownership transfer on rough diamond sales and also on the uplift element. For diamonds extracted for purposes of own manufacturing, no revenue is recognised until the diamonds are sold to third parties; however, there are a number of intercompany transactions that must be eliminated in the consolidated financial statements, and there is risk related to the completeness of sales recognised through the extraction process in light of the polishing losses that result from the manufacturing process.	– We identified and observed controls around the revenue process in understanding management's internal processes and the control environment. – We challenged management's recognition of revenue, covering all revenue streams of the Group. This involved agreeing revenue transactions to underlying agreements, invoices and supporting calculations. – For partnership arrangements, we also assessed and challenged as to when the risks and rewards were transferred. We verified this to supporting agreements. – We confirmed that intercompany sales transactions properly eliminated and verified the completeness of consolidation entries. – We performed cut-off testing at year end by selecting transactions close to the period end, and we reconciled inventory movements related to diamonds extracted for purposes of own manufacturing in validating the completeness of revenue.
Impairment of property, plant and equipment and goodwill	
<i>Refer to the Audit Committee Report on page 63 and the disclosures of impairment testing in Note 10 to the annual financial statements</i>	
At 31 December 2014, the carrying value of property, plant and equipment was US\$374.9 million and the carrying value of goodwill was US\$17.8 million. We focused on this area due to the significant size of the carrying value of asset balances and the judgements applied by management in assessing whether indicators of impairment exist and in determining key assumptions used in impairment tests. Our procedures focused on management's Letšeng goodwill impairment test and the judgements involved in determining the appropriate cash-generating unit and the significant assumptions applied in the future cash flow forecast, including expected diamond prices and discount rates.	– We assessed management's process of identifying impairment indicators and evaluated management's analysis of whether the Group's market capitalisation compared to the Group's net asset value represented an indicator of impairment in 2014. – We considered the appropriateness of management's conclusions related to whether impairment triggers existed by challenging the rationale applied and the completeness of factors assessed. – We audited the Letšeng goodwill impairment test model, including the reasonableness of forecast cash flows and underlying assumptions through a comparison of current year actual results and trends. – We challenged management's price and discount rate assumptions with the assistance of our valuations specialists and performed sensitivity testing on these key assumptions to confirm that no reasonable change in the estimated headroom would result in impairment. – From the evidence we obtained through our audit procedures, we also assessed the sufficiency of disclosures surrounding management's goodwill impairment test in the consolidated financial statements.
Key judgements relating to the production start date of the Ghaghoo mine	
<i>Refer to the Audit Committee Report on page 63 and Note 1.2.26 to the annual financial statements</i>	
We focused on this area due to the judgements and estimates applied by management in determining whether the Ghaghoo mine had reached production or continued to be in the development stage during the year. Management determined that the Ghaghoo mine had not reached operations as intended by management in 2014 and was still in the development stage based on an assessment of key judgements and activity to date, including: – the extent of testing of the mine plant and equipment; – the unanticipated high volumes of water from basalt fissures which were encountered during the latter part of the year causing a delay in reaching a steady state of production; and – the ability to sustain ongoing production of inventory.	– We challenged management's analysis and conclusion on the development stage of the Ghaghoo mine throughout 2014, including an assessment of the key judgements applied and factors considered. For each key judgement, we analysed the results achieved to date and evaluated the reasonableness of the mine's operations as intended by management. – We also audited costs capitalised to the Ghaghoo mining project in accordance with IAS 16 by agreeing amounts to underlying documentation and validating that the capitalisation criteria was met.

Our application of materiality

The scope of our work is influenced by materiality. We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality	US\$4.7 million
Performance materiality	US\$2.3 million
Reporting threshold	US\$0.2 million

We determined planning materiality of the Group to be US\$4.7 million (2013: US\$2.9 million), which is 5% of pre-tax profit. Our planning materiality has increased by 62% compared with 2013 given the higher pre-tax profit recognised by the Group in 2014. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We assessed our materiality calculation based on the pre-tax profit of the Group as we considered that to be the most relevant performance measure to the stakeholders of the entity given the production stage of the Group's Letšeng mine.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality (ie our tolerance for misstatement in an individual account or balance) for the Group should be 50% of planning materiality, namely US\$2.3 million (2013: US\$1.5 million). Our objective in adopting this approach was to ensure that total detected and audit differences in all accounts did not exceed our planning materiality level.

Audit work at individual reporting components, covering entities in Belgium, Botswana, Lesotho, Mauritius, South Africa, and the United Kingdom, is undertaken based on a percentage of our total performance materiality. The performance materiality set for each reporting component is based on the relative size of the component and our view of the risk of misstatement at that reporting component. In the current year, the range of performance materiality allocated to reporting components was US\$420 000 to US\$1.6 million.

We agreed with the Audit Committee that we would report to the Committee all audit differences that remain uncorrected and that exceed US\$233 000 (2013: US\$150 000), as well as differences below that threshold that, in our opinion, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, we selected seven reporting components which represent the principal business units within the Group and account for 100% of the Group's Revenue, 99% of the Group's pre-tax profit and 98% of the Group's total assets. Two of these components were subject to a full scope audit, while the remaining five were subject to a specific or limited scope audit where the extent of audit work was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations in that reporting component, and therefore, we do not test all accounts at specific scope entities. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. For the remaining components, we performed other procedures to confirm that there were no significant risks of material misstatement in the Group financial statements.

The audit work performed in the seven reporting components was executed at levels of materiality applicable to each individual entity, which were lower than Group materiality.

The Group audit team follows a programme of planned site visits. This year, the Group audit partner visited all full and specific scope locations, including visits to the Letšeng and Ghaghoo mines. The Group team reviewed key working papers audited by reporting component teams, participated in reporting component teams' planning procedures, including discussions on fraud and error, and attended the audit closing meetings for all reporting components.

Opinion on other matters prescribed by the terms of our engagement letter

In our opinion:

- the information given in the Directors' Report and Strategic Report for the financial year for which the Group financial statements are prepared is consistent with the financial statements;
- the information given in the Corporate Governance Statement set out on page 58 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements; and
- the part of the Remuneration Report of the Company that has been described as audited has been properly prepared in accordance with the basis of preparation as described therein.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Listing Rules, we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code, specified in our review.

Under the terms of our engagement letter, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept (including returns from those branches which have not been visited); or
- the accounts are not in agreement with the records and returns; or
- we have not obtained all the information and explanations which we consider necessary for the purpose of the audit; or
- where the Company has voluntarily complied with items specified for review by the Listing Rules of the Financial Conduct Authority for premium listed UK incorporated companies or the UK Companies Act 2006 and instructed us to review such items namely:
 - the Directors' Statement, set out on pages 87 and 88, in relation to going concern;
 - the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 of the United Kingdom pertaining to Directors' remuneration that UK quoted companies are required to comply with.

Ernst & Young LLP

London

16 March 2015

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2014

	Notes	2014 US\$'000 Total	2013 US\$'000 Total
Revenue	2	270 890	212 828
Cost of sales		(144 495)	(120 136)
Gross profit		126 395	92 692
Other operating income		134	746
Royalties and selling costs		(24 692)	(18 485)
Corporate expenses		(12 628)	(14 124)
Share-based payments	24	(1 740)	(932)
Foreign exchange gain	3	5 242	606
Reversal of impairment of assets	3	–	155
Operating profit	3	92 711	60 658
Net finance income/(cost)	4	219	(1 639)
Finance income		3 430	1 218
Finance costs		(3 211)	(2 857)
Profit before tax for the year		92 930	59 019
Income tax expense	5	(34 983)	(20 855)
Profit for the year		57 947	38 164
<i>Attributable to:</i>			
Equity holders of parent		33 217	21 170
Non-controlling interests		24 730	16 994
Earnings per share (cents)	6		
Basic earnings per share		24.0	15.3
Diluted earnings per share		23.9	15.2

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2014

	2014 US\$'000	2013 US\$'000
Profit for the year	57 947	38 164
<i>Other comprehensive income that could be reclassified to the income statement in subsequent periods</i>		
Exchange differences on translation of foreign operations	(37 307)	(64 612)
Other comprehensive expense for the year, net of tax	(37 307)	(64 612)
Total comprehensive income/(expense) for the year	20 640	(26 448)
<i>Attributable to:</i>		
Equity holders of the parent	2 908	(32 272)
Non-controlling interests	17 732	5 824
Total comprehensive income/(expense) for the year, net of tax	20 640	(26 448)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

	Notes	2014 US\$'000	2013 US\$'000
Assets			
Non-current assets			
Property, plant and equipment	7	374 927	373 625
Investment property	8	615	615
Intangible assets	9	18 181	20 202
Receivables and other assets	11	2 877	–
Other financial assets		10	28
		396 610	394 470
Current assets			
Inventories	12	28 770	29 326
Receivables and other assets	11	7 598	6 749
Other financial assets		4	13
Income tax receivable		353	–
Cash and short-term deposits	13	110 738	71 178
		147 463	107 266
Total assets		544 073	501 736
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	14	1 383	1 383
Share premium		885 648	885 648
Treasury shares ¹		(1)	(1)
Other reserves	14	(97 753)	(69 408)
Accumulated losses		(484 874)	(518 091)
		304 403	299 531
Non-controlling interests		61 014	70 879
Total equity		365 417	370 410
Non-current liabilities			
Interest-bearing loans and borrowings	15	7 261	–
Trade and other payables	16	1 274	1 109
Provisions	17	19 543	23 186
Deferred tax liabilities	19	57 467	64 824
		85 545	89 119
Current liabilities			
Interest-bearing loans and borrowings	15	29 841	–
Other financial liabilities	18	249	–
Trade and other payables	16	43 711	37 086
Income tax payable		19 310	5 121
		93 111	42 207
Total liabilities		178 656	131 326
Total equity and liabilities		544 073	501 736

¹ Shares held by Gem Diamonds Limited Employee Share Trust.

Approved by the Board of Directors on 16 March 2015 and signed on their behalf by:

CT Elphick
Director

M Michael
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

	Attributable to the equity holders of the parent							
	Issued capital ²	Share premium ²	Own shares ¹	Other reserves ²	Accumulated (losses)/ retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2014	1 383	885 648	(1)	(69 408)	(518 091)	299 531	70 879	370 410
Profit for the year	–	–	–	–	33 217	33 217	24 730	57 947
Other comprehensive expense	–	–	–	(30 309)	–	(30 309)	(6 998)	(37 307)
Total comprehensive income/ (expense)	–	–	–	(30 309)	33 217	2 908	17 732	20 640
Share-based payments (Note 24)	–	–	–	1 964	–	1 964	–	1 964
Dividends paid	–	–	–	–	–	–	(27 597)	(27 597)
Balance at 31 December 2014	1 383	885 648	(1)	(97 753)	(484 874)	304 403	61 014	365 417
Balance at 1 January 2013	1 383	885 648	(1)	(17 130)	(539 261)	330 639	70 993	401 632
Profit for the year	–	–	–	–	21 170	21 170	16 994	38 164
Other comprehensive expense	–	–	–	(53 442)	–	(53 442)	(11 170)	(64 612)
Total comprehensive income/ (expense)	–	–	–	(53 442)	21 170	(32 272)	5 824	(26 448)
Share-based payments (Note 24)	–	–	–	1 164	–	1 164	–	1 164
Dividends paid	–	–	–	–	–	–	(5 938)	(5 938)
Balance at 31 December 2013	1 383	885 648	(1)	(69 408)	(518 091)	299 531	70 879	370 410

¹ Being shares held by Gem Diamonds Limited Employee Share Trust.

² Refer to Note 14, Issued capital and reserves, for further detail.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2014

	Notes	2014 US\$'000	2013 US\$'000
Cash flows from operating activities		133 736	87 614
Cash generated by operations	20.1	153 577	114 462
Working capital adjustments	20.2	59	(17 491)
		153 636	96 971
Interest received		2 575	1 218
Interest paid		(521)	(517)
Income tax paid		(21 954)	(10 058)
Cash flows used in investing activities		(101 301)	(73 730)
Purchase of property, plant and equipment		(47 364)	(29 651)
Waste cost capitalised		(53 996)	(59 278)
Proceeds from sale of property, plant and equipment		59	1 191
Purchase of other financial assets		–	(22)
Cash received from disposal of subsidiary ¹		–	14 030
Cash flows generated by/(used in) financing activities		10 309	(8 529)
Financial liabilities raised/(repaid)		37 906	(2 591)
Dividends paid to non-controlling interests	22	(27 597)	(5 938)
Net increase in cash and cash equivalents		42 744	5 355
Cash and cash equivalents at beginning of year		71 178	70 842
Foreign exchange differences		(3 184)	(5 019)
Cash and cash equivalents at end of year held with banks		110 574	70 998
Restricted cash at end of year	13	164	180
Cash and cash equivalents at end of year	13	110 738	71 178

¹ This relates to the receipt of proceeds in 2013 as a result of the disposal of the operations in Australia in 2012.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2014

1. Notes to the financial statements

1.1 Corporate information

1.1.1 Incorporation

The holding company, Gem Diamonds Limited (the Company), was incorporated on 29 July 2005 in the British Virgin Islands (BVI). The Company's registration number is 669758.

These financial statements were authorised for issue by the Board on 16 March 2015.

The Group is principally engaged in the exploration and development of diamond mines.

1.1.2 Operational information

The Company has the following investments directly in subsidiaries at 31 December 2014:

Name of company	Share-holding	Cost of investment ¹	Country of incorporation	Nature of business
Subsidiaries				
Gem Diamond Technical Services (Proprietary) Limited ²	100%	US\$17	RSA	Technical, financial and management consulting services.
Gem Equity Group Limited ²	100%	US\$52 277	BVI	Dormant investment company holding 1% in Gem Diamonds Botswana (Proprietary) Limited, 2% in Gem Diamonds Marketing Services BVBA, 1% in Baobab Technologies BVBA and 0.1% in Calibrated Gem Botswana (Proprietary) Limited.
Letšeng Diamonds (Proprietary) Limited ²	70%	US\$126 000 303	Lesotho	Diamond mining and holder of mining rights.
Gem Diamonds Botswana (Proprietary) Limited ²	100%	US\$27 752 144	Botswana	Diamond mining; evaluation and development; and holder of mining licences and concessions.
BDI Mining Corp ²	100%	US\$82 064 783	BVI	Dormant investment company.
Gem Diamonds Australia Holdings ²	100%	US\$293 960 521	Australia	Dormant investment company.
Gem Diamonds Investments Limited ²	100%	US\$17 531 316	UK	Investment holding company holding 100% in each of Gem Diamonds Technology (Mauritius) Limited, Gem Diamonds Technology DMCC and Calibrated Diamonds Investment Holdings (Proprietary) Limited; 99.9% in Calibrated Gem Botswana (Proprietary) Limited; 99% in Baobab Technologies BVBA and 98% in Gem Diamonds Marketing Services BVBA, a marketing company that sells the Group's diamonds on tender in Antwerp.

¹ The cost of investment represents original cost of investments at acquisition dates.

² No change in the shareholding since the prior year.

1.1.3 Segment information

For management purposes, the Group is organised into geographical units as its risks and required rates of return are affected predominantly by differences in the geographical regions of the mines and areas in which the Group operates. Other regions where no direct mining activities take place are organised into geographical regions in the areas where the operations are managed. The main geographical regions and the type of products and services from which each reporting segment derives its revenue from are:

- Lesotho (diamond mining activities).
- Botswana (diamond mining activities).
- Belgium (sales, marketing and manufacturing of diamonds).
- Mauritius (manufacturing of diamonds).
- BVI, RSA and UK (technical and administrative services).

The Mauritius and Belgium operations have been aggregated into one operating segment, as management monitors these two operations as one, due to the similarity of their services provided.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.1 Corporate information continued

1.1.3 Segment information continued

Management monitors the operating results of the geographical units separately (except for Belgium and Mauritius) for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

Inter-segment transactions are entered into under normal arm's-length terms in a manner similar to transactions with third parties. Segment revenue, segment expenses and segment results include transactions between segments. Those transactions are eliminated on consolidation.

Segment revenue is derived from mining activities, polished manufacturing margins and Group services.

The following table presents revenue and profit, asset and liability information from operations regarding the Group's geographical segments:

Year ended 31 December 2014	Lesotho US\$'000	Botswana US\$'000	Belgium and Mauritius US\$'000	BVI, RSA and UK US\$'000	Total US\$'000
Revenue					
Total revenue	277 908	–	272 221	8 877	559 006
Inter-segment	(276 429)	–	(3 141)	(8 546)	(288 116)
External customers	1 479	–	269 080	331 ¹	270 890
Results					
Depreciation and amortisation	62 800	–	1 063	607	64 470
Depreciation and mining asset amortisation	13 488	–	1 063	607	15 158
Waste stripping cost amortised	49 312	–	–	–	49 312
Share-based equity transactions	488	–	–	1 252	1 740
Segment operating profit/(loss)	107 527	(75)	(1 977)	(12 764)	92 711
Net finance income					219
Profit before tax					92 930
Income tax expense					(34 983)
Profit for the year					57 947
Segment assets	321 464	139 987	7 430	75 192	544 073
Segment liabilities	68 212	9 304	968	42 705	121 189
Other segment information					
Capital expenditure					
– Property, plant and equipment*	7 720	42 086	92	40	49 938
– Waste cost capitalised	51 484	–	–	–	51 484
Total capital expenditure	59 204	42 806	92	40	101 422

¹ No revenue was generated in BVI.

* Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho and Botswana segments and capitalisation of share-based payments for the Botswana segment.

Segment liabilities do not include deferred tax liabilities of US\$57.5 million.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.1 Corporate information continued

1.1.3 Segment information continued

Year ended 31 December 2013	Lesotho US\$'000	Botswana US\$'000	Belgium and Mauritius US\$'000	BVI, RSA and UK US\$'000	Total US\$'000
Revenue					
Total revenue	201 310	–	212 897	9 001	423 208
Inter-segment	(199 556)	–	(2 390)	(8 434)	(210 380)
External customers	1 754	–	210 507	567 ¹	212 828
Results					
Depreciation and amortisation	51 067	–	869	415	52 351
Depreciation and mining asset amortisation	16 301	–	869	415	17 585
Waste stripping cost amortisation	34 766	–	–	–	34 766
Share-based equity transactions	385	–	–	547	932
(Reversal of impairment)/impairment of assets	58	–	–	(213)	(155)
Segment operating profit/(loss)	76 605	24	(2 396)	(13 575)	60 658
Net finance cost					(1 639)
Profit before tax					59 019
Income tax expense					(20 855)
Profit for the year					38 164
Segment assets	343 322	107 004	8 740	42 670	501 736
Segment liabilities	42 922	5 632	13 694	4 254	66 502
Other segment information					
Capital expenditure					
– Property, plant and equipment*	7 915	20 712	566	41	29 234
– Waste cost capitalised	59 278	–	–	–	59 278
Total capital expenditure	67 193	20 712	566	41	88 512

¹ No revenue was generated in BVI.

*Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho and Botswana segments and capitalisation of share-based payments for the Botswana segment.

Included in the prior year annual revenue is revenue from a single customer which amounted to US\$22.6 million arising from sales reported in the Lesotho and Belgium segments.

Segment liabilities do not include deferred tax liabilities of US\$64.8 million.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies

1.2.1 Basis of presentation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared under the historical cost basis. The accounting policies have been consistently applied except for the adoption of the new standards and interpretations detailed below.

The functional currency of the Company and certain of its subsidiaries is US dollar, which is the currency of the primary economic environment in which the entities operate. All amounts are expressed in US dollar. The financial statements of subsidiaries whose functional and reporting currency is in currencies other than US dollar have been converted into US dollar on the basis as set out in Note 1.2.16, Foreign currency translations.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1.2.26, Critical accounting estimates and judgements.

The Group has also adopted the following standards and interpretations from 1 January 2014:

Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group as none of the entities in the Group qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. As the Group applies the requirements of this standard in recognising liabilities for levies, such as royalty payments to governments, the application of this new standard did not have an impact on the financial results of the Group.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

The amendment clarifies the disclosures required in relation to the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments remove the requirement to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant. The Group adopted this amendment and removed the disclosure of recoverable amounts previously disclosed.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group does not enter into any hedges.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.1 Basis of presentation continued

Standards issued but not effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards if applicable when they become effective.

Standard or interpretation			Effective date*
IFRS 9	<i>Financial Instruments</i>	Classification and measurement of financial assets and financial liabilities as defined in IAS 39. The Group is still currently assessing the impact.	IFRS 9 – 1 January 2018
IFRS 15	<i>Revenue from Contracts with Customer</i>	The new revenue standard introduces a single, principles-based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The Group is still currently assessing the impact.	1 January 2017
IFRS 14	<i>Regulatory Deferral Accounts</i>	IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. The Group's activities are currently not subject to rate regulation and therefore this standard does not apply to the Group. Should the Group's activities change in this regard, the Group will assess the impact at that time.	1 January 2016
IAS 16 / IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	The amendments clarify the principle in IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> that revenue reflects a pattern of economic benefits that are generated from operating a business rather than the economic benefits that are consumed through use of an asset. As such, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. As this revenue ratio is not currently used as a method of depreciation, it is anticipated that this standard will not impact the Group. Should the Group's policies change in this regard, the Group will assess the impact at that time.	1 January 2016

* Annual periods beginning on or after.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.1 Basis of presentation continued

Business environment and country risk

The Group's operations are subject to country risk being the economic, political and social risks inherent in doing business in certain areas of Africa and Europe. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange rate fluctuations and the enforceability of contract rights.

The consolidated financial information reflects management's assessment of the impact of these business environments on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

1.2.2 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 24 to 34. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Review on pages 20 to 23. In addition, Note 23, Financial risk management, includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk and liquidity risk.

After making enquiries which include reviews of forecasts and budgets, timing of cash flows, borrowing facilities and sensitivity analyses and considering the uncertainties described in this report either directly or by cross-reference, the Directors have a reasonable expectation that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going-concern basis in preparing the Annual Report and accounts of the Company.

These financial statements have been prepared on a going-concern basis which assumes that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

Refer to Note 23, Financial risk management for statements on the Company's objectives, policies and processes for managing its capital; details of its financial instruments and hedging activities; its exposures to market risk in relation to commodity price and foreign exchange risks; cash flow interest rate risk; credit risk and liquidity risk.

1.2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company.

Subsidiaries

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, being:

- (a) an investor has power over an investee;
- (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intra-group balances and transactions, including unrealised profits arising from them, are eliminated in full.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it (i) derecognises the assets (including goodwill) and liabilities of the subsidiary; (ii) derecognises the carrying amount of any non-controlling interest; (iii) derecognises the cumulative translation differences, recorded in equity; (iv) recognises the fair value of the consideration received; (v) recognises the fair value of any investment retained; (vi) recognises any surplus or deficit in profit or loss; and (vii) reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.4 Exploration and evaluation expenditure

Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable, directly and indirectly, to the parent company and is presented separately within equity in the consolidated statement of financial position, separately from equity attributable to owners of the parent. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- acquisition of rights to explore;
- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- conducting market and finance studies.

Administration costs that are not directly attributable to a specific exploration area are charged to the income statement. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Exploration and evaluation expenditure is capitalised as incurred. Capitalised exploration expenditure is recorded as a component of property, plant and equipment at cost less accumulated impairment charges. As the asset is not available for use, it is not depreciated.

All capitalised exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest in conjunction with the group of operating assets (representing a cash-generating unit (CGU)) to which the exploration is attributed. To the extent that exploration expenditure is not expected to be recovered, it is charged to the income statement. Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is under way as planned.

1.2.5 Development expenditure

When proved reserves are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified within property, plant and equipment to development expenditure. As the asset is not available for use, during the development phase, it is not depreciated. On completion of the development, any capitalised exploration and evaluation expenditure already capitalised to development expenditure, together with the subsequent development expenditure, is reclassified within property, plant and equipment to mining assets and depreciated on the basis as laid out in Note 1.2.6, Property, plant and equipment.

All development expenditure is monitored for indicators of impairment annually.

1.2.6 Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition and construction of the items, among others, professional fees, and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

Subsequent costs to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised when the cost of the item can be measured reliably, with the carrying amount of the original component being written off. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.6 Property, plant and equipment continued

Depreciation commences when an asset is available for use. Depreciation is charged so as to write off the depreciable amount of the asset to its residual value over its estimated useful life, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group.

Item	Method	Useful life
Mining assets	Straight line	Lesser of life of mine and period of lease
Decommissioning assets	Straight line	Lesser of life of mine and period of lease
Leasehold improvements	Straight line	Lesser of three years and period of lease
Plant and equipment	Straight line	Three to 10 years
Finance lease assets	Straight line	Lesser of period of lease or five years
Other assets	Straight line	Two to five years

Pre-production stripping costs

The capitalisation of pre-production stripping costs as part of exploration and development assets ceases when the mine is commissioned and ready for production. Subsequent stripping activities that are undertaken during the production phase of a surface mine may create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and where the benefit is the creation of mining flexibility and improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a 'stripping activity asset', if:

- (a) future economic benefits (being improved access to the orebody) are probable;
- (b) the component of the orebody for which access will be improved can be accurately identified; and
- (c) the costs associated with the improved access can be reliably measured.

The stripping activity asset is separately disclosed in Note 7, Property, plant and equipment. If all the criteria are not met, the production stripping costs are charged to the income statement as operating costs. The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset. If the costs of the stripping activity asset and the inventory produced are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. The stripping activity asset is subsequently amortised over the expected useful life of the identified component of the orebody that became more accessible as a result of the stripping activity. Based on proven and probable reserves, the expected average stripping ratio over the average life of the area being mined is used to amortise the stripping activity. As a result, the stripping activity asset is carried at cost less amortisation and any impairment losses.

The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the orebody divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the stripping ratio are accounted for prospectively as a change in estimate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset. These are included in the income statement.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.7 Investment property

Investment property is initially recognised using the cost model. Subsequent recognition is at cost less accumulated depreciation and less any accumulated impairment losses. Rental income from investment property is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging the lease are capitalised to investment property and depreciated over the lease term. Depreciation is calculated on a straight-line basis as follows:

Investment property	No depreciation is provided due to depreciable amount being zero
Initial direct costs capitalised to investment property	Five years

1.2.8 Business combinations, goodwill and other intangible assets

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction-by-transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IFRS 13 in the income statement. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements are accounted for separately from the business combination in accordance with their nature and applicable IFRS. Identifiable intangible assets, meeting either the contractual legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably.

If the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in profit and loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (or groups of cash-generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Concessions and licences

Concessions and licences are shown at cost. Concessions and licences have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of concessions and licences over the shorter of the life of mine or term of the licence once production commences.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.9 Other financial assets

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. Currently the Group only has financial assets at fair value through profit or loss and loans and receivables.

When financial assets are recognised initially, they are measured at fair value plus (in the case of investments, not at fair value through profit or loss) directly attributable costs.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss. Upon initial recognition, a financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Gains and losses on investments held for trading are recognised in profit or loss. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months after the reporting date. These are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment, if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at an appropriate interest rate. The amount of the provision is recognised in the income statement.

1.2.10 Financial liabilities

Interest-bearing borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement, unless capitalised in accordance with Note 1.2.24, Finance costs, over the period of the borrowings, using the effective interest rate method.

Bank overdrafts are recognised at amortised cost.

Fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in the income statement.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.11 Fair value measurement

The Group measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.2.12 Impairments

Non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is assessed for impairment on an annual basis. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets that were previously impaired are reviewed for possible reversal of the impairment at each reporting date.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.12 Impairments continued

Financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets are impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date, any subsequent reversal of an impairment loss is recognised in the income statement.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

1.2.13 Inventories

Inventories, which include rough diamonds, ore stockpiles and consumables, are measured at the lower of cost and net realisable value. The amount of any write-down of inventories to net realisable value and all losses, is recognised in the period the write-down or loss occurs. Cost is determined as the average cost of production, using the 'weighted average method'. Cost includes directly attributable mining overheads, but excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to be incurred in marketing, selling and distribution.

1.2.14 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1.2.15 Issued share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

1.2.16 Foreign currency translations

Presentation currency

The results and financial position of the Group's subsidiaries which have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- statement of financial position items are translated at the closing rate at the reporting date;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- resulting exchange differences are recognised as a separate component of equity.

Details of the rates applied at the respective reporting dates and for the income statement transactions are detailed in Note 14, Issued capital and reserves.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.16 Foreign currency translations continued

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary items that are measured in terms of cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary items for each statement of financial position presented are translated at the closing rate at the reporting date.

1.2.17 Share-based payments

Employees (including Senior Executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). In situations where some or all of the goods or services received by the entity as consideration for equity instruments cannot be specifically identified, they are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date. For cash-settled transactions, the liability is remeasured at each reporting date until settlement, with the changes in fair value recognised in the income statement.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards, where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately.

Where an equity-settled award is forfeited, it is treated as if vesting conditions had not been met and all costs previously recognised in the income statement for the award is reversed and recognised in income immediately.

1.2.18 Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of a past event; and
- a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance costs.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.19 Restoration and rehabilitation

The mining, extraction and processing activities of the Group normally give rise to obligations for site restoration and rehabilitation. Rehabilitation works can include facility decommissioning and dismantling, removal and treatment of waste materials, land rehabilitation, and site restoration. The extent of the work required and the estimated cost of final rehabilitation, comprising liabilities for decommissioning and restoration, are based on current legal requirements, existing technology and the Group's environmental policies and is reassessed annually. Cost estimates are not reduced by the potential proceeds from the sale of property, plant and equipment.

Provisions for the cost of each restoration and rehabilitation programme are recognised at the time the environmental disturbance occurs. When the extent of the disturbance increases over the life of the operation, the provision and associated asset is increased accordingly. Costs included in the provision encompass all restoration and rehabilitation activity expected to occur. The restoration and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value. Discount rates used are specific to the country in which the operation is located. The value of the provision is progressively increased over time as the effect of the discounting unwinds, which is recognised in finance charges. Restoration and rehabilitation provisions are also adjusted for changes in estimates.

When provisions for restoration and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset where it gives rise to a future benefit and depreciated over future production from the operation to which it relates.

1.2.20 Taxation

Income tax for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax is provided except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Withholding tax is recognised in the income statement when dividends or other services which give rise to that withholding tax are declared or accrued respectively. Withholding tax is disclosed as part of current tax.

Royalties

Royalties incurred by the Group comprise mineral extraction costs based on a percentage of sales paid to the local revenue authorities. These obligations arising from royalty arrangements are recognised as current payables and disclosed as part of royalty and selling costs in the income statement.

Royalties and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. The royalties incurred by the Group are considered not to meet the criteria to be treated as part of income tax.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.21 Employee benefits

Provision is made in the financial statements for all short-term employee benefits. Liabilities for wages and salaries, including non-monetary benefits, benefits required by legislation, annual leave, retirement benefits and accumulating sick leave obliged to be settled within 12 months of the reporting date, are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled. Benefits falling due more than 12 months after the reporting date are discounted to present value. The Group recognises an expense for contributions to the defined contribution pension fund in the period in which the employees render the related service.

Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation. These liabilities are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled.

1.2.22 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfilment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Group as a lessee

Leases of property, plant and equipment where the Group has, substantially, all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of finance charges, are included in financial liabilities.

The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. When the Group is a party to a lease where there is a contingent rental element associated within the agreement, a cost is recognised as and when the contingency materialises.

Group as a lessor

Assets leased out under operating leases are included in investment property. Rental income is recognised on a straight-line basis over the lease term. Refer to Note 1.2.7, Investment property, for further information on the treatment of investment property.

1.2.23 Revenue

Revenue is measured at fair value of the consideration received or receivable and comprises the fair value for the sale of goods, net of value added tax, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.23 Revenue continued

Sale of goods

The sale of rough diamonds (which are made through competitive tender processes or through partnership arrangements), the sale of polished diamonds and other products (which are made through direct sale transactions) and additional uplift on partnership arrangements are recognised when the significant risks and rewards of ownership have been transferred to the customer and can be measured reliably and receipt of future economic benefits is probable. For the additional uplift made on partnership arrangements, certain estimates and judgements are made by management as referred under policy 1.2.26 Critical accounting estimates and judgements.

Rendering of service

Sales of services relating to third party diamond manufacturing, are recognised in the accounting period in which the services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method.

Dividends

Dividends are recognised when the amount of the dividend can be reliably measured and the Group's right to receive payment is established.

1.2.24 Finance costs

Finance costs are generally expensed as incurred, except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use. Finance costs are capitalised up to the date when the asset is ready for its intended use.

1.2.25 Dividend distribution

Dividend distributions to the Group's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

1.2.26 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and judgements and form assumptions that affect the reported amounts of the assets and liabilities, the reported revenue and costs during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results or the financial position reported in future periods are discussed below.

Life of mine

There are numerous uncertainties inherent in estimating ore reserves and the associated life of mine. Therefore the Group must make a number of assumptions in making those estimations, including assumptions as to the prices of commodities, exchange rates, production costs and recovery rates. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of ore reserves and may, ultimately, result in the ore reserves being restated. Where assumptions change the life of mine estimates, the associated depreciation rates, residual values, waste stripping and amortisation ratios, and environmental provisions are reassessed to take into account the revised life of mine estimate.

Exploration and evaluation expenditure

This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether economically viable extraction operations are viable where reserves have been discovered and whether indications of impairment exist. Any such estimates and assumptions may change as new information becomes available.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

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1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.26 Critical accounting estimates and judgements continued

Development expenditure

Judgement is applied by management in determining when a project has reached a stage at which economically recoverable reserves exist and that development may be sanctioned. Management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure.

Revenue

Management has entered into arrangements to increase the revenue earned on the sale of rough diamonds. Under these arrangements, revenue is earned for the sale of the rough diamond, with an additional uplift based on the polished margin achieved. These are referred to as partnership arrangements in these financial statements. Management recognises the revenue on the sale of the rough diamond at the point at which it is sold to the third party, as there is no continuing involvement by management in the cutting and polishing process and the significant risks and rewards have passed to the third party. Judgement is applied by management in determining when additional uplift is recognised and measured with regard to rough diamonds sold into partnership arrangements. Management is required to make certain estimates and assumptions based on when the uplift can be reliably measured. This occurs when the third party sells these goods, at which point in time the value of the final polished goods are determined.

Property, plant and equipment – recoverable amount

The calculation of the recoverable amount of an asset requires significant judgements, estimates and assumptions, including future demand, technological changes, exchange rates, interest rates and others.

Impairment of goodwill

The Group determines if goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the goodwill relates. Recoverable amount is the higher of fair value less costs to sell and value in use. Fair value calculations require the Group to make estimates of the amount for which the cash-generating unit could be sold. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and a market-related pre-tax discount rate in order to calculate the present value of those cash flows.

Impairment of assets

The Group assesses each cash-generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term diamond prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as management's best estimate of the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. Fair value for mine assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset using assumptions that an independent market participant may take into account. Cash flows are discounted by an appropriate discount rate to determine the net present value.

The Group has made a judgement in determining if, in the instance where the Group's asset carrying values exceed its market capitalisation, this results in an indicator of impairment. The Group believes that the market capitalisation position does not represent an indicator of impairment as all significant operations were assessed during the year and there were no indicators of impairment. The goodwill in the Group which is reported in the Letšeng mining and polished diamond manufacturing operations is tested annually, with no impairment evident in the current year. Refer to Note 10, Impairment testing, for further detail.

Provision for restoration and rehabilitation

Significant estimates and assumptions are made in determining the amount of the restoration and rehabilitation provisions. These deal with uncertainties such as changes to the legal and regulatory framework, magnitude of possible contamination, and the timing, extent and costs of required restoration and rehabilitation activity.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.26 Critical accounting estimates and judgements continued

Taxation

The determination of the Group's obligations and expense for taxes requires an interpretation of tax law and therefore certain assumptions and estimates are made.

Capitalised stripping costs (deferred waste)

Waste removal costs (stripping costs) are incurred during the development and production phases at surface mining operations. Furthermore, during the production phase, stripping costs are incurred in the production of inventory as well as in the creation of future benefits by improving access and mining flexibility in respect of the ore to be mined, the latter being referred to as a 'stripping activity asset'. Judgement is required to distinguish between these two activities at Letšeng. The orebody needs to be identified in its various separately identifiable components. An identifiable component is a specific volume of the orebody that is made more accessible by the stripping activity. Judgement is required to identify and define these components (referred to as 'cuts'), and also to determine the expected volumes (tonnes) of waste to be stripped and ore to be mined in each of these components. These assessments are based on a combination of information available in the mine plans, specific characteristics of the orebody and the milestones relating to major capital investment decisions.

Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and the stripping activity asset. The ratio of expected volume (tonnes) of waste to be stripped for an expected volume (tonnes) of ore to be mined for a specific component of the orebody, compared to the current period ratio of actual volume (tonnes) of waste to the volume (tonnes) of ore is considered to determine the most suitable production measure.

These judgements and estimates are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity asset(s). Furthermore, judgements and estimates are also used to apply the stripping ratio calculation in determining the amortisation of the stripping activity asset.

Stripping ratio

Estimated recoverable reserves are used in determining the amortisation of mine-specific assets. Amortisation is calculated by using the expected average stripping ratio over the average life of the area being mined. The average stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the life of area, per tonne of ore mined. The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the orebody divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the stripping ratio are accounted for prospectively as a change in estimate.

Production start date

The phase of each mine construction project is assessed to determine when a mine moves into the production phase. The criteria used to assess the start date are determined by the unique nature of each mine's construction project and includes factors such as the complexity of a plant and its location. Various relevant criteria are considered to assess when the mine is substantially complete and ready for its intended use and moves into the production phase. At this point, all related amounts are reclassified from 'exploration and development assets' to 'mining assets', 'stripping activity asset' and/or 'property, plant and equipment'. Some of the criteria would include but are not limited to the following:

- the level of capital expenditure compared to the construction cost estimates;
- completion of a reasonable period of testing of the mine plant and equipment;
- ability to produce inventory in saleable form; and
- ability to sustain ongoing production of inventory.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1. Notes to the financial statements continued

1.2 Summary of significant accounting policies continued

1.2.26 Critical accounting estimates and judgements continued

Production start date continued

When a mine construction project moves into the production phase, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for capitalisable costs related to mining asset additions or improvements, production phase stripping costs capitalisable as stripping activity asset(s), and exploration expenditure that meets the criteria for capitalisation. It is also at this point that depreciation/amortisation commences.

Management made the key judgement that the Ghaghoo mine had not reached production start date during the year based on the following:

- the unanticipated high volumes of water from basalt fissures which were encountered during the latter part of the year causing a delay in reaching steady state production, and
- specific areas in the plant did not allow the commissioning process to progress to its intended production state,

As a result, the mine was not in the condition necessary for it to be capable of operating in the manner intended by management and therefore the mine remained in its construction phase with all costs incurred during the year being capitalised to the Exploration and Development asset category of Note 7, Property, plant and equipment.

Share-based payments

Judgement is applied by management in determining whether the share options relating to employees who resigned before the end of the service condition period have been cancelled or forfeited in light of their leaving status. Where employees do not meet the requirements of a good leaver as per the rules of the long-term incentive plan (LTIP), no award will vest and this will be treated as cancellation by forfeiture. The expenses relating to these charges previously recognised are then reversed. Where employees do meet the requirements of a good leaver as per the rules of the LTIP, some or all of an award will vest and this will be treated as a modification to the original award. The future expenses relating to these awards are accelerated and recognised as an expense immediately.

1.2.27 Exceptional items

The Group presents as exceptional items on the face of the income statement, those material items of income and expenses which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

2. Revenue

	2014 US\$'000	2013 US\$'000
Sale of goods	269 870	212 020
Rendering of services	1 020	808
	270 890	212 828
Finance income is reflected in Note 4, Net finance income/(cost).		

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

3. Operating profit

	2014 US\$'000	2013 US\$'000
Operating profit includes the following:		
Other operating income		
Profit on disposal of property, plant and equipment	49	689
Depreciation and amortisation		
Depreciation and mining asset amortisation	(16 991)	(19 558)
Waste stripping costs amortised	(49 312)	(34 766)
	(66 303)	(54 324)
Less: Depreciation capitalised to development	1 957	1 454
Less: Depreciation and mining asset amortisation capitalised to inventory	33	519
	(64 313)	(52 351)
Amortisation of intangible assets	(157)	(159)
	(64 470)	(52 510)
Reversal of impairment		
Reversal of impairment – Chiri ¹	–	159
Impairment – Project Kholo ²	–	(58)
Net reversal of impairment – other assets	–	54
	–	155
Inventories		
Cost of inventories recognised as an expense	(129 195)	(102 843)
Write-down of inventories to net realisable value	–	(90)
Foreign exchange gain		
Foreign exchange gain	5 508	1 480
Mark-to-market revaluations on forward exchange contracts	(266)	(874)
	5 242	606
Operating lease expenses as a lessee		
Mine site property	(90)	(90)
Equipment and service leases	(39 535)	(43 665)
Contingent rental – Alluvial Ventures	(8 489)	(9 605)
Leased premises	(2 716)	(1 743)
	(50 830)	(55 103)
Auditor's remuneration – Ernst & Young		
Audit fee		
Group financial statements	(443)	(479)
Statutory	(183)	(331)
	(626)	(810)
Auditor's remuneration – other		
Statutory	(25)	(18)
	(25)	(18)

¹ This relates to the sale of assets in 2013, relating to the Chiri Concession in Angola, which was previously fully impaired in 2012. The Group no longer holds this concession in Angola.

² During 2011, the Group approved the expansion at the Letšeng mine (Project Kholo). During 2012, Project Kholo as originally envisaged was re-evaluated and as a result certain capital expenditure incurred on items that had been assessed as no longer having an enduring benefit to the operation, were written off.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

3. Operating profit continued

	2014 US\$'000	2013 US\$'000
Other non-audit fees – Ernst & Young		
Tax services advisory and consultancy	(13)	(73)
Corporate finance services	–	(320)
Tax compliance services	(11)	(13)
Other services	(42)	(86)
Other assurance services	(151)	(87)
	(217)	(579)
Other non-audit fees – other		
Internal audit	(356)	(132)
Tax services advisory and consultancy	(101)	(163)
	(457)	(295)
Employee benefits expense		
Salaries and wages ¹	(22 334)	(20 845)
¹ Includes contributions to defined contribution plan of US\$0.8 million (31 December 2013: US\$0.9 million).		
Underlying earnings before interest, tax, depreciation and mining asset amortisation (EBITDA)		
Underlying EBITDA is shown, as the Directors consider this measure to be a relevant guide to the performance of the Group. The reconciliation from operating profit to underlying EBITDA is as follows:		
Operating profit	92 711	60 503
Foreign exchange gain	(5 242)	(606)
Share-based payments	1 740	932
Other operating income	(134)	(746)
Depreciation and mining asset amortisation (excluding waste stripping cost amortised)	15 158	17 296
Underlying EBITDA	104 233	77 379

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

4. Net finance income/(cost)

	2014 US\$'000	2013 US\$'000
Finance income		
Bank deposits	2 575	992
Other	855	226
Total finance income	3 430	1 218
Finance costs		
Bank overdraft	(116)	(143)
Interest on debt, borrowings and trade and other payables ¹	(2 029)	(1 501)
Finance costs on unwinding of rehabilitation provision	(1 066)	(1 213)
Total finance costs	(3 211)	(2 857)
	219	(1 639)

¹ Included in interest on debt, borrowings and trade and other payables is a provision for interest on potential tax liabilities which are under dispute.

5. Income tax expense

	2014 US\$'000	2013 US\$'000
Income statement		
Current		
– Overseas	(30 626)	(12 980)
Withholding tax		
– Overseas	(6 565)	(1 498)
Deferred		
– Overseas	2 208	(6 377)
	(34 983)	(20 855)
Profit before taxation	92 930	59 019
Reconciliation of tax rate	%	%
Applicable income tax rate	21.5	23.3
Permanent differences	4.0	6.1
Unrecognised deferred tax assets	1.1	1.5
Effect of overseas tax at different rates	4.0	1.9
Withholding tax	7.0	2.5
Effective income tax rate	37.6	35.3

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

6. Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2014 US\$'000	2013 US\$'000
Profit for the year	57 947	38 164
Less: Non-controlling interests	(24 730)	(16 994)
Net profit attributable to equity holders of the parent for basic and diluted earnings	33 217	21 170
The weighted average number of shares takes into account the treasury shares at year end.		
Weighted average number of ordinary shares outstanding during the year ('000)	138 204	138 194

Earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year after taking into account future potential conversion and issue rights associated with the ordinary shares.

	Number of shares 2014	Number of shares 2013
Weighted average number of ordinary shares outstanding during the year	138 204	138 194
Effect of dilution:		
– Future share awards under the Employee Share Option Plan	962	710
Weighted average number of ordinary shares outstanding during the year adjusted for the effect of dilution	139 166	138 904

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

7. Property, plant and equipment

	Stripping activity asset	Mining asset	Exploration and develop- ment assets ¹	Decommis- sioning assets	Leasehold improve- ment	Plant and equipment ²	Other assets ³	Total
As at 31 December 2014	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cost								
Balance at 1 January 2014	216 133	130 981	94 339	13 014	19 891	92 814	12 818	579 990
Additions	54 642	–	38 668	–	80	11 536	2 609	107 535
Reallocated to prepayments (Note 11)	(3 158)	–	–	–	–	–	–	(3 158)
Net movement in rehabilitation provision	–	–	616	(3 571)	–	–	–	(2 955)
Disposals	–	–	–	–	–	(25)	(103)	(128)
Reclassifications	–	1 177	81	–	4 439	(6 237)	540	–
Foreign exchange differences	(23 665)	(6 797)	(9 623)	(1 035)	(2 062)	(9 534)	(1 285)	(54 001)
Balance at 31 December 2014	243 952	125 361	124 081	8 408	22 348	88 554	14 579	627 283
Accumulated depreciation/ amortisation								
Balance at 1 January 2014	100 843	42 625	–	3 144	8 544	44 993	6 216	206 365
Charge for the year	49 312	2 477	–	880	2 459	8 435	2 740	66 303
Disposals	–	–	–	–	–	(25)	(91)	(116)
Foreign exchange differences	(12 076)	(668)	–	(378)	(1 059)	(5 268)	(747)	(20 196)
Balance at 31 December 2014	138 079	44 434	–	3 646	9 944	48 135	8 118	252 356
Net book value at 31 December 2014	105 873	80 927	124 081	4 762	12 404	40 419	6 461	374 927

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

7. Property, plant and equipment continued

	Stripping activity asset	Mining asset	Exploration and develop- ment assets ¹	Decommis- sioning assets	Leasehold improve- ment	Plant and equipment ²	Other assets ³	Total
As at 31 December 2013	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cost								
Balance at 1 January 2013	199 404	140 846	90 460	18 353	17 362	119 100	12 239	597 764
Additions	59 278	–	20 050	–	299	10 023	1 211	90 861
Net movement in rehabilitation provision	–	–	(392)	(1 957)	–	–	–	(2 349)
Disposals	–	–	–	–	(85)	(2 976)	(67)	(3 128)
Reclassifications	–	7 566	(4 672)	–	5 871	(10 319)	1 554	–
Foreign exchange differences	(42 549)	(17 431)	(11 107)	(3 382)	(3 556)	(23 014)	(2 119)	(103 158)
Balance at 31 December 2013	216 133	130 981	94 339	13 014	19 891	92 814	12 818	579 990
Accumulated depreciation/ amortisation								
Balance at 1 January 2013	84 662	40 493	–	2 613	8 610	48 051	4 730	189 159
Charge for the year	34 766	3 396	–	1 170	2 104	10 278	2 610	54 324
Disposals	–	–	–	–	(85)	(2 479)	(62)	(2 626)
Impairment reversal	–	–	–	–	–	(386)	–	(386)
Foreign exchange differences	(18 585)	(1 264)	–	(639)	(2 085)	(10 471)	(1 062)	(34 106)
Balance at 31 December 2013	100 843	42 625	–	3 144	8 544	44 993	6 216	206 365
Net book value at 31 December 2013	115 290	88 356	94 339	9 870	11 347	47 821	6 602	373 625

¹ Borrowing costs of US\$0.6 million (31 December 2013: US\$nil) incurred in respect of the \$25.0 million facility for the remaining spend on the Phase 1 Ghaghoo development (refer to Note 15, Interest-bearing loans and borrowings) were capitalised to the development asset. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.04%.

² Included in plant and equipment is capital work in progress of US\$20.2 million (31 December 2013: US\$19.3 million). Borrowing costs of US\$0.5 million (31 December 2013: US\$nil) incurred in respect of the LSL140.0 million bank loan facility for the total funding of the new Coarse Recovery Plant at Letšeng (refer to Note 15, Interest-bearing loans and borrowings) is included in capital work in progress. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 5.07%.

³ Other assets comprise motor vehicles, computer equipment, furniture and fittings, and office equipment.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

8. Investment property

The investment property consists of a commercial unit located in the Almas Towers in Dubai. The unit is being let out in terms of a rental agreement which was renegotiated during 2014. The rental agreement is for a period of two years commencing 1 October 2014.

	2014 US\$'000	2013 US\$'000
Cost		
Balance at 1 January	617	617
Balance at 31 December	617	617
Accumulated depreciation		
Balance at 1 January	2	1
Depreciation	–	1
Balance at 31 December	2	2
Net book value at 31 December	615	615
Fair value¹	1 164	1 099
Amounts recognised in profit or loss		
Rental income	54	53
Direct operating expenses	(16)	(20)
The future minimum rental income under the rental agreement in aggregate and for each of the following periods are as follows:		
– Within one year	59	57
– After one year but not more than five years	44	35
– More than five years	–	–
	103	92

¹ No independent valuation was performed. Fair value was based upon an overview of property sales (units within the same building as the investment property) during 2014, weighted towards the most recent sales activity, which is valued using a Level 2 input in terms of the fair value hierarchy.

9. Intangible assets

As at 31 December 2014	Intangibles US\$'000	Goodwill US\$'000	Total US\$'000
Cost			
Balance at 1 January 2014	786	19 680	20 466
Foreign exchange difference	(2)	(1 862)	(1 864)
Balance at 31 December 2014	784	17 818	18 602
Accumulated amortisation			
Balance at 1 January 2013	264	–	264
Amortisation	157	–	157
Balance at 31 December 2014	421	–	421
Net book value at 31 December 2014	363	17 818	18 181
As at 31 December 2013	Intangibles US\$'000	Goodwill US\$'000	Total US\$'000
Cost			
Balance at 1 January 2013	786	24 292	25 078
Foreign exchange difference	–	(4 612)	(4 612)
Balance at 31 December 2013	786	19 680	20 466
Accumulated amortisation			
Balance at 1 January 2012	105	–	105
Amortisation	159	–	159
Balance at 31 December 2013	264	–	264
Net book value at 31 December 2013	522	19 680	20 202

Impairment of goodwill within the Group was tested in accordance with the Group's policy. Refer to Note 10, Impairment testing, for further details.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

10. Impairment testing

	2014 US\$'000	2014 US\$'000
Goodwill		
Goodwill acquired through business combinations has been allocated to the individual cash-generating units, as follows:		
– Letšeng Diamonds	17 818	18 229
– Calibrated Diamonds	–	1 451
Balance at end of year	17 818	19 680

Goodwill that was previously allocated to the Calibrated Diamonds cash-generating unit has been allocated in full to the Letšeng Diamonds cash-generating unit in the current year as a result of there being a change in the assessment of the cash-generating units within the Group.

Movement in goodwill relates to foreign exchange translation from functional to presentation currency.

Discount rates are outlined below (based on a blended rate), and represent the real pre-tax rates. These rates are based on the weighted average cost of capital (WACC) of the Group and adjusted accordingly at a risk premium of each cash-generating unit, taking into account risks associated with different cash-generating units.

	2014 %	2013 %
Discount rate for each cash-generating unit		
– Letšeng Diamonds	13.7	12.5
– Calibrated Diamonds	–	13.1

Goodwill impairment testing is undertaken annually and whenever there are indications of impairment. The most recent test was undertaken at 31 December 2014. In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit is compared with its recoverable amount. For the purpose of goodwill impairment testing in 2014, the recoverable amount for Letšeng Diamonds has been determined based on a value-in-use model.

Value in use

Cash flows are projected for a period up to the date that mining is expected to cease, based on management's expectations at the time of completing the testing, and is limited to the lesser of the current economic resource or the remaining 10-year mining lease period. This date depends on a number of variables, including recoverable reserves and resources, the forecast selling prices and the associated mining and treatment costs.

Key assumptions used in the calculations

The key assumptions used in the calculation for goodwill asset impairment are:

- recoverable reserves and resources;
- expected carats recoverable;
- expected grades achievable;
- expected US\$/carat prices;
- expected plant throughput;
- costs of extracting and processing;
- expected yield on polished; and
- discount rates.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

10. Impairment testing continued

Economically recoverable reserves and resources, carats recoverable and grades achievable are based on management's current expectation and mine plan, supported by the evaluation work undertaken by appropriately qualified persons. The impairment test is most sensitive to changes in commodity prices and discount rates.

Long-term US\$ per carat prices are based on external market consensus forecasts as published by independent marketing consultants adjusted for the Group's specific operations. Plant throughput is based on current plant facilities and processing capacities. The Plant 2 Phase 1 upgrade project to increase the current Plant 2 capacity by 250 000 tonnes per annum has commenced during the year and majority of the costs have been incurred in 2014. This upgrade will result in the increased throughput rate almost immediately after commissioning and is due to be completed by the end of Q1 2015. The additional 250 000 tonnes have therefore been included in the future years when calculating the value in use. Costs are determined on management's experience and the use of contractors over a period of time whose costs are fairly reasonably determinable. Mining costs for the next eight years (effective 1 January 2014) have been based on the negotiated mining contract which was concluded during the year. Costs of extracting and processing which are reasonably determinable are based on management's experience. Expected yield on polished has been based on management's experience.

The foreign exchange rates have been based on current spot exchange rates at the date of the value-in-use calculation.

Sensitivity to changes in assumptions

Given the current volatility in the market, adverse changes in key assumptions could result in changes to impairment charges.

For the purpose of testing for impairment of goodwill using the value-in-use basis for Letšeng mining operations, it was assessed that no reasonably possible change in any of these key assumptions would cause its carrying amount to exceed its recoverable amount.

The Group will continue to test its assets for impairment where indications are identified and may in future record additional impairment charges or reverse any impairment charges to the extent that market conditions improve and to the extent permitted by accounting standards.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

11. Receivables and other assets

	2014 US\$'000	2013 US\$'000
Non-current		
Prepayments ¹	2 877	–
Current		
Trade receivables	106	1 002
Prepayments ¹	1 250	739
Deposits	419	230
Other receivables	167	134
VAT receivable	5 656	4 644
	7 598	6 749

¹A total prepayment of US\$3.2 million (comprising a non-current portion of US\$2.9 million and a current portion of US\$0.3 million) has been reallocated from the stripping activity asset disclosed in Note 7, Property, plant and equipment. This represents the current value of waste costs to be recovered from the mining contractor over the term of the new contract (eight years from 1 January 2014) as a result of the estimation change in respect of the waste mined out of the surveying review which was disclosed in 2012. The waste tonnes and strip ratio for future cuts have been reassessed and have resulted in a credit to the waste stripping cost amortised charge (included in cost of sales) of US\$1.4 million and a finance income adjustment of US\$0.9 million in the year.

The carrying amounts above approximate their fair value.

Terms and conditions of the receivables:

	2014 US\$'000	2013 US\$'000
Analysis of trade receivables		
Neither past due nor impaired	56	939
Past due but not impaired:		
Less than 30 days	34	31
30 to 60 days	16	32
60 to 90 days	–	–
	106	1 002

12. Inventories

	2014 US\$'000	2013 US\$'000
Diamonds on hand	17 460	18 806
Ore stock piles	2 055	3 281
Consumable stores	9 255	7 239
	28 770	29 326
Net realisable value write-down	–	90

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

	2014 US\$'000	2013 US\$'000
13. Cash and short-term deposits		
Cash on hand	2	9
Bank balances	56 925	22 724
Short-term bank deposits	53 811	48 445
	110 738	71 178

The amounts reflected in the financial statements approximate fair value.

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are generally call deposit accounts and earn interest at the respective short-term deposit rates.

At 31 December 2014, the Group had restricted cash of US\$0.2 million (31 December 2013: US\$0.2 million).

The Group's cash surpluses are deposited with major financial institutions of high-quality credit standing predominantly within Lesotho and the United Kingdom.

At 31 December 2014, the Group has US\$41.6 million (31 December 2013: US\$43.9 million) of undrawn facilities representing a US\$20.0 million three-year unsecured revolving credit facility and an LSL250.0 million (US\$21.6 million) three-year revolving working capital facility.

During the year, two new facilities were concluded and were fully drawn down at 31 December 2014. For further details on these facilities, refer to Note 15, Interest-bearing loans and borrowings.

14. Issued capital and reserves

Issued capital

	31 December 2014		31 December 2013	
	Number of shares '000	US\$'000	Number of shares '000	US\$'000
Authorised – ordinary shares of US\$0.01 each				
As at year end	200 000	2 000	200 000	2 000
Issued and fully paid				
Balance at beginning of year	138 270	1 383	138 267	1 383
Allotments during the year	–	–	3	–
Balance at end of year	138 270	1 383	138 270	1 383

Share premium

Share premium comprises the excess value recognised from the issue of ordinary shares at par value.

Treasury shares

The Company established an Employee Share Option Plan (ESOP) on 5 February 2007. Under the terms of the ESOP, the Company granted options to employees of over 376 500 ordinary shares with a nil exercise price upon listing.

At listing, the Gem Diamonds Limited Employee Share Trust acquired 376 500 ordinary shares by subscription from the Company as part of the initial awards under the ESOP arrangement at nominal value of US\$0.01.

During the current year, there were no shares exercised (31 December 2013: 14 667) and no shares lapsed (31 December 2013: nil).

At 31 December 2014, 65 550 shares were held by the trust (31 December 2013: 65 550).

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

14. Issued capital and reserves continued

Other reserves

	Foreign currency translation reserve US\$'000	Share-based equity reserve US\$'000	Total US\$'000
Balance at 1 January 2014	(116 242)	46 834	(69 408)
Other comprehensive expense	(30 309)	–	(30 309)
Total comprehensive expense	(30 309)	–	(30 309)
Share-based payments	–	1 964	1 964
Balance at 31 December 2014	(146 551)	48 798	(97 753)
Balance at 1 January 2013	(62 800)	45 670	(17 130)
Other comprehensive expense	(53 442)	–	(53 442)
Total comprehensive expense	(53 442)	–	(53 442)
Share-based payments	–	1 164	1 164
Balance at 31 December 2013	(116 242)	46 834	(69 408)

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of foreign entities. During the year, the South African, Lesotho, Botswana, Mauritian and United Arab Emirate subsidiaries' functional currencies were different to the Group's functional currency of US dollar. The rates used to convert the operating functional currency into US dollar are as follows:

	Currency	2014	2013
Average rate	ZAR/LSL to US\$1	10.85	9.65
Period end	ZAR/LSL to US\$1	11.57	10.47
Average rate	Pula to US\$1	8.98	8.40
Period end	Pula to US\$1	9.51	8.78
Average rate	Rupee to US\$1	30.65	30.75
Period end	Rupee to US\$1	31.75	30.05
Average rate	Dirham to US\$1	3.67	3.67
Period end	Dirham to US\$1	3.67	3.67

Share-based equity reserves

For details on the share-based equity reserve, refer to Note 24, Share-based payments.

Capital management

For details on capital management, refer to Note 23, Financial risk management.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

15. Interest-bearing loans and borrowings

	Effective interest rate %	Maturity	2014 US\$'000	2013 US\$'000
Non-current				
LSL140.0 million bank loan facility	South African JIBAR + 4.95%	30 June 2017	7 261	–
			7 261	–
Current				
LSL140.0 million bank loan facility	South African JIBAR + 4.95%	30 June 2017	4 841	–
US\$25.0 million bank loan facility	London US\$ three-month LIBOR + 4%	30 April 2015	25 000	–
			29 841	–

LSL140.0 million bank loan facility at Letšeng Diamonds

This loan is a three-year unsecured project debt facility signed jointly with Standard Lesotho Bank and Nedbank Limited on 26 June 2014 for the total funding of the new Coarse Recovery Plant. The loan is repayable in 10 quarterly payments commencing 31 March 2015 with a final payment due on 30 June 2017. The interest rate for the facility at 31 December 2014 is 11.08%.

US\$25.0 million bank loan facility at the Company

This loan is a nine-month unsecured facility which was signed with Nedbank Capital on 16 January 2014 for the remaining spend on the Ghaghoo Phase 1 development. The loan expired in October 2014, but has been extended in the interim to 30 April 2015 to cater for the process of concluding the refinancing thereof into a six-year secured project debt facility which will expire on 31 December 2020. At the time of finalisation, this facility will be split into its short-term and long-term component. The interest rate for the facility at 31 December 2014 is 4.26%.

Total interest for the year on the interest-bearing loans and borrowings was US\$1.1 million (2013: US\$nil) which has been capitalised to the carrying value of the assets as borrowing costs.

There are no significant differences between the fair value and carrying value of loans and borrowings.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

16. Trade and other payables

	2014 US\$'000	2013 US\$'000
Non-current		
Operating lease	82	2
Severance pay benefits ¹	1 192	1 107
	1 274	1 109
Current		
Trade payables ²	12 544	12 023
Accrued expenses ²	25 962	20 790
Leave benefits	835	790
Royalties ²	3 245	2 761
Operating lease	575	141
Other	550	581
	43 711	37 086
Total trade and other payables	44 985	38 195

The carrying amounts above approximate fair value.

Terms and conditions of the trade and other payables:

¹ The severance pay benefits arise due to legislation, within the Lesotho jurisdiction, requiring that two weeks of severance pay be provided for every completed year of service, payable on retirement.

² These amounts are mainly non-interest bearing and are settled in accordance with terms agreed between the parties. Included in accrued expenses is an interest-bearing payable. The interest thereon has been provided for in finance costs. Refer to Note 4, Net finance income/(cost).

17. Provisions

	2014 US\$'000	2013 US\$'000
Rehabilitation provisions	19 543	23 186
Reconciliation of movement in provisions		
Balance at beginning of year	23 186	29 496
Arising during the year	616	442
Decrease in rehabilitation provisions	(3 571)	(2 791)
Unwinding of discount rate	1 336	1 213
Foreign exchange differences	(2 024)	(5 174)
Balance at end of year	19 543	23 186

Rehabilitation provisions

The provisions have been recognised as the Group has an obligation for rehabilitation of the mining areas. The provisions have been calculated based on total estimated rehabilitation costs, discounted back to their present values. The pre-tax discount rates are adjusted annually and reflect current market assessments. These costs are expected to be utilised over a life of mine at the mining operation.

In determining the amounts attributable to the rehabilitation provisions, management used a discount rate range of 7.0% to 7.5% (31 December 2013: 5.5% to 7.5%), estimated rehabilitation timing of 10 to 13 years (31 December 2013: 11 to 14 years) and an inflation rate range of 5.9% to 6.0% (31 December 2013: 5.6% to 6.0%). In addition to the changes in the discount rates, inflation and rehabilitation timing, the decrease in the provision is attributable to the reassessment of the estimated closure costs.

18. Other financial liabilities

	2014 US\$'000	2013 US\$'000
Current		
Forward exchange contract	249	–

The Group enters into forward exchange contracts to hedge the exposure to changes in foreign currency of future sales of diamonds at Letšeng Diamonds. The forward exchange contract is the revaluation on the market-to-market financial liabilities at year end. The Group performs no hedge accounting.

The forward exchange contracts are measured using a Level 2 input in terms of the fair value hierarchy, thus basing its fair value on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

19. Deferred taxation

	2014 US\$'000	2013 US\$'000
Deferred tax assets		
Accrued leave	50	45
Operating lease liability	7	5
Provisions	5 140	5 919
	5 197	5 969
Deferred tax liabilities		
Property, plant and equipment	(58 293)	(66 951)
Prepayments	(333)	(154)
Provisions	–	350
Unremitted earnings	(4 038)	(4 038)
	(62 664)	(70 793)
Net deferred tax liability	(57 467)	(64 824)
Reconciliation of deferred tax liability		
Balance at beginning of year	(64 824)	(71 277)
Movement in current period:		
– Accelerated depreciation for tax purposes	2 906	(6 404)
– Accrued leave	11	(22)
– Operating lease liability	120	6
– Prepayments	(124)	(146)
– Provisions	(297)	(1)
– Tax losses utilised in the year	(408)	190
– Foreign exchange differences	5 149	12 830
Balance at end of year	(57 467)	(64 824)

The Group has not recognised a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries because it is able to control the timing of dividends and only part of the temporary difference is expected to reverse in the foreseeable future. The gross temporary difference in respect of the undistributable reserves of the Group's subsidiaries for which a deferred tax liability has not been recognised is US\$39.0 million (31 December 2013: US\$46.3 million).

The Group has estimated tax losses of US\$306.8 million (31 December 2013: US\$293.0 million). No deferred tax assets have been recognised in respect of such losses at 31 December 2014 as management considers that it is not probable that the losses in those entities will be utilised against taxable profits in those entities in the foreseeable future.

Of the US\$306.8 million estimated tax losses (31 December 2013: US\$293.0 million), US\$4.8 million losses in various jurisdictions (31 December 2013: US\$3.2 million), expire as follows:

	31 December 2014 US\$'000	31 December 2013 US\$'000
2015	2	2
2016	5	6
2017	1 177	1 244
2018	1 914	1 914
2019	1 699	–
	4 797	3 166

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

20. Cash flow notes

20.1 Cash generated by operations

	Notes	2014 US\$'000	2013 US\$'000
Profit before tax for the year		92 930	59 019
Adjustments for:			
Depreciation and amortisation on property, plant and equipment	3	15 158	17 744
Waste stripping cost amortised	3	49 312	34 766
Reversal of impairment of assets	3	–	(155)
Write-down of inventory	3	–	90
Finance income	4	(3 430)	(1 218)
Finance costs	4	3 211	2 857
Mark-to-market revaluations		266	984
Unrealised foreign exchange differences		(7 942)	620
Profit on disposal of property, plant and equipment	3	(49)	(689)
Movement in prepayments		138	160
Other non-cash movements		2 243	7
Share-based equity transaction	24	1 740	932
		153 577	114 462
20.2 Working capital adjustments			
Increase in inventories		(1 969)	(10 962)
Increase in receivables		(1 560)	(4 009)
Increase/(decrease) in trade and other payables		3 588	(2 520)
		59	(17 491)

21. Commitments and contingencies

Commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial lease arrangements for rental of office premises. These leases have a period of between two and 12 years with an option of renewal at the end of the period. The terms will be negotiated during the extension option periods catered for in the agreements. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases:

	2014 US\$'000	2013 US\$'000
– Within one year	1 444	1 813
– After one year but not more than five years	4 997	5 437
– More than five years	10 313	11 126
	16 754	18 376

Mining leases

Mining lease commitments represent the Group's future obligation arising from agreements entered into with local authorities in the mining areas that the Group operates.

The period of these commitments is determined as the lesser of the term of the agreement, including renewable periods, or the life of the mine. The estimated lease obligation regarding the future lease period, accepting stable inflation and exchange rates, is as follows:

	2014 US\$'000	2013 US\$'000
– Within one year	132	84
– After one year but not more than five years	611	381
– More than five years	1 711	735
	2 454	1 200

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

21. Commitments and contingencies continued

Moveable equipment lease

The Group has entered into commercial lease arrangements which include the provision of loading, hauling and other transportation services payable at a fixed rate per tonne of ore and waste mined; power generator equipment payable based on a consumption basis; and rental agreements for various mining equipment based on a fixed monthly fee.

The contract at Letšeng pertaining to the loading and hauling which was due to terminate at the end of 2014 was renegotiated during the year and therefore future commitment amounts have been based on the new contract which has an eight-year term, effective 1 January 2014.

	2014 US\$'000	2013 US\$'000
– Within one year	32 942	29 422
– After one year but not more than five years	189 170	718
– More than five years	100 486	–
	322 598	30 140
Capital expenditure		
Approved but not contracted for	5 197	40 070
Approved and contracted for	10 794	3 853

The majority of capital expenditure commitments relate to the finalisation of the new Coarse Recovery Plant and the Plant 2 Phase 1 upgrade at Letšeng.

Contingent rentals – Alluvial Ventures

The contingent rentals represent the Group's obligation to a third party (Alluvial Ventures) for operating a third plant on the Group's mining property at Letšeng Diamonds. The rental is determined when the actual diamonds mined by Alluvial Ventures are sold. The rental agreement is based on 50% – 70% of the value (after costs) of the diamonds recovered by Alluvial Ventures and is limited to US\$1.2 million per individual diamond. As at the reporting date, such future sales cannot be determined.

Letšeng Diamonds Educational Fund

In terms of the mining agreement entered into between the Group and the Government of the Kingdom of Lesotho, the Group has an obligation to provide funding for education and training scholarships. The quantum of such funding is at the discretion of the Letšeng Diamonds Education Fund Committee. The amount of the funding provided for the current year was US\$0.1 million (31 December 2013: US\$0.1 million).

Contingencies

The Group has conducted its operations in the ordinary course of business in accordance with its understanding and interpretation of commercial arrangements and applicable legislation in the countries where the Group has operations. In certain specific transactions, however, the relevant third party or authorities could have a different interpretation of those laws and regulations that could lead to contingencies or additional liabilities for the Group. Having consulted professional advisers, the Group has identified possible disputes approximating US\$3.5 million (December 2013: US\$3.6 million) and tax claims within the various jurisdictions in which the Group operates approximating US\$1.4 million (December 2013: US\$1.2 million).

There remains a risk that further tax liabilities may potentially arise. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's results, financial position or liquidity.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

22. Related parties

Related party

	Relationship
Jemax Management (Proprietary) Limited	Common director
Jemax Aviation (Proprietary) Limited	Common director
Gem Diamond Holdings Limited	Common director
Government of Lesotho	Non-controlling interest
Geneva Management Group (UK) Limited	Common director

Refer to Note 1.1.2, Operational information, for information regarding shareholding in subsidiaries.

Refer to the Directors' Report for information regarding the Directors.

	2014 US\$'000	2013 US\$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	1 447	1 054
Short-term employee benefits	7 170	5 819
	8 617	6 873
Fees paid to related parties		
Jemax Aviation (Proprietary) Limited	(73)	(82)
Jemax Management (Proprietary) Limited	(181)	(98)
Royalties paid to related parties		
Government of Lesotho	(22 102)	(15 868)
Lease and licence payments to related parties		
Government of Lesotho	(114)	(112)
Sales to/(purchases) from related parties		
Jemax Aviation (Proprietary) Limited	(36)	214
Geneva Management Group (UK) Limited	(6)	(6)
Amount included in trade receivables owing by/(to) related parties		
Jemax Aviation (Proprietary) Limited	28	51
Jemax Management (Proprietary) Limited	(8)	(8)
Amounts owing to related party		
Government of Lesotho	(3 167)	(2 425)
Dividends paid		
Government of Lesotho	(27 597)	(5 938)

Jemax Management (Proprietary) Limited and Jemax Aviation (Proprietary) Limited provided administrative and aviation services with regard to the mining activities undertaken by the Group. Geneva Management Group (UK) Limited provided administration, secretarial and accounting services to the Company. The above transactions were made on terms agreed between the parties and were made on terms that prevail in arm's-length transactions.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

23. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks:

- (a) Market risk (including commodity price risk and foreign exchange risk);
- (b) Credit risk; and
- (c) Liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

There have been no changes in the financial risk management policy since the prior year.

Capital management

The capital of the Company is the issued share capital, share premium and treasury shares on the Group's statement of financial position. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. The management of the Group's capital is performed by the Board.

At 31 December 2014, the Group has US\$41.6 million (31 December 2013: US\$43.9 million) debt facilities available and continues to have the flexibility to manage the capital structure more efficiently by the use of these debt facilities thus ensuring that an appropriate gearing ratio is achieved.

The debt facilities in the Group are as follows:

Unsecured – Standard Lesotho Bank – revolving credit facility

The Group, through its subsidiary, Letšeng Diamonds, has a LSL250.0 million (US\$21.6 million), three-year unsecured revolving working capital facility. This facility is in the process of being renewed for an additional three-year term and by year end an initial term sheet had been signed. The renewed facility will bear interest at the Lesotho prime rate.

At year end, there is no drawdown on this facility.

Unsecured – Nedbank Capital (a division of Nedbank Limited) – revolving credit facility

The Company has a US\$20.0 million three-year unsecured revolving credit facility which is due for renewal in January 2016. This facility bears interest at London USD Interbank three-month LIBOR + 5.33%.

At year end there is no drawdown on this facility.

Unsecured – Nedbank Capital (a division of Nedbank Limited) – nine-month facility; currently being extended and refinanced through a six-year project debt facility

This loan is a nine-month unsecured US\$25.0 million facility which was signed with Nedbank Capital on 16 January 2014 for the remaining spend on the Ghaghoo Phase 1 development. The loan expired in October 2014, but has been extended in the interim to 30 April 2015 to cater for the process of concluding the refinancing thereof into a six-year secured project debt facility which will expire on 31 December 2020. The current facility bears interest at London USD Interbank three-month LIBOR + 4% and the refinanced facility will bear interest at London USD Interbank three-month LIBOR + 5.5%

At year end, this facility was fully drawn down.

Unsecured – Standard Lesotho Bank and Nedbank Limited – three-year unsecured project debt facility for the new Coarse Recovery Plant

For the completion of the new Coarse Recovery Plant, a three-year unsecured LSL140.0 million facility was concluded in June 2014. This facility bears interest at South African JIBAR + 4.95%.

At year end, this facility was fully drawn down.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

23. Financial risk management continued

(a) Market risk

(i) *Commodity price risk*

The Group is subject to commodity price risk. Diamonds are not homogeneous products and the price of rough diamonds is not monitored on a public index system. The fluctuation of prices is related to certain features of diamonds such as quality and size. Diamond prices are marketed in US dollar and long-term US\$ per carat prices are based on external market consensus forecasts and contracted sales arrangements adjusted for the Group's specific operations. The Group does not have any financial instruments that may fluctuate as a result of commodity price movements.

(ii) *Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Lesotho loti, South African rand and Botswana pula. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's sales are denominated in US dollar which is the functional currency of the Company, but not the functional currency of the operations.

The currency sensitivity analysis below is based on the following assumptions:

Differences resulting from the translation of the financial statements of the subsidiaries into the Group's presentation currency of US dollar, are not taken into consideration.

The major currency exposures for the Group relate to the US dollar and local currencies of subsidiaries. Foreign currency exposures between two currencies where one is not the US dollar are deemed insignificant to the Group and have therefore been excluded from the sensitivity analysis.

The analysis of the currency risk arises because of financial instruments denominated in a currency that is not the functional currency of the relevant Group entity. The sensitivity has been based on financial assets and liabilities at 31 December 2014. There has been no change in the assumptions or method applied from the prior year.

Sensitivity analysis

If the US dollar had appreciated/(depreciated) 10% against currencies significant to the Group at 31 December 2014, income before taxation would have been US\$0.1 million higher/(lower) (31 December 2013: US\$0.1 million). There would be no effect on equity reserves other than those directly related to income statement movements.

(iii) *Forward exchange contracts*

The Group enters into forward exchange contracts to hedge the exposure to changes in foreign currency of future sales of diamonds at Letšeng Diamonds. The Group performs no hedge accounting. At 31 December 2014, the Group has US\$20.0 million notional cover (31 December 2013: US\$nil) forward exchange contracts outstanding.

(iv) *Cash flow interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's cash flow interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. At the time of taking new loans or borrowings management uses its judgement to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Group over the expected period until maturity.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

23. Financial risk management continued

(b) Credit risk

The Group's potential concentration of credit risk consists mainly of cash deposits with banks and other receivables. The Group's short-term cash surpluses are placed with the banks that have investment grade ratings. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the reporting dates. The Group considers the credit standing of counterparties when making deposits to manage the credit risk.

Considering the nature of the Group's ultimate customers and the relevant terms and conditions entered into with such customers, the Group believes that credit risk is limited as customers pay on receipt of goods.

No other financial assets are impaired or past due and accordingly, no additional analysis has been provided.

No collateral is held in respect of any impaired receivables or receivables that are past due but not impaired.

(c) Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly at a price close to its fair value. Management manages the risk by maintaining sufficient cash, marketable securities and ensuring access to shareholding funding. This ensures flexibility in maintaining business operations and maximises opportunities. Furthermore, the Company has available debt facilities of US\$41.6 million at year end.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments:

	2014 US\$'000	2013 US\$'000
Floating interest rates		
Interest-bearing loans and borrowings		
– Within one year	31 381	–
– After one year but not more than five years	8 041	–
Total	39 422	–
Trade and other payables		
– Within one year	43 711	37 086
– After one year but not more than five years	1 274	1 109
Total	44 985	38 195

24. Share-based payments

The expense recognised for employee services received during the year is shown in the following table:

	2014 US\$'000	2013 US\$'000
Equity-settled share-based payment transactions charged to the income statement	1 740	932
Equity-settled share-based payment transactions capitalised	224	232
	1 964	1 164

The long-term incentive plans are described below:

Employee Share Option Plan (ESOP)

Certain key employees are entitled to a grant of options, under the ESOP of the Company. The vesting of the options is dependent on employees remaining in service for a prescribed period (normally three years) from the date of grant. The fair value of share options granted is estimated at the date of the grant using a Black Scholes simulation model, taking into account the terms and conditions upon which the options were granted. It takes into account projected dividends and share price fluctuation co-variances of the Company.

There is a nil or nominal exercise price for the options granted at admission of the Company. The contractual life of the options is 10 years and there are no cash settlement alternatives. The Company has no past practice of cash settlement.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

24. Share-based payments continued

Non-Executive share awards

In order to align the interests of the Chairman and independent Directors with those of the shareholders, the non-Executive Directors were invited to subscribe for shares at nominal value on terms set out in the prospectus. The non-Executive Directors shall not be eligible to participate in the short-term incentive bonus scheme (STIBS) or ESOP or any other performance-related incentive arrangements which may be introduced by the Company from time to time. There are currently no non-Executive share awards.

ESOP for March 2012 (long-term incentive plan (LTIP))

On 20 March 2012, 1 347 000 options were granted to certain key employees under the LTIP of the Company. Of the total number of shares, 449 000 were nil value options and 898 000 were market value options. The exercise price of the market value options is £3.00 (US\$4.76), which was equal to the market price of the shares on the date of the grant. Of the 1 347 000 options originally granted, only 747 000 are still outstanding following the resignation of a number of employees. The vesting of the options will be subject to the satisfaction of performance conditions over a three-year period that is considered appropriately stretching. The awards which vest on 20 March 2015 are exercisable between 20 March 2015 and 20 March 2022. If the performance conditions are not met, the options lapse. The fair value of the options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the options in years and the weighted average share price of the Company. The contractual life of each option granted is three years.

ESOP for September 2012 (LTIP)

On 11 September 2012, 936 000 options were granted to certain key employees (excluding Executive Directors) under the LTIP of the Company. Of the total number of shares, 312 000 were nil value options and 624 000 were market value options. The exercise price of the market value options is £1.78 (US\$2.85), which was equal to the market price of the shares on the date of grant. Of the 936 000 options originally granted, only 528 000 are still outstanding following the resignation of a number of employees. The awards which vest over a three-year period in tranches of a third of the award each year, dependent on the performance targets for the 2013, 2014 and 2015 financial years being met, are exercisable between 1 January 2016 and 31 December 2023. The vesting of the options is subject to performance conditions based on goals relating to the Group and individual performance which are classified as non-market conditions. The fair value of these options is estimated in a similar manner as the March 2012 LTIP.

ESOP for March 2014 (LTIP)

In March 2014, 625 000 nil-cost options were granted to certain key employees under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest over a three-year period in tranches of a third of the award each year are exercisable between 19 March 2017 and 18 March 2024. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market-based they are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £1.74 (US\$2.87).

ESOP for June 2014 (LTIP)

In June 2014, 609 000 nil-cost options were granted to the Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. Of the 609 000 nil-cost options, 152 250 relates to market conditions with the remaining 456 750 relating to non-market conditions. The options which vest are exercisable between 10 June 2017 and 9 June 2024. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date. At each financial year end, the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the nil-cost options relating to non-market conditions is £1.61 (US\$2.70). The fair value of the options granted, relating to the market conditions, is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the options in years and the weighted average share price of the Company.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

24. Share-based payments continued

Movements in the year

ESOP

The following table illustrates the number ('000) and movement in share options during the year:

	2014 '000	2013 '000
Outstanding at beginning of year	18	33
Exercised during the year	–	(15)
Balance at end of year	18	18
Exercisable at end of year	–	–

The following table lists the inputs to the model used for the plan for the awards granted under the ESOP:

Dividend yield (%)	–
Expected volatility (%)	22
Risk-free interest rate (%)	5
Expected life of option (years)	10
Weighted average share price	18.28
Model used	Black Scholes

The fair value of share options granted is estimated at the date of the grant using a Black Scholes simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company.

The ESOP is an equity-settled plan and the fair value is measured at the grant date.

ESOP for June 2014, March 2014, September 2012, March 2012 and 2011 (LTIP)

The following table illustrates the number ('000) and movement in the outstanding share options during the year:

	2014 '000	2013 '000
Outstanding at beginning of year	2 073	4 501
Granted during the year	1 234	–
Exercised during the year	–	(3)
Forfeited	(862)	(2 425)
Balance at end of year	2 445	2 073

The following table lists the inputs to the model used for the market conditions awards granted during the current and prior year:

	LTIP June 2014	LTIP September 2012	LTIP March 2012	LTIP 2011
Dividend yield (%)	–	–	–	–
Expected volatility (%)	37.25	42.10	63.88	66.32
Risk-free interest rate (%)	1.94	0.33	1.20	1.59
Expected life of option (years)	3.00	3.00	3.00	3.00
Weighted average share price (US\$)	2.70	2.85	4.76	4.38
Fair value of nil value options (US\$)	1.83	2.85	3.76	3.01
Fair value of market value options (US\$)	–	1.66	2.27	1.95
Model used	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo

The fair value of share options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

25. Dividends proposed

	2014 US\$'000	2013 US\$'000
Proposed dividends on ordinary shares		
Final cash dividend for 2014: 5 cents per share (2013: nil)	6 913	–

Proposed dividend on ordinary shares is subject to approval at the AGM to be held on 2 June 2015 and is not recognised as a liability as at 31 December.

26. Material partly owned subsidiaries

Financial information of Letšeng Diamonds, a subsidiary which has a material non-controlling interest, is provided below.

Proportion of equity interest held by non-controlling interests

Name	Country of incorporation and operation	2014	2013
Letšeng Diamonds (Proprietary) Limited	Lesotho	30%	30%
Accumulated balances of material non-controlling interest		66 148	72 454
Profit allocated to material non-controlling interest		24 782	15 702

The summarised financial information of this subsidiary is provided below. This information is based on amounts before inter-company eliminations.

Summarised income statement for the year ended 31 December

	2014 US\$'000	2013 US\$'000
Revenue	277 908	201 310
Cost of sales	(138 293)	(114 150)
Gross profit	139 615	87 160
Royalties and selling costs	(22 379)	(16 099)
Other income/(costs)	3 384	(860)
Operating profit	120 620	70 201
Net finance income/(costs)	2 045	(614)
Profit before tax	122 665	69 587
Income tax expense	(40 059)	(17 246)
Profit for the year	82 606	52 341
Total comprehensive income	82 606	52 341
Attributable to non-controlling interest	24 782	15 702
Dividends paid to non-controlling interest	27 597	5 938

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

26. Material partly owned subsidiaries continued

Summarised statement of financial position as at 31 December

	2014 US\$'000	2013 US\$'000
Assets		
Non-current assets		
Property, plant and equipment and intangible assets	252 397	281 017
Current assets		
Inventories, receivables and other assets and cash and short-term deposits	81 958	64 862
Total assets	334 355	345 879
Non-current liabilities		
Trade and other payables, provisions and deferred tax liabilities	69 557	81 951
Current liabilities		
Interest-bearing loans and borrowings and trade and other payables	44 306	22 415
Total liabilities	113 863	104 366
Total equity	220 492	241 513
Attributable to:		
Equity holders of parent	154 345	169 059
Non-controlling interest	66 148	72 454
Summarised cash flow information for the year ended 31 December		
Operating	82 581	85 961
Investing	(62 730)	(68 782)
Financing	(15 496)	(8 529)
Net increase in cash and cash equivalents	4 355	8 650

27. Events after the reporting period

No other fact or circumstance has taken place between the end of the reporting period and the approval of the financial statements which, in our opinion, is of significance in assessing the state of the Group's affairs.

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