GEM DIAMONDS
Annual Report 2013

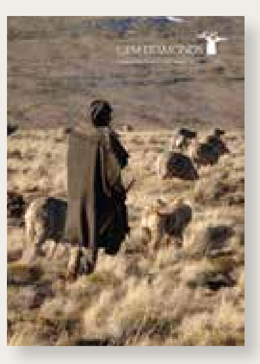
Gem Diamonds is a leading global producer of high-value diamonds. The Group currently has one producing mine, the Letšeng mine in Lesotho, and is developing the Ghaghoo mine in Botswana. The Letšeng mine is renowned for its regular production of large, top colour, exceptional white diamonds, making it 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 recorded.

Gem Diamonds has an organic growth strategy based on enhancing the operating efficiencies of the Letšeng mine and developing the Ghaghoo mine. 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.

Our 2013 reports

– Annual Report 2013



– Sustainability Report 2013

Feedback

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All information contained in our Annual Report is published on our website at **www.gemdiamonds.com**

Sustainability information is available in the sustainability section of the Gem Diamonds website.
You can also find information on our share price performance and other economic data in the investor relations section.

Caption for front cover: The access decline at the Ghaghoo mine

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This icon refers you to related information contained in this Sustainable Development Report and the relevant page.

This icon refers you to additional information available online.

Download this QR code on your smart device to gain quick access to our website.

Gem Diamonds at a glance

Our strategy is based on creating value by focusing on mining and selling our diamonds effectively to maximise returns.

MINES

Letšeng Diamonds Limited

Letšeng diamond mine – Lesotho – page 17

Ownership: **Acquired:** July 2006

70% Gem Diamonds Limited

30% Government of the Kingdom of Lesotho

Description of operation:
Letšeng diamond mine – mining and processing diamond bearing ore sourced from the Main and Satellite kimberlite pipes

Total resource:
5.3 million carats (as at 1 January 2013)

In-situ value:
US$11.6 billion (as at 1 January 2013)

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

Operational performance 2013:
- Carats recovered: 95 053
- Average US$ per carat: US$2 043*
- Tonnes treated: 6.2 million
- Waste tonnes mined: 19.1 million

Sustainability performance 2013:
- Zero fatalities
- Lost time injury frequency rate (LTIFR) 0.11
- All injury frequency rate (AIFR) 2.08
- Two lost time injuries (LTIs)
- Zero major environmental incidents
- Letšeng achieved a five-star rating in the annual external Health, Safety, Social and Environment (HSSE) audit
- Corporate social investment (CSI) projects carried out on schedule
- 95% of Letšeng's workforce is made up of Lesotho nationals, 20% of whom are from project affected communities

FOCUS FOR 2014
- Construction of a new coarse recovery plant
- Optimisation and planning for implementation of the Letšeng expansion project
- Review optimal timing for moving from open pit to underground in Satellite pipe

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

Gem Diamonds Botswana

Ghaghoo diamond mine – Botswana – page 21

Ownership: **Acquired:** May 2007

100% Gem Diamonds Limited

Description of operation:
Ghaghoo diamond mine – development of the Ghaghoo diamond mine in the Central Kalahari Game Reserve in Botswana

Total resource:
20.5 million carats (as at 1 January 2013)

In-situ value:
US$4.6 billion (as at 1 January 2013)

Strategic objectives:
- Optimise the returns from Ghaghoo following the completion of Phase 1 development

Development performance 2013:
- Construction of the sand portion of the access decline completed
- Extension of the main decline into basalt commenced in the third quarter
- Construction of the processing plant ready for final commissioning, which is scheduled for the second half of 2014
- Kimberlite intercepted at Level 0

Sustainability performance 2013:
- Zero fatalities
- LTIFR 0.34
- AIFR 5.15
- One LTI
- Zero major environmental incidents
- Ghaghoo achieved a four-star rating in the annual external HSSE audit
- Community water supply programme has drilled and equipped four boreholes, giving four communities a sustainable water supply within the Central Kalahari Game Reserve
- 92% of the Ghaghoo workforce is made up of Botswana nationals, 27% of whom are from project affected communities

FOCUS FOR 2014
- Continue to develop Phase 1 of the underground mine
- Balance of US$25 million to be spent in 2014 – funding for this raised in January 2014
- Commence production in the second half of 2014
- Install capacity for sustainable production output

(SR) Business overview
(SR) Management review
(SR) Operating review
Governance
Financial statements

SALES AND MARKETING

Gem Diamonds Marketing Services

Belgium – page 23

Ownership: **Formed:** October 2010

100%

Gem Diamonds Limited

Description of operation:
Gem Diamonds Marketing Services – the Group's 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 2013:
- Achieved an average value of US$2 043* per carat for Letšeng's rough production
- In October 2013, a 12.47 carat blue diamond sold for US$7.5 million, a Letšeng record of US$603 047 per carat
- Contributed additional revenue to the Group of US$5.4 million and additional earnings before interest, tax, depreciation and amortisation (EBITDA) of US$3.6 million

Sustainability performance 2013:
- Gem Diamonds continued to adhere to the provisions of the Kimberley Process
- Every rough diamond produced was certified in terms of the Kimberley Process certification scheme
- Gem Diamonds registered as a candidate organisation with the Responsible Jewellery Council, with full registration expected to be concluded in 2014
- Zero HSSE incidents

FOCUS FOR 2014
- Continue to achieve highest prices for all rough and polished diamonds
- Establish the sales and marketing channels for the Ghaghoo rough production
- Explore brand development opportunities and markets closer to the end-consumer
- Optimise sales and marketing activities
- Identify diamond sales and marketing opportunities in other strategic jurisdictions

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

MANUFACTURING

Baobab Technologies

Belgium – page 23

Ownership: **Formed:** April 2012

100%

Gem Diamonds Limited

Description of operation:
Baobab Technologies – the Group's 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 true value and drive higher prices
- Provide manufacturing capacity to meet the Group's current manufacturing requirement 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 2013:
- Baobab Technologies received 1 079 carats of high-value diamonds for manufacturing with a rough market value of US$23.7 million, of both Letšeng and third party goods
- 164 carat diamond was cut and polished into 11 exceptional polished diamonds, with a total weight of 83.47 carats, all of which received triple 'excellent' grading in cut grade, polish and symmetry by the Gemological Institute of America (GIA)

Sustainability performance 2013:
- Gem Diamonds continued to adhere to the provisions of the Kimberley Process and all of its diamonds were certified in terms of the Kimberley Process certification scheme
- Gem Diamonds registered as a candidate organisation with the Responsible Jewellery Council, with full registration expected to be concluded in 2014
- Developed and implemented an integrated safety, health, environmental and quality management system
- Zero HSSE incidents

FOCUS FOR 2014
- Increase volumes of extracted rough diamonds to be polished
- Obtain best possible polished results for rough diamonds manufactured
- Increase business activities by polishing more high-value diamonds for customers outside the Group

Our business model

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

Our business model offers the flexibility to pursue our strategy in a manner that derives the maximum returns for our shareholders in a sustainable manner.

We recognise that we require inputs for our business activities. We have categorised these inputs in terms of the capitals available. Through our business activities, these are transformed into outputs and broader outcomes, generating value for our shareholders and the wider community in which we operate.

STRATEGY

Value creation

Optimising returns
Improving the quality of our assets through life of mine extensions.

Operating profitably and generating cash.

Strengthening the capital structure.

Optimising revenue achieved for our diamond production through reductions in breakage and theft.

Operational excellence
Focusing on cost reductions and enhancing our current production efficiency.

Growth

Organic growth
Optimisation of the Letšeng mine and developing the Ghaghoo mine 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.

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.

Our business activities focus 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.

We are committed to sustainable development, which underpins our drive to maximise value for our shareholders and society.

Our business activities are subject to a range of risks, which the Group actively manages and mitigates. Refer to page 32 for more information.

INPUTS

Human capital refers to our staff and their contribution to our success.

- Number of employees: 1 660
- Total employee training: 12 277 hours

Financial capital refers to the funds required for the Group to carry out its business activities and the funds on hand available for future use.

- Cash from operating activities: US$87.6 million
- Cash balance: US$71 million
- Available credit facilities: US$44 million*

Infrastructure capital is the investment into assets used in the production of both rough and polished diamonds to maintain and increase production capacity.

- Capital expenditure: US$30 million

Social and relational capital refers to the relationships with our stakeholders.

- Group-wide corporate social investment: US$0.5 million

Natural capital refers to the resources, such as diamond reserves and water used by the Group in its operations.

- Tonnes mined: 6.2mT
- Energy consumption: 6 972 536GJ
- Water consumption: 4 032 161m^3

Intellectual capital is both the Group's intellectual property and its innovation within the organisation.

- Technical expertise of our staff in all spheres in which the Group operates

BUSINESS ACTIVITIES

Mining

- Mine economically viable diamond deposits on our mining leases
- Implement expansion projects and optimise the timing of underground mining at Letšeng
- Develop the Ghaghoo mine
- Enhance cost and operating efficiencies across the mining cycle
- Ensure safe operation and minimise all impacts

Sales, marketing and manufacturing

- Improve revenue achieved for diamonds through the sale of our rough diamonds
- Analysis and mapping of our exceptional diamonds to give us the capability to truly understand the rough diamond value
- Manufacture and sales of select high-value rough diamonds and strategic partnership arrangements on the manufacture and sale of exceptional, high-value diamonds

OUTPUTS

Human capital

- Fatality-free year
- Significant reduction in lost time injuries

Financial capital

- Revenue: US$213 million
- Underlying EBITDA: US$77 million
- Attributable net profit (before exceptional items): US$21 million
- Basic earnings per share (EPS): 15.2 US cents

Infrastructure capital

- Installation of four new cone crushers, significantly reducing diamond damage
- Extensive development of the Ghaghoo mine

Social and relational capital

- Good stakeholder relations maintained
- No major or significant community complaints

Natural capital

- Carat production: 95 053
- Waste mined: 19.1mT
- Zero major environmental incidents
- No fines for environmental transgressions or non-compliances

Intellectual capital

- Diamond mapping technology
- Technical mining expertise as demonstrated in Ghaghoo decline development

OUTCOMES

Outcomes are the broader effects of our business such as:

- Customer satisfaction
- Shareholder returns
- Local economy contribution
- Employee development and engagement
- Environmental impact
- Innovative mining solutions developed

** As at 31 December 2013.*

Chairman's statement

During 2013, the rough diamond market saw less volatility than in recent years with demand for rough diamonds remaining healthy. Top prices were achieved for Letšeng's production, particularly the high-quality large diamonds, for which our flagship mine is famous.

Following the restructuring which took place in the prior year, Gem Diamonds' focus for 2013 remained on extracting the maximum value from its existing assets in a responsible and sustainable manner. The technological and strategic investments made during the year, together with a more stable diamond market, resulted in improved revenue of US$213 million generated from the sale of 97 294 carats (an increase of 5% compared to revenue of US$202 million from the sale of 107 617 carats in the prior year) and stronger underlying EBITDA of US$77 million (up 18% from 2012).

Strategic review

The Group's strategic focus centres on three core business objectives, namely growth, value creation and sustainability. In 2012, a number of strategic objectives were outlined to shareholders and the table on the next page sets out how these have been achieved during 2013.

Gem Diamonds' primary growth strategy is focused on mining diamonds as efficiently as possible. This is based on the consolidation and optimisation of the Group's core assets through the focused expansion of the flagship Letšeng operation, and the development of the Ghaghoo mine, while controlling costs and maintaining the Group's strong financial position.

During 2013, the Group continued to enhance the Letšeng operation. In line with the Group strategy, selected expansion plans were reviewed. This resulted in a decision to scale back on part of the intended expansion project at Letšeng, phasing in the introduction of technologies aimed at improving production efficiency, thus minimising and spreading capital expenditure. One such example is the four new cone crushers installed during 2013, which led to a significant reduction in diamond damage and hence an increase in revenues.

The development of the Ghaghoo operation has progressed well during 2013 and despite the technical challenges faced, the mine development is currently on time and within the budget of US$96.0 million. The mine remains on track to commence commercial production in the second half of 2014.

Gem Diamonds' secondary growth strategy is focused on maximising revenue and margins from rough diamond production by expanding sales and marketing capabilities, as well as pursuing diamond manufacturing and partnership arrangement initiatives down the diamond value chain.

The Group has an advanced diamond mapping technology at its disposal at Baobab Technologies BVBA, a 100% held Gem Diamonds subsidiary. The advanced mapping and analysis of Letšeng's exceptional diamonds allows for accurate assessment of their value, enabling the Group to achieve optimal prices for its rough diamonds.

The in-house analytical and manufacturing ability of the Group also enables it to engage in the polishing and sales of select high-value diamonds. The Group also participates in strategic partnership arrangements on the manufacture and sale of exceptional, high-value polished diamonds.

Strategic goals 2012	Strategic goals achieved 2013
Improve revenue growth by reducing diamond damage in large diamonds and by improving the recovery process and security in the recovery plant.	• Four secondary and tertiary crushers were installed at Letšeng which have contributed to a significant reduction in damage to the mine's high-value diamonds and hence an improvement in revenue. • A feasibility study concluded that the implementation of a new coarse recovery plant would be the appropriate recovery plant to achieve this goal. Finalisation for bank funding is currently under way and the project will commence in the second quarter of 2014.
Complete the rationalisation of the business through the disposal of assets which do not meet investor returns and reduce central costs to reflect the revised business.	• The disposal of the Ellendale asset was finalised in 2012 and final proceeds received in 2013. • Substantial reduction of executive headcount resulting in reduction of central costs from US$14 million in 2012 to an anticipated US$12 million in 2014.
Access the Ghaghoo kimberlite deposit in the most cost-effective capital way on time and on budget by the second half of 2014.	• Despite adverse ground conditions, the project is anticipated to be brought in as planned, on time and on budget in the second half of 2014. • Kimberlite was intercepted in late 2013 and capital expenditure has been kept at the anticipated US$96 million. • Finalisation of a US$25 million loan facility took place in January 2014 for the remaining capital to be spent on Phase 1 development at Ghaghoo.
Improve cash position and balance sheet strength.	• Group cash balance as at 30 June 2013 was US$61 million, which increased to US$71 million by end-2013 (this being post further capex investment of over US$11 million on Ghaghoo during the second half of 2013).

The Group's second core objective involves a focus on creating value through operational excellence. In line with this emphasis, strategic realignment occurred during 2012 and 2013, resulting in a number of assets, which did not meet the stringent requirements for value creation, being sold and the Group's cost base being reduced.

Gem Diamonds' broad-based strategy lends a resilience and flexibility to the way it does business, allowing it to react flexibly to market and operational conditions to extract maximum value for shareholders.

The Group's third core objective involves sustainable development principles which underpin the Group's strategy. Gem Diamonds' sustainable approach to business reduces operating costs and enhances its reputation as a responsible and ethical corporate citizen in the countries in which it operates.

The health and safety of employees is a responsibility that is at the top of management's list of operational priorities. The Group continues to implement the highest standards of HSSE governance, incorporating relevant international best practice guidelines.

It is pleasing to report that there were no major stakeholder or environmental incidents during 2013. During 2013, only three lost time injuries occurred throughout the Group and Letšeng achieved the highest IRCA audited rating for the management of its HSSE matters.

The Group is in compliance with all material legal requirements at its operations and monitors its compliance on a continuous basis.

Further details of the Group's commitment to sustainable development can be found in the sustainability section of this report and in the 2013 Sustainable Development Report.

Corporate governance and the Board

Gem Diamonds' robust corporate governance, evidenced throughout the Group, helps deliver sustainable value to all its stakeholders. The Group is committed to transparency and accountability, which are essential to success in the short, medium and long term. During the year, the Group embarked on a Board evaluation process to enhance its governance. It is pleasing to report that no major issues were identified and the feedback received will be incorporated into Group governance processes.

After seven years of service, Kevin Burford retired from the Group. Kevin served as Group Chief Financial Officer from January 2006 to April 2013. On behalf of the Board, I would like to thank Kevin for his contribution to Gem Diamonds.

In 2013, Michael Michael was welcomed to the Board as the Group Chief Financial Officer. Michael was previously the Group Financial Manager and we look forward to his continued contribution in the years ahead.

Appreciation

I would like to express my gratitude to my colleagues on the Board who have supported me with their counsel and valuable guidance. To our management team and employees, I convey my gratitude and appreciation for their outstanding efforts during 2013 and their commitment to the ongoing success of the Group.

Finally, I extend the thanks of the Group to our shareholders for your continued confidence in us as we work strategically to build long-term shareholder value.

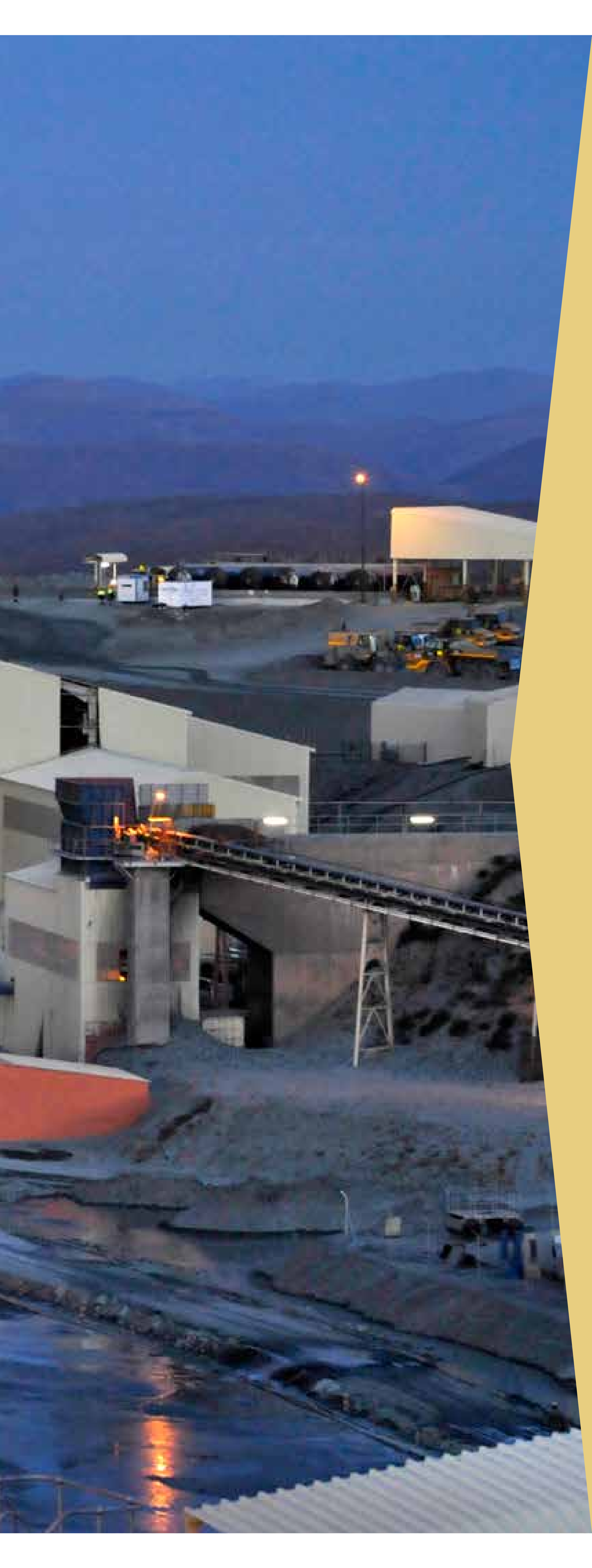
Outlook

The Group expects diamond prices to remain relatively stable during 2014, with the potential for pricing increases due to a firmer US market and continued growth in China. Together with our refined and focused strategy and flexible business model, the Group is well positioned to take advantage of this positive trend.

Roger Davis
Non-Executive Chairman

17 March 2014

The Letšeng mine in Lesotho.



Management review

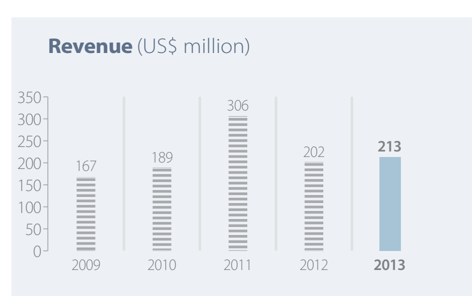
GEM DIAMONDS

Since Gem Diamonds' acquisition of Letšeng in 2006, the mine has produced four of the 20 largest white gem quality diamonds ever recorded.

Key performance indicators

Key performance indicators are used to help evaluate 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

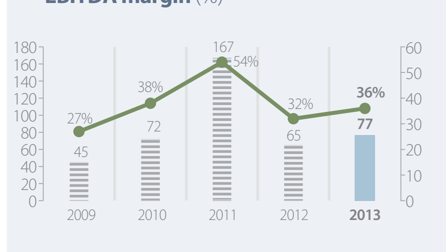


Description

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

Overall, the Group revenue increased by 5%, notwithstanding the 10% lower volume of rough carat sales by Letšeng compared to last year. The impact of the decrease in volume was offset by higher diamond prices of 6% and the realisation of polished sales in the current year of US$10.4 million (rough value) which were extracted for manufacturing in the prior year and held as inventory at the end of last year. A further uplift on the sale of the manufactured polished goods in the current year contributed to the overall increase.



Description

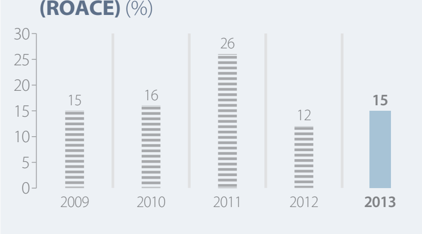
Underlying EBITDA means earnings before interest, tax, depreciation and amortisation. It is also adjusted for share-based payments, other income, foreign exchange differences and exceptional items.

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.

Commentary

The underlying EBITDA has had a steady growth over the prior year (up 18% year on year) and reflects the impact of higher Group revenue, additional uplift made on polished manufactured sales and cost management and operational efficiency focus during the year. The weakening of the Lesotho loti (pegged to the South African rand) has had a positive impact on the translation of local costs into US dollar.



Description

ROACE is a post-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 tax divided by average capital employed (being total equity and non-current liabilities per the consolidated statement of financial position).

Commentary

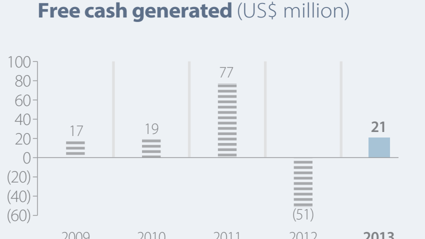
Post-tax ROACE achieved 15%, driven by higher Group revenue and EBITDA which positively impacted earnings. Prior years' ROACE is as reported at that point in time and includes all operations in existence at that period.

Description

Basic EPS represents net profit attributable to equity shareholders on continuing operations 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 8, Earnings per share in the financial statements.

Commentary

Basic EPS at 15 US cents per share (up 24% 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.



Description

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 cashflows and is determined by cash flows from operating activities less sustaining capital of US$7.4 million (pre-expansion capital) and less waste cash costs capitalised of US$59.3.

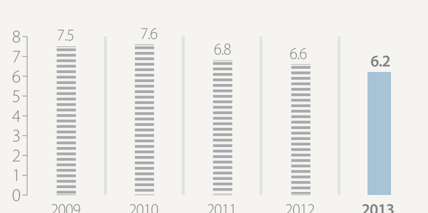
Commentary

The Group utilised existing cash resources and cash flows from operations to fund existing capital commitments and operating costs and has maintained a strong statement of financial position. Although capital expenditure for expansionary projects has been scaled back, current operations are generating free cash, resulting in positive cash for investment in other growth projects which in 2013 was applied to the ongoing capital expenditure of the Ghaghoo Phase 1 development.

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)



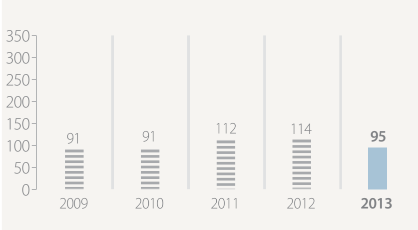
Description

Capital expenditure represents the amount invested in the Group's organic growth plans. Capital expenditure is reflected in the statement of cash flows and is determined by purchases of property, plant and equipment, (both expansion and sustaining capital) excluding waste cash costs capitalised as reflected in the footnote to Note 9, Property, plant and equipment in the financial statements.

Commentary

The Group invested US$7.4 million in sustaining capital expenditure during 2013 to optimise and improve operational performance and invested US$22.2 million in expansion capital, the majority of which was attributable to the continued development of Ghaghoo.

Production tonnes treated (millions)



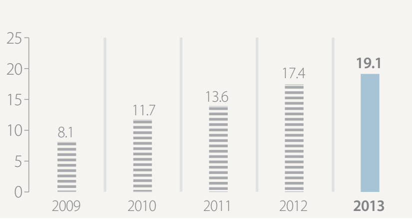
Description

The production profile sets out the tonnes treated by Letšeng during the current and prior years.

Commentary

The decrease in the production volumes in 2013 was driven by the plant downtime required for the crusher installation and the limited-throughput test in the early part of the year. Future production will reflect production at Letšeng (through its Plants 1 and 2 only as the Alluvial Ventures contract nears completion in 2014) and the commencement of production at Ghaghoo in mid-2014.

Carats produced (thousands)



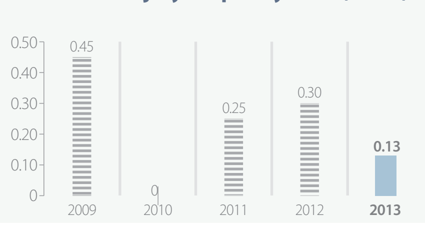
Description

The carats produced profile sets out the carats produced by Letšeng during the current and prior years.

Commentary

The decrease in the volumes produced in 2013 was driven by the reduced contribution of the higher-grade Satellite ore in 2013, together with some internal basalt dilution which took place in the marginal blocks in the Main pipe, where 84% of the total ore treated was sourced, together with the lower tonnes treated throughput as detailed above.

Waste tonnes mined (millions)



Description

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

Commentary

Waste stripping at Letšeng increased according to the mine plan and the requirements to access the higher-grade Satellite ore.

Sustainability

Lost time injury frequency rates (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 0.13 and was the result of three LTIs recorded for the Group, two at Letšeng and one at Ghaghoo. The Group drives to continually improve its safety record and its target for LTIFR is zero.

Corporate Social Investment expenditure

1.20
1.00
0.80
0.60
0.40
0.20
0
0.73
0.70
1.10
0.60
0.50
2009
2010
2011
2012
2013

Description

The Group has continued its commitment to Corporate Social Investment. This has resulted in US$0.5 million invested in community-related projects during the year and the continuation of mutually beneficial and transparent relationships with our project affected communities. There were no major environmental incidents recorded during the year.

Our marketplace

Our position in the market

There remains a positive medium to long-term outlook for the diamond market due to the increasing demand for both rough and polished diamonds which is expected to outpace supply. The growth in demand particularly in China and India, is being fuelled by urbanisation and a growing middle class, while the supply from the world's diamond producers is diminishing. Supply is unlikely to reach previous levels of production primarily due to the continued depletion of existing deposits and the scarcity of economically viable global diamond deposits. This, together with the capital intensive nature of developing and operating a diamond mine, creates high barriers to entry. Alrosa, De Beers and Rio Tinto remain the dominant players in terms of carat production (together producing approximately 60% of rough diamonds in 2012), others, including Dominion Diamonds, Petra Diamonds, Lucara Diamonds and Gem Diamonds, made up the remaining 40%.

Global annual carat production in 2013 was 125 million carats with an average price per carat of approximately US$100 to US$150. Although Gem Diamonds only contributes approximately 100 000 carats to the global annual production, its large, top colour, exceptional diamonds produced from the Letšeng mine make Gem Diamonds the highest average dollar per carat kimberlite diamond producer in the world, averaging US$2 043* per carat in 2013. Due to the significant amount of special stones (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 the commissioning of the Group's Ghaghoo mine in Botswana, an additional 200 000 carats per annum will be added to the Group's production from 2015, albeit with a lower price per carat. This will give Gem Diamonds greater exposure to commercial goods, resulting in an overall lower Group average price per carat, offset by higher carat production, resulting in higher Group revenue.

Supply and demand trends

The current demand and supply balance in the rough diamond market is expected to continue for the short to medium term. Thereafter, as existing diamond mines continue to deplete their reserves and with no new diamond mines anticipated to contribute significant additional production, supply is expected to decrease. An expanding middle class in China and India, improving global economic conditions and growth in emerging markets, are likely to fuel a further increase in demand. These supply/demand fundamentals support a positive medium to long-term outlook for the diamond market, both in rough and polished form.

Compounding supply constraints was the severe reduction in rough diamond supply from the major producers between late 2008 and mid-2009 following the global financial crisis, which exceeded the fall in retail demand for polished diamonds during that period. The volumes of production have not yet recovered to pre-global financial crisis levels. This has resulted in a dramatic reduction in the rough and polished diamond stock levels held at cutting centres, which has further augmented the gap between supply and demand as cutting centres seek supply of rough diamonds in order to meet the continuing rise in demand.

The US remains the world's dominant diamond consumer and ongoing economic recovery has resulted in continuous improved demand from this region since 2008. Other influencing factors in the rise in global demand can be attributed to the rapid expansion of the middle class in China and India, growth in disposable income and trends towards western consumer spending behaviour. In addition, growing interest in diamonds has been seen from other countries such as Japan, Hong Kong, Taiwan, and the Gulf.

The exceptional rarity of the large, high-quality, top colour diamonds for which Gem Diamonds is famous, together with the increasing market demand for these high-value goods, have contributed to creating a positive market outlook at the top end of the market, where Gem Diamonds has positioned itself. Rough diamond prices for these high-value goods have been driven by the growth of high net worth individuals and the development and growth of the luxury goods market. The prospect of good returns for the Group's high-value production over the long term is particularly favourable.

30 million
High net worth individuals in 2013 (26 million in 2012)

US$250 billion
Personal luxury goods market in 2013 (US$212 billion in 2012)

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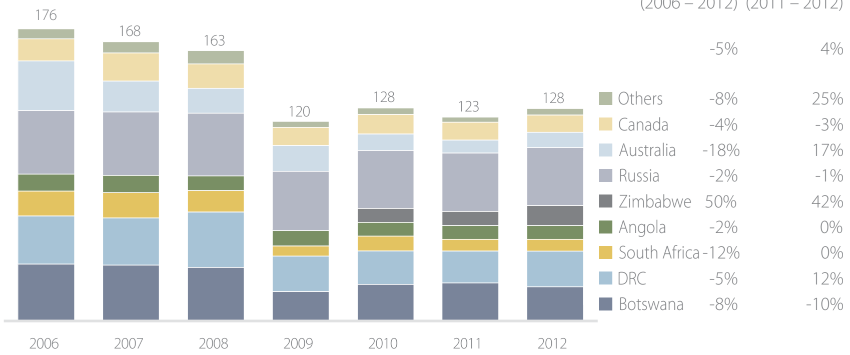
The diamond market in 2013

Global rough and polished diamond prices have recovered and are now above pre-crisis levels. The rough diamond market was relatively stable in 2013, with less volatility than seen in recent years. Overall rough prices benefited from improved polished trading conditions after reasonable end-of-year holiday season sales and expectations that rough diamond supply would reduce in the short term. The diamond market again relied on the US as the main centre for the sale of polished diamonds in particular

Annual production, millions of carats



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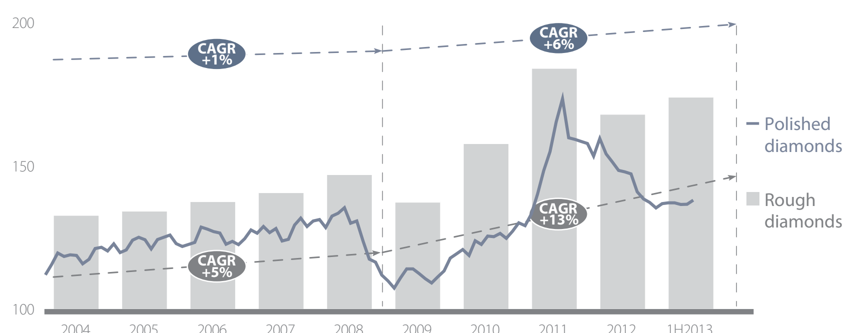
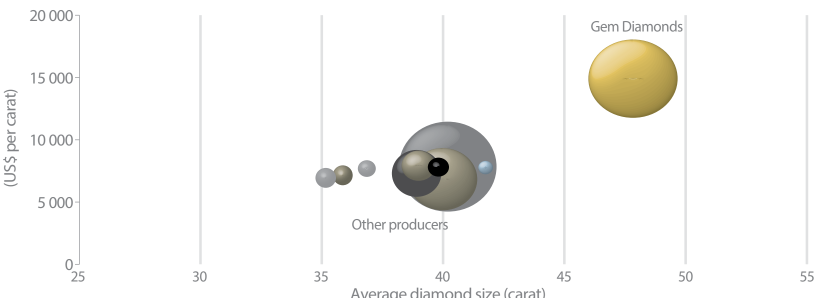
* *Includes carats extracted for polishing at rough valuation.*

Diamond prices have recovered to above their pre-crisis levels



Note: The CAGR for polished diamond prices is calculated as the growth rate for year-end prices; rough diamond prices for the first half of 2013 have been estimated based upon ALROSA and De Beers results. Copyright© 2013 Bain & Company, Inc and Antwerp World Diamond Centre, private foundation (AWDC)

Main producers of +25 carat rough diamonds



Group internal data 2010.

during the Thanksgiving to Christmas holiday period.

2013 saw a healthy rise in rough diamond prices for the Letšeng goods as mining at Letšeng moved from the traditionally lower-value Main pipe into the higher-value Satellite pipe in the fourth quarter and an expected improvement in the quality of diamonds produced and sold was seen. This together with a stronger market for these higher-value diamonds saw the final tender of 2013 realise over US$3 000 per carat. A robust and healthy demand for Letšeng's high-value diamonds seen at the end of 2013 has continued into the beginning of 2014 and looks set to continue further into the remainder of the year.

Looking ahead

The Group expects diamond prices to remain relatively stable in 2014 with potential for modest price increases, due primarily to constrained supply and an expected firmer US market. Continued growth in China and India, albeit anticipated at a lower rate than in recent years, will also have a positive influence in market pricing in 2014.

Despite this overall optimistic sentiment, sustained liquidity constraints, made worse by two major banks in Belgium recently announcing tightening of their lending criteria, are expected to result in the continuation of the cautious approach adopted by most industry participants in both the rough and polished market.

With favourable supply/demand dynamics expected to benefit the industry over the medium to long term, both at the high end of the market with goods supplied by Letšeng, as well as the lower average dollar per carat future production from Ghaghoo, the Group is well positioned to generate attractive and diversified returns for shareholders looking forward.

Exceptional diamonds produced by Letšeng in 2013

92.9 carat sold for US$5.3 million (US$56 494 per carat) January 2013

94.4 carat sold for US$4.6 million (US$48 619 per carat) January 2013

164 carat sold for US$9.0 million (US$54 911 per carat) April 2013

99.9 carat sold for US$6.5 million (US$64 631 per carat) July 2013

98.29 carat sold for US$5.1 million (US$52 077 per carat) September 2013

82.6 carat sold for US$4.9 million (US$59 173 per carat) October 2013

12.5 carat blue sold for US$7.5 million (a Letšeng record of US$603 047 per carat) October 2013

123.12 carat sold for US$4.8 million (US$38 986 per carat) November 2013

78.69 carat sold for US$5.2 million (US$66 082 per carat) December 2013

Chief Executive Officer's overview

For Gem Diamonds, 2013 was a year of consolidation following the strategic realignment that occurred during 2012. The optimisation of the Group's asset portfolio enabled us to focus our resources on core assets that we believe offer the most potential to deliver substantial returns to shareholders.

Following this restructuring in 2013, the Group aligned corporate costs to the current asset base, expecting to achieve a central cost reduction from US$14.2 million in 2012 to US$12.0 million in 2014. This, together with selected investments in innovative technology at Letšeng, resulted in the Group emerging leaner and more focused, well placed to extract the maximum returns from its assets for shareholders.

Performance during 2013

Letšeng

As previously communicated in the 2012 Annual Report, in light of the challenging global economic climate, the Board took the decision to work with greater capital discipline and to preserve financial position strength. This has seen a refocusing and scaling back of capital expenditure at Letšeng, focusing on projects with near-term returns.

Mining at Letšeng focused on the lower-grade, lower-value Main pipe in the first three quarters of 2013. Mining moved into higher-grade, higher-value Satellite orebody in the last four months of the year, resulting in the anticipated improvement in the grade, size and quality of diamonds produced. Of the total ore treated for the year, 84% was sourced from the Main pipe and 16% from the Satellite pipe. The plan going forward is to achieve an approximate 75:25 split between the Main pipe and the Satellite pipes each year, subject to operational constraints.

Four new secondary and tertiary cone crushers were installed in Plants 1 and 2 in the first half of 2013. There was anticipated downtime during their installation and this, together with some test work done in the first quarter, which entailed slowing down plant throughput to determine if there was any correlation between production rate and diamond breakage, resulted in ore treated for the year being down to 6.2 million tonnes, compared to 6.6 million tonnes in 2012.

There has, however, been a significant reduction in diamond breakage following the installation of these new crushers with 25 diamonds larger than 50 carats recovered through Letšeng's Plants 1 and 2 since installation in May 2013 to 31 December 2013. Work to identify further incremental improvements to throughput and breakage at both plants is on going. Results are encouraging and this work will progress during early 2014.

The carats recovered at Letšeng during 2013 amounted to 95 053, compared with 114 350 carats in 2012. This is primarily due to mining mostly lower-grade Main pipe ore during the first three quarters of the year, which also had some associated internal basalt dilution, further lowering the recovered grade, and the lower contribution from the higher-grade Satellite pipe compared to previous years.

During the fourth quarter of 2013, Letšeng held three tenders, which, together with the diamonds extracted for own manufacture, achieved an average value of US$2 533 per carat, bringing the full year 2013 average to US$2 043 per carat. At the first tender of 2014 these strong prices continued, with Letšeng achieving an average of US$2 673 per carat. This brings the 12-month rolling average to US$2 180 per carat.

Looking ahead, we will continue to introduce technology to extract better value from our existing assets. To assist in coarse recovery, tests on various technologies were conducted during 2013. After extensive review, the Group decided that X-ray transmissive technology would be installed into the new Letšeng coarse recovery plant during 2014. The project, which entails building a new coarse recovery plant, was approved in November 2013, subject to the finalisation of funding for an estimated US$14.0 million to cover the full capital costs. This project will use the latest technology to treat the high-value coarse fraction of the ore, to ensure greater recovery of the higher-value type II diamonds. It will also include further security improvements and advanced technology diamond accounting of all diamonds recovered by these units.

Ghaghoo

The development project at Ghaghoo has made good progress and is expected to deliver on its Phase 1 objectives, the most important of which being the commencement of commercial production in the second half of 2014.

At Ghaghoo, kimberlite has been intersected and the main decline reached 50 metres from the break off to the first production level in February 2014. The mine is expected to come into production in the second half of 2014.

The development at Ghaghoo has been challenging. The mine is situated near the south-eastern border of the Central Kalahari Game Reserve, a remote area characterised by shifting sands and difficult road conditions. From a mining perspective, and in order to minimise the capital spend on Phase 1 of the mine, an access decline was selected as the most cost-effective method of accessing the deposit which lies under a sand overburden of some 80 metres.

It is very satisfying to see that the advance of the decline shaft through difficult and dangerous conditions has taken place on time and on budget. This is thanks to the technical expertise and the dedication of all Group and contractor employees who have worked tirelessly to make this exciting project a reality. I wish to express the thanks of our Board and shareholders to all those who have contributed to the success of this project thus far. With the kimberlite now intersected and the development of the mining tunnels taking place, the completion of Phase 1 of the project is in sight.

The commencement of commercial production remains on schedule for the second half of 2014; ramping up to the planned Phase 1 steady state annual production rate by the end of the year of approximately 200 000 to 220 000 carats per annum, extracted from 720 000 tonnes of ore. The mining support infrastructure, camp, treatment plant and other services are in place and are operating effectively. As at 31 December 2013, US$71.2 million of

the total capital budget of US$96.0 million had been spent and bank finance is in place for the remaining US$25 million to complete Phase 1.

Sales, marketing and manufacturing
Gem Diamonds' sales, marketing and manufacturing strategy aims to extract additional value further along the diamond chain. During 2013, a number of rough diamonds were extracted from Letšeng tenders and were either cut and polished by the Group at its facilities in Antwerp, or were placed into partnership arrangements with some of the world's leading diamantaires. Of those diamonds extracted from Letšeng tenders for manufacturing, a high-value, 164 carat diamond was placed into a partnership arrangement and manufactured by Baobab. This resulted in 11 large exceptional polished diamonds, all of which received triple 'excellent' grading in cut grade, polish and symmetry by the GIA. This business unit continues to deliver planned revenues and profits.

HSSE
It is with great sadness that we report the death of Segolame Mashumba, after a fall of ground incident occurred at Ghaghoo on 11 January 2014. The Botswana Inspector of Mines has conducted an enquiry into the incident and will issue his report in due course. This is a tragic accident considering the outstanding safety record of the Group in 2013. Health and safety continue to be a core focus as we strive towards our goal of zero harm. We express our sincere condolences to the Mashumba family.

As an employer, we pride ourselves in our high-calibre employees. Providing opportunities for professional development is important to us and offering training to our employees is a vital part of their skills development. Due to the sale of operations and the focus on commissioning the Ghaghoo mine, there was a decrease in hours per capita of vocational training offered in 2013. Increasing the amount of vocational training available to our employees will be an important focus in 2014.

We maintain a policy of freedom of association, with our employees free to join unions and other worker and/or collective bargaining associations. All of our operations, however, remain non-unionised. No strikes or lockouts were recorded at any of our operations in 2013.

The well-being and economic prosperity of communities around our operations and the maintenance of the surrounding environment remains a focus for the Group, as we wish to leave a positive legacy for future generations from our activities.

Therefore, where our operations are able to match available skills in project affected communities with on-site requirements, local recruitment takes place. During 2013, we participated in various corporate social investment initiatives at both Letšeng and Ghaghoo based on detailed needs assessments. These projects included offering scholarships, assisting our schools, helping develop infrastructure within communities, constructing health posts and treating community members at on-site clinics.

Gem Diamonds remains committed to delivering shareholder return in a responsible and sustainable manner. Further details of the Group's commitment to sustainable development can be found in the sustainability section of this report or in the full 2013 Sustainable Development Report. SD

Outlook

The emphasis for 2014 and beyond remains on positioning the Group to leverage its strengths and invest responsibly in future value creation. We are focused on bringing Ghaghoo into production, as well as concentrating on the continued development and expansion of our Letšeng operation. We remain confident in our ability to deliver returns to our shareholders. In this regard, I am pleased to report that the Board of Directors has the intention of paying a maiden dividend to shareholders at the end of the 2014 financial year, based on continued strong performance of the Company's operations.

We again extend our thanks to our dedicated employees – your efforts in pursuing excellence are appreciated. We wish to extend our appreciation to our shareholders and assure them of our continued efforts in our strategic pursuit of operational excellence.

Clifford Elphick
Chief Executive Officer

17 March 2014

Operating review – Letšeng

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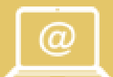


Focus for 2014

- Optimisation and planning for implementation of the Letšeng expansion project to maximise return and minimise capital expenditure
- Construction of a new coarse recovery plant incorporating X-ray transmissive technology and improved security
- Review optimal timing for moving from open pit to underground in Satellite pipe

Plant maintenance at Letšeng Plant 2.

Letšeng

The Letšeng mine, located in the Maluti mountains in the Kingdom of Lesotho at an average elevation of 3 100 metres (10 000 feet) above sea level, is one of the highest diamond mines in the world. The mine has achieved the highest average dollar per carat of any kimberlite diamond mine in the world, with its regular production of large, top-quality diamonds.

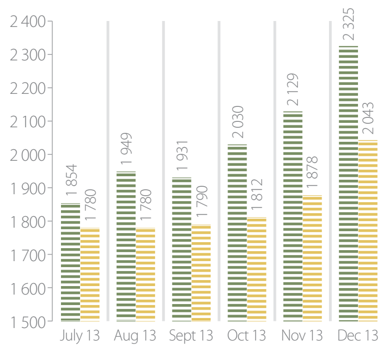
Gem Diamonds acquired Letšeng in July 2006. The Group owns 70% of the mine in partnership with the Government of the Kingdom of Lesotho, which owns the remaining 30%.

Since its acquisition, Letšeng's annual production has risen from 55 000 carats in 2006 to 95 053 carats in 2013, with a peak of 114 350 carats produced in 2012.

Highlights summary

- Decrease in severe diamond breakage following the installation of four diamond-friendly cone crushers in Letšeng's Plants 1 and 2 and other initiatives
- Recovered 25 diamonds greater than 50 carats since installation of the cone crushers to 31 December 2013
- Recovered a 12.47 carat blue diamond, which sold for US$7.5 million, a Letšeng record of US$603 047 per carat
- Achieved a five-star rating in the annual external HSSE audit

Letšeng rolling average US$ per carat 2013



Six-month average US$ per carat
12-month average US$ per carat

Haul trucks in the Satellite pipe.

Diamond sales

	Year ended 31 December 2013	Year ended 31 December 2012
Number carats sold	**97 294**	107 617
Average US$ per carat[1]	**2 043**	1 932

Frequency of recoveries of large diamonds at Letšeng

Number of diamonds[2]	2008	2009	2010	2011	2012	**2013**
>100 carats	7	5	6	5	3	**7**
60 – 100 carats	16	10	10	19	13	**16**
30 – 60 carats	74	76	61	59	61	**50**
20 – 30 carats	88	98	89	91	110	**71**
Total diamonds >20 carats	185	189	166	174	187	**144**

[1] *Includes diamonds extracted for polishing at rough valuation.*

[2] *Letšeng's treatment plants only, excludes Alluvial Ventures production.*

Operating review – Letšeng continued

Operational performance

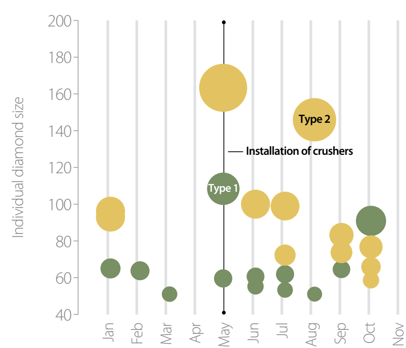
Production at Letšeng in 2013 was concentrated in the lower-grade Main pipe during the first half of the year, moving to the higher-grade Satellite pipe during the second half of the year. Total tonnes treated for the year was 6.2 million tonnes compared with 6.6 million tonnes in 2012. Of the total ore treated for the year, 84% was sourced from the Main pipe and 16% from the Satellite pipe, compared to 76% Main and 24% Satellite ore in 2012. This reduced contribution of Satellite ore in 2013, together with some internal basalt dilution which took place particularly in the marginal blocks in the Main pipe, resulted in Letšeng producing 95 053 carats, a 17% decrease from the prior year.

Waste tonnes moved in 2013 was 19.1 million tonnes, up 10% from 2012. Waste stripping at Letšeng increased according to the mine plan and the requirements to access the higher-grade Satellite ore. During the first half of 2014, the mining contractor will deliver bigger mining equipment that includes four new 100 tonne dump trucks and two new 300 tonne hydraulic excavators, thereby improving the waste mining efficiency in line with the anticipated increase in waste mining in the future.

Addressing diamond damage

With diamond damage being a key focal area, a number of initiatives to reduce damage were embarked on this year. An early initiative was undertaken in the first quarter of 2013, in which plant tonnage throughput was curtailed to test its possible correlation to diamond damage. This resulted in a slightly reduced plant throughput during the first quarter of the year, but did not, however, show any correlation between plant throughput and diamond damage. Further changes were made in the second quarter with the secondary and tertiary crushers being replaced with more diamond-friendly cone crushing technology and reducing the overall size fragmentation of blasted ore. These efforts have resulted in a marked reduction in diamond breakage in the larger (+10.8 carat) diamonds in the latter part of the year, as can be seen by this chart, which reflects the number, size and type of +50 carat diamonds recovered since the installation of the crushers in May 2013.

2013 +50 carat diamonds



In 2013, a new resource drilling campaign was started, aimed at improving the geological knowledge of the Letšeng kimberlites. Key objectives of the programme include the delineation of the different kimberlite phases, variations in the kimberlite geology, improving knowledge on internal dilution and kimberlite/basalt contacts. A total of 9 400 metres of drilling has been planned for as part of the drilling programme, 30% of which will be in kimberlite with the remainder in basalt. In 2013, 4 700 of these metres of drilling were completed, with the remainder of the drilling scheduled to be completed in the first quarter of 2014. More detail on this programme is provided in the mineral resource management section on pages 28 to 31.

Following the installation of the secondary and tertiary crushers in Plants 1 and 2, a revised plant upgrade concept was developed based on the new plant mass balance. The concept studies have identified the possibility of expanding the production capacity of the existing plants. These concepts are now being developed in a pre-feasibility study and should be completed in the first quarter of 2014.

The project to upgrade the existing recovery process, through the construction of a new coarse recovery plant, was developed and approved in the last quarter of 2013, subject to funding being finalised. XRT technology has been identified and tested for inclusion in the new coarse recovery plant. This XRT technology will treat the high-value, coarse fraction to ensure improved diamond recovery of the high-value type II diamonds, which typically have a low fluorescence and are not readily picked up using regular X-ray technology.

In addition, security improvements and advanced technology diamond accounting will be incorporated into the new recovery plant to enhance the overall security of the product.

Constructive negotiations with the plant contractor culminated in the signing of a new processing contract in August 2013, in terms of which the plant contractor will operate the two processing plants until 2017. Aside from a reduction in the margin to be paid to the plant contractor, the contract also makes provision for performance-based measures and payments. In addition, a joint structure has been established to manage the contract and to explore continuous improvement opportunities.

It is expected that the new contract will materially change how the processing facilities are operated and deliver savings to Letšeng. In addition, a heightened focus on processing practices is expected to lead to an increase in plant availability and utilisation, which should further contribute to a decrease in diamond damage.

Sales and marketing strategy

Letšeng's rough diamond production is sold on tender in Antwerp by Gem Diamonds Marketing Services BVBA (Gem Diamonds Marketing), a wholly owned Gem Diamonds subsidiary. Letšeng has complete flexibility and control over the marketing of its rough diamond production. A key element of Letšeng's marketing strategy has been to access additional uplift by pursuing sales and manufacturing initiatives further down the diamond value chain.

27 Letšeng diamonds achieved values of over US$1 million each during 2013, totalling US$83.3 million

Gem Diamonds Marketing holds 10 tenders during the year for the Letšeng rough diamond production, two in both the first and third quarters and three in the second and fourth quarters. In addition to the rough tenders, Gem Diamonds Marketing extracts select diamonds for manufacturing and sale as polished diamonds and/or for sale into Letšeng's high-value manufacturing and partnership arrangements.

Diamond sales

The average value for Letšeng's rough diamond exports (including diamonds extracted for manufacturing) for the year was US$2 043 per carat, compared with the average price of US$1 932 per carat achieved in 2012, representing an increase of 6%.

In 2013, 566 rough diamonds greater than 10.8 carats in size were recovered at Letšeng, totalling 12 125 carats and contributing US$149.0 million or 75% of total rough diamond value (compared with 647 rough diamonds greater than 10.8 carats totalling 13 554 carats and contributing US$151.2 million or 73% of Letšeng's total rough revenue in 2012). A total of 96 diamonds recorded prices greater than US$20 000 per carat, contributing rough value of US$114.1 million or 57% of Letšeng's rough revenue, compared with 134 diamonds in 2012, which contributed US$117.6 million or 57% of Letšeng's rough revenue in 2012.

HSSE

Letšeng obtained a five-star rating for its external HSSE audit in 2013. This is the highest possible score on the rating system, and reflects the increased focus on ensuring a safe and healthy working environment, as well as minimal harm to the social and natural environment.

Two LTIs occurred at Letšeng during 2013, both of these incidents were comprehensively investigated and the appropriate corrective actions have been implemented in order to prevent recurrences. The operation has completed and implemented an electronic business management system in order to ensure ongoing implementation of best practice health, safety, social and environmental management procedures.

The operation recorded no major environmental incidents and one significant incident, comprising a hydrocarbon spill which was successfully cleaned and the contaminated soil remediated. During 2013, Letšeng completed its environmental and social action plans along with all the associated procedures.

CSI at Letšeng continues to positively impact the lives of the project affected communities. The Group's flagship CSI projects, the wool and mohair and the livelihoods projects remain on target. Over 1 000 local farmers have completed training in a variety of agricultural, entrepreneurial and business skills; and in excess of 100 000 goats and sheep were sheared during the year. Several smaller projects are still on going.

At year end, 95% of Letšeng's workforce was made up of Lesotho citizens and the percentage of total workforce originating from the project affected community was 20%, with three of the 24 local employees at senior management level also emanating from the project affected community. Moreover, on a monthly basis an average of 134 temporary employees were employed from the village adjacent to the mine.

2014 and onwards

The focus at Letšeng in 2014 will be on the following key points:

- continual improvement of current operations;
- continuation of the detailed design of the new coarse recovery plant, with construction scheduled to start in September 2014, and commissioning scheduled for first quarter of 2015;
- refinement of the Letšeng expansion project (implementation and timing thereof is subject to Board approval);
- continuation of test work with new waste sorting techniques;
- revisiting the optimal timing of moving from open pit mining to underground mining in the Satellite pipe;
- additional exploration drilling is planned to further increase knowledge of the resource. Holes drilled around the deeper sections of the Satellite pipe will support planning of the potential underground operation. Details of this drilling programme are given in the mineral resource management section on pages 28 to 31;
- review of the Alluvial Ventures' tenure, as this contract is nearing its end;
- continued cost management, with interventions aimed at optimising treatment and mining unit costs; and
- optimisation of medium-term waste stripping profiles will be prioritised in order to maximise cash flow.

Operating review – Ghaghoo

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Focus for 2014

- Continue to develop Phase 1 of the underground mine for sustainable production output
- Balance of US$25 million to be spent in 2014 – funding raised in January 2014
- Commence production in the second half of 2014 and ramp-up to steady state capacity by the end of 2014 (60 000 tonnes per month)
- Install capacity for sustainable production output
- Review options post Phase 1

The processing plant at Ghaghoo is complete and ready for final commissioning.

Ghaghoo

The Ghaghoo diamond mine, which is currently being developed, is held by Gem Diamonds' wholly owned subsidiary, Gem Diamonds Botswana, which holds a 25-year mining licence. The Ghaghoo mine is situated in the south-east portion of the Central Kalahari Game Reserve.

The difficult task of mining through approximately 80 vertical metres of sand overburden before reaching the competent country rock, has created unique challenges for the project team.

Highlights summary

- Completed construction of the sand portion of the access decline
- Commenced extension of the main decline into basalt
- Completed construction of the processing plant and ready for final commissioning
- Intercepted Kimberlite at Level 0

Safety briefing in the access decline

Despite its challenges, good progress has been made on the development of the Ghaghoo diamond mine which is poised to deliver on its Phase 1 objectives, the most important of which, being the commencement of commercial production in the second half of 2014.

The 473 metre long sand portion of the access decline was completed in July 2013, with a further 500 metres of basalt development being completed during the year. Kimberlite ore was intersected on 25 November in the cross-cut on Level 0, some 134 metres below surface. This cross-cut will be used to access the old sampling tunnels on the 140 metre level to allow the area to be dewatered and made safe before ore mining commences on the production levels below. As at 31 December 2013, the access decline had reached a depth of 145 metres and a further 50 metres of decline development was required to reach the first production level break-off at a depth of 154 metres below surface.

A decision was taken during the year not to sink the planned six metre diameter ventilation shaft in 2013 and to delay this to 2015. The replanning and a redesign of the ventilation system and escape way to smaller diameter (1 100mm) drilled holes has allowed for this deferment. The drilling of these ventilation and escape holes is progressing well and will be complete before the end of the first quarter of 2014.

The processing plant will be fully commissioned well ahead of a sustainable feed of run of mine ore becoming available from underground. A build-up to a steady state production rate of 60 000 tonnes per month is planned

Operating review – Ghaghoo continued

by the end of 2014. It is anticipated that approximately 200 000 to 220 000 carats will be extracted from 720 000 tonnes of ore per annum. Production readiness preparation is progressing well and will be in place before the end of the first quarter of 2014.

All mining and other service support infrastructure has been completed and is operating satisfactorily. Significantly, no project delays were experienced as a result of logistical problems, despite the challenges of hauling goods and equipment some 160km on sandy tracks.

During 2013, US$19.2 million was spent on the project. Due to the delays associated with the development of the sand portion of the access decline, the total Phase 1 capital budget was increased to US$96.0 million. At the end of 2013, a total of US$71.2 million had been spent to date, with a debt facility of US$25.0 million concluded in January 2014 for the remaining capital spend.

HSSE

The HSSE system at Ghaghoo has been fully developed and implementation at the operational level remains on going as the mining activities continue to expand.

Ghaghoo registered one LTI in January 2013. This accident was comprehensively investigated and the appropriate corrective actions taken to prevent recurrences in the future.

The Group has made great strides with its social and community engagement programmes in Botswana, with a focused and comprehensive framework in place to guide future initiatives. A Community Trust has been approved by the Board and legally registered. The Group successfully completed a community water supply programme for four settlements in the Central Kalahari Game Reserve and the supply of water and maintenance of the boreholes equipment continues. An 'adopt a school' programme is being considered for these communities.

At year end, 27% of Ghaghoo's employees were recruited from the project affected communities and 92% of employees were Botswana citizens.

2014 onwards

Gem Diamonds continues to view the Ghaghoo development as integral to its overall growth strategy.

Work will continue on the development of the access decline and subsequent access to the orebody, followed by the commencement of commercial production in the second half of 2014. Activities related to the sinking of the ventilation and escape holes for the underground mine will be completed in the first quarter of 2014 and the processing plant will be fully commissioned by May 2014. Studies are continuing to assess various long-term mining and processing scenarios which, depending on the outcome of Phase 1 and the expected economic outlook, will determine the next stage of the Ghaghoo Project.

HSSE case study: Short-term labour programme continues with an upgrade to fixed-term employment

The Ghaghoo mine has implemented a short-term labour programme in order to employ local people from the Kaudwane community. The Kaudwane community is located 80km away from the mine. In collaboration with the village development committee, the mine recruits local people on a rotational basis. The programme aims to enable community members to learn new skills and provide them with work opportunities.

While the Ghaghoo mine continues with the programme of bringing in residents from project affected communities to work at the mine on a short-term basis, mine management has realised that quite a number of these young people have potential, are enthusiastic and have adapted well to the world of work. To this end, mine management has consulted the leadership from Kaudwane to inform them about the Group's intention of employing those capable individuals on fixed-term contracts, as opposed to casual appointments.

At this stage, some of these individuals have been deployed to the engineering department to be trained in basic welding skills and other simple maintenance work. Another individual has been deployed in the survey department as an assistant surveyor. The mine will continue to seek opportunities in other technical units with a view to enrolling these individuals as part of the employment upgrading programme.

Further to this, the mine endeavours to support this programme by developing employment-related skills for the temporary employees from the project affected communities. This will give them an opportunity to acquire the basic skills they need to keep up with the demands and changes in modern life.

People from project affected communities employed in the short-term labour programme at Ghaghoo

Operating review – Sales, marketing and manufacturing

Gem Diamonds' Marketing Services was formed in 2010 and is responsible for implementing the Group's sales and marketing strategies. The Group maximises revenue from its production by actively marketing its rough diamonds through competitive tenders to respected international diamantaires.

As part of the strategic objective to increase revenue for its rough diamonds and to access additional margins further along the diamond pipeline, the Group established Baobab Technologies in 2012, an advanced analytical and manufacturing capability in Antwerp.

Sales, marketing and manufacturing

Highlights summary

- Gem Diamond Marketing achieved an average value of US$2 043* per carat
- Sold the 12.47 carat blue diamond for US$7.5 million
- Contributed US$5.4 million in additional revenue to the Group

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

Sales and marketing

Letšeng's rough diamond production is sold on an electronic tender platform and is marketed by Gem Diamonds Marketing Services. 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 viewings of the diamonds take place in Antwerp over 10 tenders annually, the electronic tender platform allows customers the flexibility to participate in each tender from anywhere in the world. This contributes to the achievement of highest market-driven prices for the Group's rough diamond production.

Rough diamonds that have been selected for polishing are manufactured at Baobab, and the resulting polished diamonds are sold through direct selling channels to high-end clients.

The Group continues to invest and increase the intellectual property in its marketing and manufacturing operations with the objective of ensuring that the highest returns are achieved on its production, in rough or polished form.

Analysis and manufacturing

Baobab Technologies' advanced mapping and analysis of Letšeng's exceptional rough diamonds aids the Group in assessing the true polished value of its rough diamonds and thus drives strategic decisions to implement robust reserve prices on its top diamonds at each tender.

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 the Baobab operation and places other exceptional diamonds into strategic manufacturing and partnership arrangements with select clients.

Baobab Technologies received 1 079 carats of high-value diamonds for processing, with a rough market value of US$23.7 million of both Letšeng and third party goods. Included in this amount was the manufacture of a high-value, 164 carat diamond, which resulted in 11 exceptional polished diamonds, with a total weight of 83.47 carats, all of which received triple 'excellent' grading for cut grade, polish and symmetry by the GIA.

A 2.09 carat fancy intense orangy pink Letšeng diamond, cut and polished by Baobab Technologies.

Group financial performance

www.gemdiamonds.com

Focus for 2014

- Execute Ghaghoo remaining capital spend within budget
- Pursue cost control and operational efficiencies
- Deliver value to shareholders

A 162.02 carat type II diamond recovered at Letšeng at the end of January 2014.

Group financial performance

Highlights summary

- Revenue US$213 million – up 5%.
- Underlying EBITDA US$77 million – up 18%.
- Attributable net profit US$21 million – up 23%.
- Basic EPS US$0.15 – up 24%.
- Cash on hand US$71 million.

	2013 US$ million Total	2012 US$ million Total
Revenue	**212.8**	202.1
Cost of sales	**(103.1)**	(103.3)
Royalties and selling costs	**(18.5)**	(19.1)
Corporate expenses	**(13.8)**	(14.2)
Underlying EBITDA	**77.4**	65.5
Depreciation and mining asset amortisation	**(17.3)**	(18.6)
Share-based payments	**(0.9)**	(2.3)
Other income	**0.7**	1.3
Foreign exchange gain	**0.6**	3.8
Finance (cost)/income	**(1.6)**	1.3
Profit before tax	**58.9**	51.0
Income tax expense	**(20.9)**	(18.4)
Profit for the year	**38.0**	32.6
Less: Non-controlling interests	**17.0**	15.5
Attributable profit before exceptional items	**21.0**	17.1
Exceptional items	**0.1**	(134.9)
Attributable profit/(loss) after exceptional items	**21.1**	(117.8)
Earnings per share (US cents) before exceptional items	**15.2**	12.4

Revenue

The Group's revenue is primarily derived from its two business activities, namely its mining operations at Letšeng and its expanded focus on the downstream opportunities through its advanced rough analysis and manufacturing operation in Antwerp. Overall, the Group revenue increased by 5%, notwithstanding the 10% lower volume of rough carat sales by Letšeng compared to last year. The impact of the decrease in volume was offset by higher diamond prices of 6% and the impact of the extraction into inventory and subsequent sales of the manufactured polished diamonds. External market conditions, mining plans and management interventions all affect revenue.

Mining operations

The demand for rough diamonds remained strong during 2013, with relatively high prices achieved for Letšeng's production, particularly the high-quality, large diamonds for which the mine is renowned.

During 2013, 84% of the total ore treated was sourced from the lower-grade Main pipe and 16% was mined from the Satellite pipe, compared to 76% Main pipe and 24% Satellite pipe ore in 2012. The reduced contribution of Satellite pipe ore in 2013 resulted in Letšeng recovering 95 053 carats, a 17% decrease from the prior year. Further contributing to the lower carat recovery was the reduction of tonnes treated in the year to 6.2 million, down from 6.6 million in 2012, due to the plant downtime required for the crusher installation and the limited throughput test in the early part of the year. For further information, refer to the Letšeng operating review on pages 16 to 19.

	Year ended 31 December 2013	Year ended 31 December 2012
Average price per carat (US$)[1]	**2 043**	1 932
Carats sold[2]	**97 294**	107 617
Letšeng financial performance US$ (millions)		
Sales	**201.3**	207.7
Cost of sales[3]	**(99.2)**	(100.1)
Royalty and selling costs	**(16.1)**	(16.7)
Underlying EBITDA	**86.0**	90.9
EBITDA margin	**42.7%**	43.7%

[1] *Includes carats extracted for polishing at rough valuation.*
[2] *Represents all goods sold to Gem Diamonds Marketing Services in the year.*
[3] *Including waste amortisation but excluding depreciation and mining asset amortisation.*

Group financial performance continued

The combination of mining in the higher-value Satellite pipe in the latter part of the year, together with the positive impact of the installation of the new diamond-friendly crushers, resulted in a higher average value obtained for Letšeng's rough diamond exports, including diamonds extracted for manufacturing. US$2 043* per carat was achieved in 2013 from the sale of 97 294 carats, compared to the average price of US$1 932* per carat achieved in 2012 from 107 617 carats. The impact of the 10% lower sales volume was partially offset by the 6% higher US$ per carat achieved resulting in an overall reduction in Letšeng's revenue of 3% from the prior year.

Sales, marketing and manufacturing

In line with the Group's strategic objective of seeking value accretive opportunities, the expanded sales, marketing and manufacturing operations continued to contribute positively to Group revenue and EBITDA in 2013.

At the end of the prior year, rough diamond inventory to the value of US$10.4 million remained on hand within the Group for own manufacturing and was treated as unrealised sales from a Group perspective in 2012. During the current year, a further 478 carats valued at a rough market value of US$6.0 million were extracted from the Letšeng exports for own manufacture. Polished diamonds with an initial rough value of US$13.5 million were sold during the year, resulting in US$2.9 million remaining in inventory at the end of the current year. The sale of these polished diamonds, together with the uplift made on partnered diamonds, contributed additional revenue of US$5.4 million and additional EBITDA of US$3.6 million. The net impact of the polished inventory movement on the overall Group revenue in the current year is an increase of US$7.5 million.

Costs

Operational excellence through cost reductions and enhancing production efficiency remained a key focus area for 2013.

The Lesotho loti (LSL) (pegged to the South African rand) and the Botswana pula (BWP) were significantly weaker than the prior year, positively impacting US dollar reported costs during the year.

Exchange rates	2013	2012	Variance
LSL per US$1.00			
Average exchange rate for the year	**9.65**	8.21	18%
Year end exchange rate	**10.47**	8.48	23%
BWP per US$1.00			
Average exchange rate for the year	**8.40**	7.62	10%
Year end exchange rate	**8.78**	7.79	13%

Cost of sales for the period was US$103.1 million, compared to US$103.3 million in 2012. This included waste amortisation of US$34.9 million incurred at Letšeng and is stated before non-cash costs of depreciation of US$14.7 million and amortisation on mining assets of US$2.6 million.

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

Letšeng operational performance	Year ended 31 December 2013	Year ended 31 December 2012
Physicals		
Tonnes treated	**6 225 821**	6 551 434
Waste tonnes mined	**19 072 657**	17 396 233
Carats recovered	**95 053**	114 350

The majority of cost of sales is incurred at the Letšeng operation. Total direct cash costs (before waste) in local currency were LSL801.1 million compared to LSL709.1 million in the prior year. This resulted in unit costs per tonne treated for the year of LSL128.68 relative to the prior year of LSL108.24. This increase of 19% in unit costs is mainly due to local inflation increases, fuel and power increases above local inflation and operational changes to drilling and blasting methodologies.

The overall impact of lower tonnages treated during the year (down 5% from 2012) contributed 25% (LSL5.17) to the increase in the unit reported costs. Furthermore, costs associated with the contractor (Alluvial Ventures which operates a third plant at Letšeng) which are based on a percentage of revenue, have also increased as revenue achieved from their production was higher in 2013 compared to the prior year, which contributed 27% of the overall unit cost increase.

Letšeng costs	Year ended 31 December 2013	Year ended 31 December 2012
US$ (per unit)		
Direct cash cost (before waste) per tonne treated[1]	**13.34**	13.18
Operating cost per tonne treated[2]	**15.85**	15.29
Waste cash cost per waste tonne mined	**2.71**	2.97
Local currency (per unit) LSL		
Direct cash cost (before waste) per tonne treated[1]	**128.68**	108.24
Operating cost per tonne treated[2]	**152.92**	125.57
Waste cash cost per waste tonne mined	**26.12**	24.40

Letšeng costs	Year ended 31 December 2013	Year ended 31 December 2012
Other operating information (US$ millions)		
Waste capitalised	**59.3**	60.6
Waste amortised	**34.9**	26.9
Depreciation and mining asset amortisation	**16.0**	17.7
Capital expenditure[3]	**9.9**	22.8

[1] Direct cash costs represent all operating costs, excluding royalty and selling costs, depreciation, mine amortisation and all other non-cash charges.
[2] Operating costs exclude royalty and selling costs and depreciation and mine amortisation, and include inventory, waste amortisation and ore stockpile adjustments.
[3] Capital expenditure excludes movements in rehabilitation assets relating to changes in rehabilitation estimates.

Operating costs per tonne treated for the year increased to LSL152.92 per tonne from LSL125.57 per tonne, mainly as a result of an increase in waste amortisation costs (driven by the different waste to ore strip ratios for the particular ore processed). Letšeng significantly increased mining ore from cut 3 in the Main pipe during the year which carries an amortisation charge. Ore previously mined from the Main pipe was mainly sourced from cut 2 which did not carry any waste amortisation charge. As a result the amortisation charge attributable to the Main pipe ore accounted for 52% of the total amortisation charge in 2013. The amortisation associated to the Satellite pipe ore was less than that in 2012 due to the lower volume of Satellite pipe ore mined during the current year.

The increase in the local currency waste cash cost per waste tonne mined of 7% is in line with inflation.

Royalties and selling costs in the Group of US$18.5 million mainly comprise mineral extraction costs paid to the Lesotho Revenue Authority of 8% on the sale of diamonds, and diamond marketing related expenses.

Corporate expenses decreased from US$14.2 million in 2012 to US$13.8 million in 2013. These expenses relate to central costs incurred by the Group. During 2012, a number of assets which did not meet the stringent requirements for value creation, were disposed of, resulting in a reduction of staff and streamlining of corporate expenses in 2013, the full benefit of which will only be realised in 2014. Corporate costs include once-off termination costs of US$0.6 million relating to the retirement of Kevin Burford, the Chief Financial Officer, that occurred during the year. A large portion of corporate costs are denominated in South African rand and were positively impacted by the stronger US dollar during the year.

As a result of the factors discussed above, underlying EBITDA for the year was US$77.4 million, up by US$11.9 million (18%) from the prior year of US$65.5 million.

Share-based payment costs for the year amounted to US$0.9 million, down from US$2.3 million in 2012. This is as a result of a number of employees resigning before the end of the service condition period and a reversal of US$1.2 million of previously recognised costs as a result of the forfeiture. There were no new options granted during the year.

Net finance costs mainly comprise the unwinding of the current environmental provisions partially offset by interest received predominantly from surplus cash from the Letšeng operation and interest received on outstanding loan balances.

The effective tax rate in the year for the Group was 35.3%, above the UK statutory tax rate of 24.0%. The tax rate of the Group is driven by tax of 25.0% on profits generated by Letšeng Diamonds, withholding tax of 10% on dividends from Letšeng and deferred tax assets not recognised on losses incurred in non-trading operations.

The profit attributable to shareholders for the year before exceptional items was US$21.0 million (up 23% from US$17.1 million in 2012) equating to 15.2 US cents per share (up 24% from 12.4 US cents in 2012) on a weighted average number of shares in issue of 138 million.

Financial position and funding review

Following the restructuring that occurred in 2012, the Group's asset and liability position remained relatively unchanged, however, due to the weakening of the underlying local currencies, the closing balances in US$ have decreased as at 31 December 2013.

The Group maintains its strong cash position with US$71.2 million cash as at 31 December 2013, up from US$70.8 million in 2012. This was largely due to careful cost management, cash generated mainly by Letšeng during the period, and the strategic decision made in 2012 to proceed cautiously with capital investments.

Investments in property, plant and equipment amounted to US$88.9 million, the largest component of which was US$59.3 million incurred in waste stripping at Letšeng. The Group also invested US$9.9 million at Letšeng, in aggregate, on the installation of the cone crushers, new modular coarse recovery plant design work, security upgrades and other sustaining capital costs. US$19.2 million was invested in Phase 1 development costs at Ghaghoo, bringing the total spend on the development at the end of 2013 to US$71.2 million out of a budgeted US$96.0 million.

The Group generated cash flow from operating activities of US$87.6 million before the investment in waste mining and capital costs detailed above. In addition US$14.0 million, representing the final proceeds on the sale of Kimberley Diamonds which was concluded and disclosed in the prior year were received. During the last quarter of 2013, Letšeng declared a dividend of US$19.8 million which resulted in a net cash flow of US$12.5 million to Gem Diamonds, and a cash outflow from the Group of US$7.3 million, as a result of withholding taxes of US$1.4 million and payments of the Government of Lesotho's portion of the dividend of US$5.9 million.

As part of capital management, the Group's current strong cash balance, supported by Letšeng's cash flows, has been further enhanced by the implementation of a funding strategy of incorporating appropriate debt levels into the capital structure. As a result, a US$20.0 million three-year unsecured revolving credit facility with Nedbank Capital at the Gem Diamonds level was concluded in January 2013. This was in addition to the LSL250.0 million (US$23.9 million) three-year unsecured revolving credit facility at Letšeng which was implemented in late 2011. As at period end, no drawdowns have been made on these facilities. In January 2014 a further US$25.0 million nine-month short-term unsecured facility was concluded with Nedbank Capital to fund the remaining Phase 1 development spend at Ghaghoo planned for 2014. This is due to be refinanced through a longer-term debt facility prior to its expiry.

Looking ahead

With the advent of the Ghaghoo Phase 1 development nearing completion, focus will continue on executing the remaining capital spend within budget. As the project is scheduled to come into production in the second half of the year, focus will be on the conversion from a development project into sustaining operational activities with appropriate cost management aiming to generate a positive contribution to EBITDA. Letšeng is operationally geared to mine a more consistent mix of Satellite and Main pipe ore following the investment in waste stripping in 2013. In addition, the positive impact following the installation of the new cone crushers during the year and the potential benefits of the value added projects underway, together with the expectation of stable prices, provides a good platform for 2014.

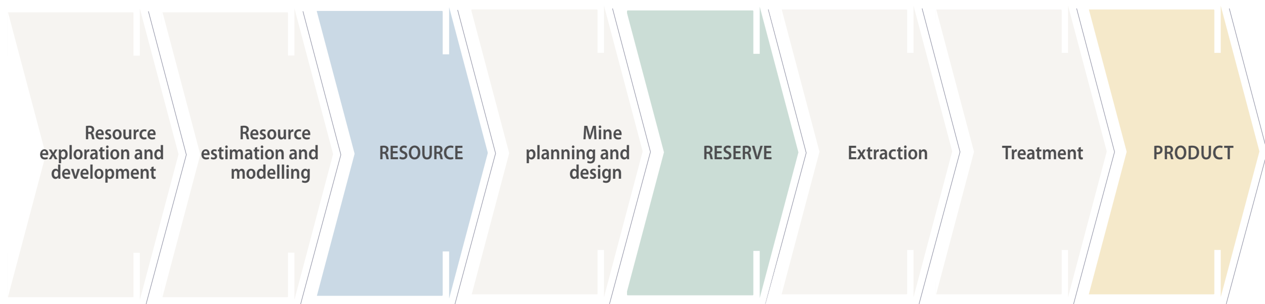
The Group is well funded and will pursue cost control and operational efficiencies wherever possible in order to deliver value to its shareholders over the short, medium and long term.

Mineral resource management

Effective, integrated management of our mineral resources is considered a key driver for the success of our business.

Gem Diamonds' mineral resource management pipeline

Gem Diamonds adopts an integrated approach to mineral resource management (MRM) whereby all elements of the resource to product pipeline are considered holistically to ensure the optimal utilisation of the Group's resource base.



This approach to MRM is key in understanding the Group's in-situ resource, 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 in a number of areas across the pipeline are currently being evaluated.

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

2013 Letšeng reserve performance[1]

	Grade	Revenue
Actual	1.60	1 970
Expected	1.84	1 574
	-13%	+25%

The expected 2013 reserve performance measurement indicators detailed above are based on 2013 reserve estimates as per the 2013 reserve statement summarised later in this section.

KEY POINTS ON 2013 LETŠENG RESERVE PERFORMANCE

- Letšeng reserve grade was 13% below that expected from the ore mined. This shortfall was a result of greater than expected dilution in problematic mining areas – the marginal contact and basalt breccia/raft areas during the early part of the year, but returned to historic averages in the second half of the year.
- Letšeng US$ per carat reserve revenues outperformed 2013 expected values by 25%. Market price increases during the course of 2013 accounted for 10% of this overperformance. 2013 price performance was largely in line with historical trends (2011 to 2013) with actual prices achieving close to expected values of US$2 000 per carat in the early part of the year and increasing towards US$3 000 per carat in the latter part of the year due to increasing Satellite ore contribution and the improved recovery of large type II diamonds.

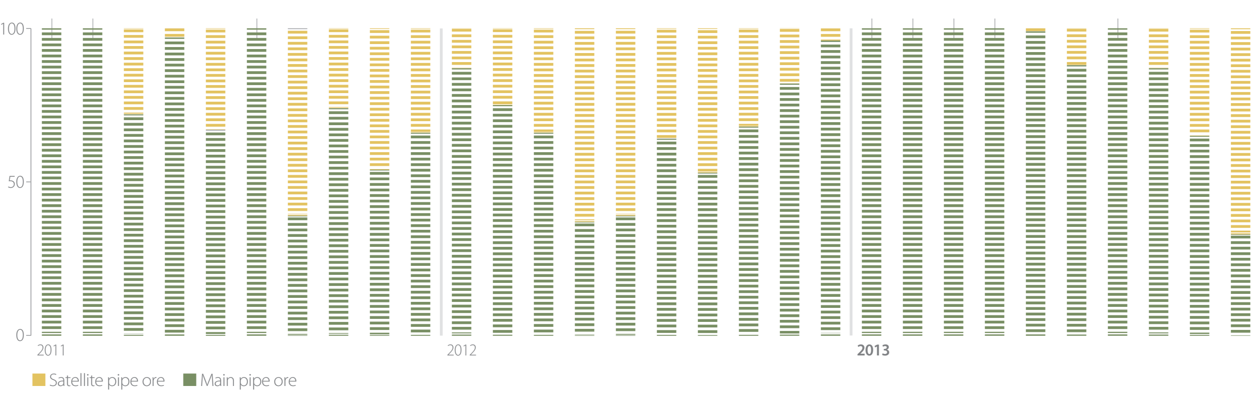
2013 Ghaghoo reserve performance

No mining of Ghaghoo ore reserves was conducted during 2013, with the first mining expected in mid-2014.

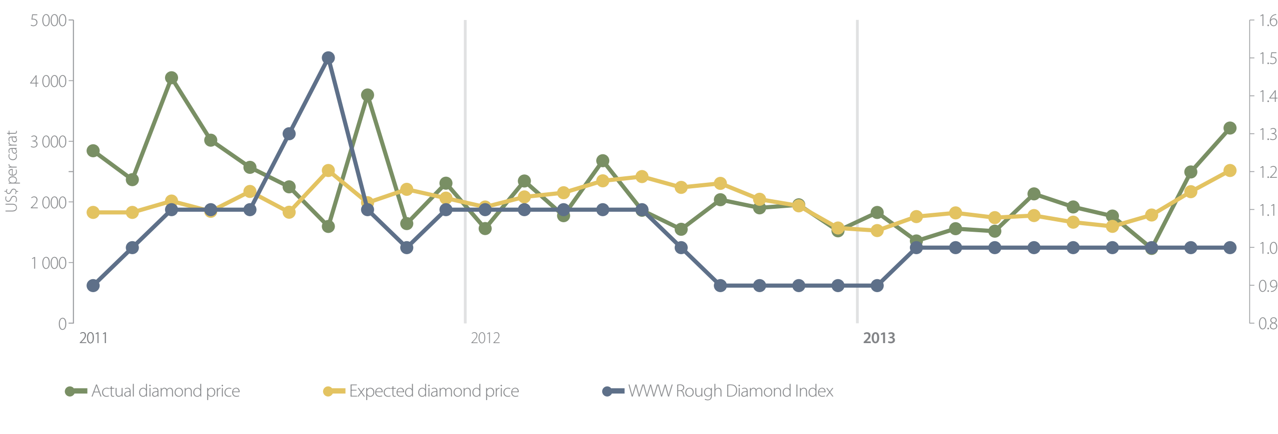
[1] All analysis presented in this section excludes the alluvial ventures production facility which contributed <15% of the production throughput in 2013.

Historical performance trends[2,3]

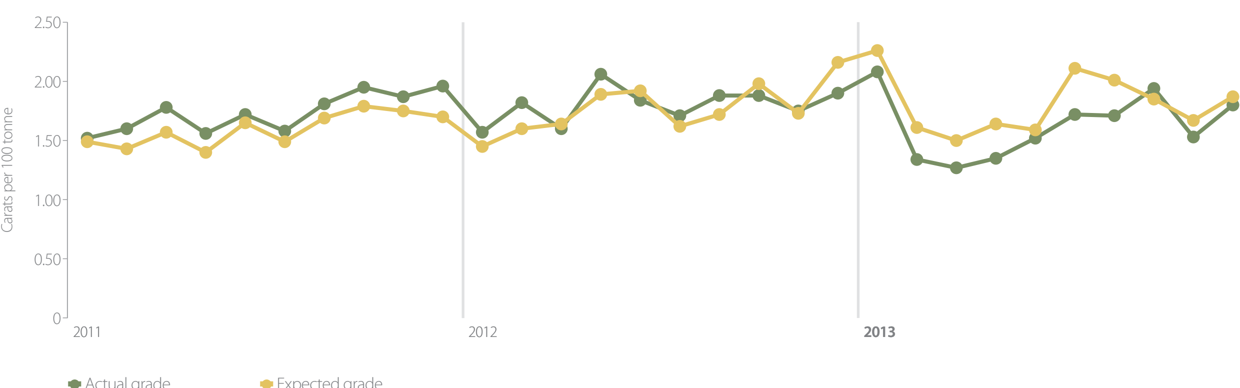
Letšeng ore provenance



Diamond price performance



Grade performance



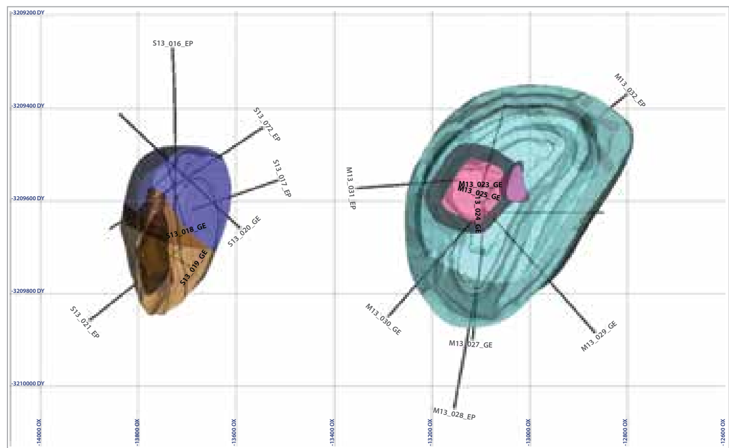
[2] *Prices detailed in historical trend data are normalised to end-2013 price levels.*
[3] *The WWW Rough Diamond Index is published with the kind permission of WWW International.*

Mineral resource management continued

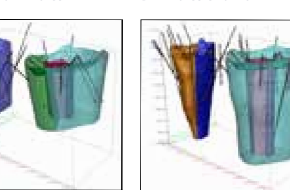
2013 Letšeng reserve performance

At Letšeng, 2013 was a busy year for resource development with the completion of the 2011/2012 infill and deep drilling programme early in the year, ongoing discrete production sampling (which are individual production shifts that can be confidently assigned to a single kimberlite phase) and in-depth geological and petrographical studies. In addition to this, the 2013/2014 drilling programme, largely aimed at improving the resolution and understanding of the upper portions of the resource, was initiated in the latter half of the year.

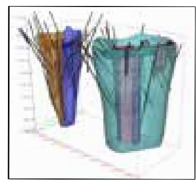
Planned 2013/2014 core drilling programme



Pre-2011 drillholes **Drillholes end-2012**



2013 actual and 2014 plan



In 2013, 16 holes were drilled with a total depth of 8 300 meters.

Geological model improvement

Barbara Scott Smith, a world renowned kimberlite expert, and her associates have been engaged to further the understanding of the geology, petrography and emplacement models of both Letšeng pipes.

While this is a work in progress, initial results corroborate most previously identified phases of kimberlite, especially within the Main pipe (after Bloomer and Nixon 1973[1]), and they have been identified or extrapolated to depth.

During 2013, initial studies revealed that many aspects of the infill and internal geology of both pipes was most similar to Kimberley-type pyroclastic kimberlite pipes, though some important differences were noted.

KEY POINTS ON LETŠENG RESOURCE DEVELOPMENT

- Good progress in discrete production sampling of the important individual ore phases during 2013.
- Satellite NVK ore phase returned grades above the 2013 reserve estimate while SVK returned grades lower than the reserve estimate due to marginal basalt dilution.
- Main pipe ore phases returned grades in line with the 2013 reserve estimates.
- Resource drilling addresses main areas of uncertainty in geology, contact and depth extent.

2013 Ghaghoo resource development

No resource development work was conducted on the Ghaghoo asset during 2013.

[1] *References: MP Barbara Scott Smith*
Bloomer A G and Nixon P H 1973. The Geology of Letšeng-La-Terae kimberlite pipes. In: Lesotho kimberlites (editors: P H Nixon), Lesotho National Development Corporation, page 20 to 38.
Scott Smith B H, 2008. Canadian kimberlites: Geological characteristics relevant to emplacement. Proceedings of the 2006 kimberlite emplacement workshop, Saskatoon, Canada. Journal of Volcanology and Geothermal Research, 174, page 9 to 19.
Scott Smith B H, Nowicki T E, Russell J K, Webb K J, Mitchell R H, Hetman C M, Harder M, Skinner E M W and Robey J V, 2013. Kimberlites: descriptive geological nomenclature and classification. Proceedings of the 10th international kimberlite conference. Special issue of the Journal of the Geological Society of India, Volume 2, page 1 to 17. Springer India.

Mineral resource and reserve statements

Letšeng resource base increases substantially and Ghaghoo declares initial reserve.

Mineral resources were re-estimated in 2013 with an effective statement date of 1 January 2013. The resource and reserve statements are available on the Gem Diamonds website: www.gemdiamonds.com under Investors.

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 2013

Asset		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	2 184	220.9	1.75	3.86	2 194	301.7	1.75	5.29	2 191
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**	**387**	**249.7**	**3.57**	**8.90**	**1 076**	**409.8**	**6.30**	**25.82**	**625**

Gem Diamonds summary resource and reserve statement as at 1 January 2012

Asset		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%	64.7	1.80	1.17	2 485	70.7	1.81	1.28	2 739	140.9	1.94	2.73	2 885	211.6	1.90	4.01	2 839
Ghaghoo Botswana	100%	—	—	—	—	79.4	19.51	15.49	259	28.8	17.52	5.04	257	108.2	18.98	20.53	259
Total		**64.7**	**1.80**	**1.17**	**2 485**	**150.1**	**11.17**	**16.77**	**448**	**169.6**	**4.58**	**7.77**	**1 181**	**319.7**	**7.68**	**24.54**	**680**

KEY CHANGES TO THE RESOURCE

- Letšeng tonnage resource base increases by 43% mainly due to depth extensions in both orebodies.
- Letšeng diamond price estimates drop by 20% largely in line with market price decreases.
- Letšeng global resource grade drops by 8% as a result of the addition of lower-grade Main pipe resource tonnage.
- Ghaghoo resource tonnes and grade remain unchanged ahead of mining in 2014.
- Ghaghoo diamond price drops by 14% in line with diamond market decreases.

KEY CHANGES TO THE RESERVE

- Letšeng reserve base tonnes increases by 22%.
- Letšeng reserve diamond price decreases due to mining mix and changes to the large stone factor.
- Ghaghoo declares first official reserve of 7.5 million tonnes.

Principal risks and uncertainties

The Group's operational and growth performance is influenced and impacted by a number of risks. Maintaining a robust risk management system is critical to allow the Group to pursue growth opportunities and increase shareholder value, while effectively mitigating the various risks it is exposed to.

Risks exist in the natural course of business. It is not an objective to eliminate all exposure to these risks as this would be neither commercially viable, nor possible. A formal risk management process exists to identify and review potential risks with the oversight of the Board. The Audit Committee assists the Board in this process by identifying and assessing any changes in risk exposure, together with the potential financial and non-financial impacts and likelihood of occurrence. Mitigating plans are formulated and reviewed regularly to gain an understanding of their effectiveness and progress.

The Group has 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.

Commentary	Mitigation	2013 actions and outcomes
Market risks Numerous factors may affect the price and demand of diamonds which are beyond the control of the Group. These factors include international economic and political trends, as well as consumer trends. The funding of growth plans could also be adversely affected 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.	During the year, diamond prices outperformed the mineral reserve prices. Capital expenditure was deferred without materially affecting the execution and timeline of projects. As part of the operational strategy to improve the quality of diamonds produced, in order to access higher revenues, increased investment in waste stripping occurred at Letšeng to access higher-grade, higher-value Satellite pipe ore in the latter part of the year. The Group has a strong balance sheet with cash reserves of US$71 million plus existing undrawn facilities of US$44 million* with sufficient funding to conclude the development of Ghaghoo.
Operational risks ***Mineral resource risk*** The Group's mineral resources influence the operational mine plans and affect the generation of sufficient margins. Underperformance 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 the mineral resources and assist in mining the existing mineral resources profitably.	Letšeng drilling programmes and discrete sampling were undertaken to improve confidence in geology and resource volume and the understanding of grade and revenue estimates. World renowned kimberlite geology experts were engaged to improve the understanding of the geology at Letšeng.
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 continual review of the likelihood of possible different events and ensuring that the appropriate management controls, processes and business continuity plans are in place to mitigate this risk.	A review of the business continuity plan was undertaken at Letšeng during the year and is in the process of internal audit review. Improvements in power monitoring and backup power supply were undertaken at Letšeng, reducing the risk of lengthy outages.
HSSE-related risks 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.	Due to continuous focus on best practice, an excellent safety and environmental record was achieved during the year. The five-star rating awarded to Letšeng in its external 2013 HSSE audit supports this. Corporate social investment into the Group's project affected communities continued throughout the year. SD *Further reading in our Sustainable Development Report 2013 available on www.gemdiamonds.com*

** As at 31 December 2013.*

Commentary	Mitigation	2013 actions and outcomes
Operational risks continued ***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.	A new coarse recovery plant project was approved during the year which incorporates enhanced security features. Upgrades to the existing security systems and facilities were implemented at Letšeng.
Diamond damage Damage to large stones may occur during the mining and recovery processes which could negatively impact the pricing, affecting both profitability and cash flows.	Diamond damage is regularly monitored and analysed. Continuous studies are conducted to further implement modifications and identify opportunities to reduce such damage.	New crushers were installed at Letšeng during the year. Reduced diamond damage was evident following their commissioning. In addition, other projects are being reviewed which will further reduce diamond damage. Blasting techniques were refined to improve liberation of large diamonds.
Political risks 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 keep well informed of all legal and regulatory developments impacting its operations and to build relationships.	The Group actively managed and monitored its political risk exposure during 2013. Ongoing dialogues with representative stakeholders were held. There were no strikes or lockouts during the year. No matters of non-compliance were identified as all necessary legal requirements were met.
Financial risks ***Exchange rates*** The Group receives its revenue in US dollars, while its cost base arises 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. Where appropriate and at relevant currency levels, the Group enters into exchange rate contracts to protect future cash flows.	Local currencies in the jurisdictions in which the Group operates have weakened against the US dollar during the year, in favour of the Group's results. Numerous hedges were taken out to take advantage of the weakened currencies.
Growth risks ***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.	Active management of project risks resulted in the following: • Studies on the Letšeng expansion projects have advanced well during the year. The new crushers were successfully installed on time and within budget. • The development of Ghaghoo is still on track and within budget for delivery in the second half of 2014.
Strategic risks ***Retention of key personnel*** The successful achievement of the Group's objectives and sustainable growth depends on its ability to attract and retain key personnel.	The Group's remuneration policies and human resources practices are designed to attract, incentivise and retain individuals of the right calibre through performance-based bonus schemes and long-term reward and retention schemes, such as the Employee Share Option Plan (ESOP).	A review and amendment of the remuneration policies were undertaken during the year to retain key skills within the Group.

Mining operators at Letšeng.

Sustainable development review

GEM DIAMONDS

At Gem Diamonds, we seek to maximise the value of our assets by mining, manufacturing and selling diamonds with due care and respect for people and the environment. Our approach to sustainable development is both a moral obligation to do the right thing, as well as a business imperative to support our overall business strategy.

Sustainable development review

Gem Diamonds has produced its sixth Sustainable Development Report this year. The report is based on the framework as defined by the Global Reporting Initiative (GRI). This Sustainable Development Review section comprises a brief summary of the progress made in corporate social responsibility during 2013.

Gem Diamonds has continued to evolve its sustainable development framework as well as the actions implemented on the ground, and as such would encourage shareholders and stakeholders to access the full 2013 Sustainable Development Report on the Gem Diamonds website. SD

By publishing the Gem Diamonds Sustainable Development Report on an annual basis, the Company strives to improve communication with all stakeholders and reaffirm its commitment to sustainable business. The main purpose of the report is to demonstrate the Group's progress and commitment to conducting business in a responsible and ethical manner.

Our approach to sustainability

Gem Diamonds acknowledges the importance of integrating sustainability throughout its business strategy. Internationally recognised standards are implemented and further developed throughout the Group to ensure the greatest benefit to its people and environment.

Gem Diamonds aims to operate with moral and ethical responsibility at all times, enabling the Group to effectively manage its impact on economic, social and ecological systems to the benefit of future generations. All operations within the Group are required to comply with host country legislation relating to health and safety, environment, social and economic business management, as well as assessing and implementing international standards of best practice. These standards ensure that the Group operates in a manner that benefits society as a whole.

Creating sustainable value

Gem Diamonds' subsidiaries contribute to the economies of the host countries in which they operate through the payment of statutory taxes and the fulfilment of other financial obligations such as royalties. The Group's commitment to creating a lasting, positive socio-economic legacy in the communities in which it operates extends beyond legal obligations. In keeping with this commitment, all operations have programmes in place aimed at maximising the benefit of regional and local employment and procurement.

Group-wide local contributions 2013	US$ million
Project affected community-based purchasing/procurement	**1.1**
Regional-based purchasing/procurement	**32.1**
Total in-country purchasing/procurement	**136.8**
Project affected community-based local employee costs	**2.5**
Regionally based local employee costs	**3.9**
Total in-country-based local employee costs	**28.6**

Governance

As a company listed on the London Stock Exchange, Gem Diamonds has voluntarily committed to adhere to the most rigorous and widely recognised international standards of best practice in respect of financial, corporate governance and corporate social responsibility aspects.

Appropriate HSSE policies, procedures and management systems have been developed and implemented at each operation, ensuring adherence to relevant host country and international standards of best practice. Operational management structures are in place at each operating subsidiary, facilitating co-operative and transparent communication at all levels of the business, while providing the required assurance to the operational Boards. HSSE sub-committees at the operations serve as a platform to address high-risk business areas.

The Gem Diamonds HSSE Committee, at Board level, supports the operations through the employment of Group policies, standards and strategic guidance in respect of HSSE matters. The Committee reports directly to the Board of Directors and provides assurance in respect of the appropriateness and adequacy of operational HSSE management.

No cases of bribery, corruption, anti-competitive behaviour, anti-trust or monopoly practices were brought against the Group or its subsidiaries in 2013, nor have they ever been brought against the Group. Policies and practices are continually reviewed and refined to ensure these practices do not occur.

In terms of Gem Diamonds' governance policies, no financial contributions are made to political parties, politicians or any other related institutions. All financial contributions made to host country governments relate to regulatory taxes.

Compliance with voluntary standards

All Gem Diamonds' subsidiaries adhere to host country legislation as a minimum compliance standard. As a London-listed organisation, relevant best practice standards are also incorporated into the Group's management systems, based on the materiality of these standards.

The International Finance Corporation's Environmental, Health and Safety Standard and Guidelines, as well as the Equator Principles, are continuously applied throughout the Group. Operational Safety, Health and Environmental management systems are based on the principles of ISO 18000 and ISO 14001, and the GRI serves as the reporting basis for the Group.

The Group registered with the Responsible Jewellery Council in 2012, and finalisation of this registration is anticipated in 2014.

Gem Diamonds continues to adhere to the standards of the Kimberley Process and as such, all diamonds produced by the Group are Kimberley Process certified.

Our people

Creating a safe and healthy work environment

Gem Diamonds sets the health and safety of its workforce as its highest priority. The Group aims to protect its people through actively promoting responsible care and the creation of a safe and healthy working environment. Gem Diamonds' employees are a key asset, and a culture of zero tolerance for non-conformance to safe, responsible and sustainable practices is being built.

Gem Diamonds' health and safety management systems are based on the principles of ISO 18000 and incorporate relevant international best practice standards. These systems are independently audited on an annual basis, allowing resources to be allocated appropriately to improve performance.

Gem Diamonds reported a fatality-free year in 2013. There were, however, three LTIs across the Group, two at Letšeng and one at Ghaghoo. The Group-wide LTIFR for 2013 was consequently 0.13, a decrease from the 0.30* recorded for 2012, but still exceeding the Group target of zero.

In 2013, the Group-wide AIFR of 2.49 was well under the Group ceiling value of 4.20, a significant reduction from the 2012 value of 4.45*.

The Group focused on the proactive management of health and safety in 2013. Proactively managing serious diseases and the proactive identification of behaviour and conditions that pose a risk to the health and safety of employees will assist the Group in the pursuit of its ultimate goal of zero harm. The number of proactive safety management actions implemented throughout the Group in 2013 amounted to 45 512. This is an increase compared to the 43 899* proactive actions implemented in 2012.

Gem Diamonds' health and safety management efforts extend beyond occupational concerns. The Group assisted employees through treatment, education and training, as well as counselling where necessary, and conducts environmental and serious disease management programmes that address the total well-being of its employees. These programmes are continuously improving and expanding.

Due to the increased focus on serious disease management in 2013 the total Group-wide interventions rose to 6 287 from 2 002* recorded in 2012.

Gem Diamonds' goal remains to achieve zero harm in a sustainable manner, and the Group continues to refine and improve its health and safety management systems through ongoing identification and implementation of appropriate improvement measures.

Developing and retaining our people

Gem Diamonds aims to engage, develop and retain first-class employees. This is regarded as a key element in achieving operational excellence.

At year end, Gem Diamonds employed a total of 344 own and 1 316 contractor employees. Employee absenteeism rates decreased from an average of 1.68* in 2012, to 1.39 in 2013. Staff turnover is continuously monitored across all operations. At Ghaghoo, turnover rates remain high and this trend is expected to continue until the operation reaches a steady-state operational phase. Staff turnover at all other facilities remained stable during 2013.

The Group recorded a net 34% decrease in hours per capita vocational training in comparison to 2012. The Letšeng mine recorded a 4% increase in hours per capita vocational training while the Ghaghoo mine recorded a 45% decrease, due to the short-term nature of contract labour. This training is provided via internal and external training mechanisms. The Group remains committed to training and sees this as a priority to be further pursued in 2014.

Career reviews are conducted at all operations; however, 2013 recorded a decrease in the number of employees receiving career reviews. In 2013, 16% of the Group's employees underwent career reviews, compared to 30%* in 2012. Career review and development policies are determined by each subsidiary, which prescribes the level of seniority from which reviews are conducted. No differentiation is made between male and female employees' reviews. Looking forward, the Group will work on increasing the number of career reviews conducted in 2014.

** Includes previously owned operations.*

Sustainable development review continued

Gem Diamonds' Code of Ethics clearly communicates its status as an equal opportunity employer. The Code further outlines the Group's policy regarding zero tolerance towards discrimination on any basis and, for the second consecutive year, zero cases of discrimination were recorded in 2013. Further details are set out in the table below.

There are currently nine men on the Group's Board, but no women. However, the Group retained a 19.5% female staff complement in 2013.

	Women	Men
Board members	**0**	9
Senior management	**9**	80
Group employees total in 2013	**330**	1 330

Localisation of the workforce is another human resource priority across the Group. In 2013, 95% of Letšeng's workforce comprised Basotho nationals and 92% of Ghaghoo's workforce comprised Motswana nationals.

Gem Diamonds continues to refine policies, processes and procedures relating to the human rights of its employees. The total hours of human rights training provided to employees increased from 300 in 2012 to 400 in 2013. The aim is to offer human rights training to all employees in 2014.

Labour relations at all operations remained stable in 2013. None of Gem Diamonds' operations and/or facilities are unionised, although freedom of association remains a core right for each employee. No strikes or lockouts occurred during 2013.

Gem Diamonds continues to remunerate its employees in line with market-related rates and the lowest graded employees are compensated in excess of the host country minimum wage provisions. Relevant benefits and incentives are provided to employees over and above normal salaries, with US$3.3 million spent on benefits in 2013, compared with US$5.2 million spent in 2012.

Optimising community benefit

The Group's mines operate in existing socio-economic environments, benefiting from mining diamonds during the life of these operations. In turn, the Group has a moral obligation to contribute to the sustainable socio-economic growth of these areas.

With this in mind, culturally appropriate and sustainable CSI programmes were put in place at the operating mines based on detailed community needs analyses. In 2013, Group-wide CSI expenditure amounted to US$0.5 million, compared to US$0.6* million in 2012. The Group continues to focus on projects related to health, education, infrastructure, small and medium enterprises and regional environmental initiatives.

At Letšeng, 2013 marked the conclusion of the 2011-2013 Corporate Social Responsibility Initiative (CSRI) strategy. This strategy was underpinned by a needs analysis undertaken in 2009. Various initiatives were undertaken in 2013, including infrastructure developments, education and health projects, as well as sponsorship and donations. The total CSI project expenditure at Letšeng during 2013 amounted to US$0.5 million. A new, forward-looking CSI plan was established for implementation in 2014. This plan will ensure that the project affected communities surrounding the Group's flagship operation continue to benefit.

Ghaghoo has successfully provided water to the Mothomelo, Metsiamonong, Molapo and Gope communities and is looking forward to expanding its CSRI strategy once operational.

One community need identified during the 2009 stakeholder engagement campaign conducted on behalf of Ghaghoo, was the optimisation of local employment. Gem Diamonds is pleased to report that the rotational employment of unskilled labour from the project affected communities has resulted in 27% of the total workforce being recruited from these communities.

This has resulted in US$46 000 flowing into these largely unemployed communities.

Several community members are now permanently employed at the operation.

No resettlement of communities was undertaken during 2013 and it is not anticipated to be necessary for any of the existing operations.

The Group seeks to maintain open, transparent, respectful and mutually beneficial relations with its neighbours and all its stakeholders. For the fifth consecutive year, zero major stakeholder incidents were reported.

Our environment

Gem Diamonds adopts a precautionary approach when considering potential environmental impacts. Comprehensive environmental management programmes are implemented at each of the operations to mitigate environmental impacts. The Group's environmental management approach is based on the level of environmental risk exposure and potentially achievable cost reductions.

The minimisation, mitigation and management of environmental impacts are key components of the Group's strategy and taken very seriously. Extensive impact assessments are undertaken taking into account relevant international best practice standards, prior to the commencement of any mining activities. Throughout the life of Gem Diamonds' operations, environmental performance is monitored and the results from such monitoring processes are used, if necessary, to update environmental management plans and procedures. These assessments inform the management approach, facilitate compliance with regulatory requirements and informs the Group's stakeholders of how Gem Diamonds is endeavouring to protect its natural heritage. Environmental impacts caused by the Group's operations are managed through the implementation of an extensive and dynamic management system.

Gem Diamonds continues to invest in environmental protection. A total of US$1.0 million was spent on environmental protection measures in 2013. Initiatives undertaken in 2013 included costs

** Includes previously owned operations.*

associated with environmental training, expert consultants, research and development, green purchases and other expenditure.

A decrease in the number of minor environmental incidents was recorded in 2013. This may be attributed to an increased focus on environmental awareness. Only one significant environmental incident occurred in 2013 compared to four* in 2012.

The continuous development and review of comprehensive rehabilitation plans at the Group's mining operations remained a focus during 2013. Advances were made with the integration of progressive rehabilitation programmes into the Letšeng mine plan. In 2013 a total of 6 174ha of land was under the Group's management and 18ha was disturbed. In 2013, Letšeng continued with extensive rehabilitation trials that were initiated in 2012. These trials will assist the mine in determining the feasibility and success of planned rehabilitation strategies well in advance of mine closure.

Water quality is constantly monitored at the Group's operations and any challenges are addressed. Challenges include prevention, point source treatment and management of elevated levels of nitrates. Letšeng finalised the construction of an artificial wetland to treat effluent water in late 2013. Care is taken at the operations to ensure that any water discharged is of an appropriate quality.

Waste generated at the Group's operations includes domestic and general waste from on-site accommodation facilities, limited amounts of hazardous waste such as used oils and lubricants, fluorescent tubes, sewage effluent, medical waste and a significant amount of mineral waste. Waste management plans are implemented at each of the operations with a view to ensuring the correct handling of waste to avoid environmental pollution. Waste is disposed of in accordance with approved disposal methods. Elimination or reduction of waste generated at the source remains a priority.

All mineral waste structures on-site are designed, maintained and managed in compliance with host country legislation and international best practice standards. The volume of mineral waste generated in 2013 increased at both Letšeng and Ghaghoo in comparison to 2012. This can be attributed to the increased waste stripping undertaken at Letšeng and an increase in mining activities at Ghaghoo.

Gem Diamonds endeavours to limit the infrastructural footprints of its operations to conserve and protect as much of the natural environment as possible. The Social and Environmental Impact Assessment (SEIA) and Integrated Social and Environmental Management Plan (SEMP) undertaken at Letšeng during 2012 were finalised and approved by the relevant authorities in 2013. Ghaghoo continued to implement its environmental management plan in 2013 to mitigate and manage any impacts on the sensitive ecological systems of the Central Kalahari Game Reserve.

Gem Diamonds has a zero tolerance approach to major environmental incidents. To ensure that no major environmental incidents occur, all operations monitor their adherence to applicable laws, best practice and site-specific environmental management practices and processes.

The Group is reliant on various non-renewable resources to conduct its business and the efficient use of these resources contributes to the resilience of the organisation, helping it adapt to an environment that is increasingly resource constrained. The Group's aim is to reduce its resource consumption through process optimisation and the introduction of progressive technologies. Reducing the Group's dependency on natural resources potentially facilitates greater access to natural resources by local communities and other businesses. The cost benefits from this initiative are notable, benefiting the Group's business as well as the environment in which it operates.

The Group's total energy consumption decreased during 2013, as a result of the disposal of the Ellendale mine in Australia at the end of 2012, as well as the implementation of energy-efficiency projects. Energy intensity per carat produced is measured Group-wide and allows for better understanding of consumption patterns, as well as the identification of opportunities to utilise this resource more efficiently. A slight increase of 7.7% in the Group-wide energy intensity was recorded in 2013. This increase in energy intensity is linked to higher volumes of waste being mined at Letšeng in order to access the diamondiferous ore.

The water consumption of the Group decreased by 73% in 2013. This significant decrease can be attributed to the disposal of the Ellendale mine, and to water awareness campaigns at Letšeng. In 2013, the water consumed at Letšeng decreased by 37% to 3.5 million cubic metres. At Ghaghoo, water consumption increased by 74% to 0.5 million cubic metres due to increased mining, dewatering activities as well as extraction from boreholes.

Sustainable development review continued

The total carbon footprint for the Group for 2013 was 124 812 tonnes CO_2e. This figure includes the direct greenhouse gas (GHG) emissions (Scope 1) and energy indirect GHG emissions (Scope 2).

Gem Diamonds understands that undertaking a carbon footprint assessment is not the only step to a better understanding and effective reduction of GHG emissions. The Group intends to formulate a GHG emissions reduction strategy with a view to pursuing our goal of zero harm to the environment in connection with the Group's operations.

Product integrity

Gem Diamonds is committed to supplying natural diamonds with the highest product integrity to its clients. To fulfil this commitment, the Group has developed a strong culture of corporate integrity and good corporate governance measures.

Since 2009, the Group has progressively built its sustainable development framework. Ongoing expansions and development of this framework ensures continuous improvement in all matters related to the environment, society, human rights, health, safety and security. In 2012, Gem Diamonds registered with the Responsible Jewellery Council as a candidate organisation. The Council promotes responsible, ethical, environmental and social practices, as well as the protection of human rights throughout the diamond, gold and platinum group metals jewellery supply chain. Full registration with the Council is expected to be concluded during 2014.

The Group continues to adhere to all the provisions of the Kimberley Process 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 it was founded in 2006.

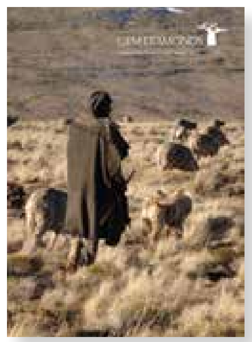
All of the Group's rough diamonds are exported with original Kimberley Process certificates.

To ensure the Group's diamonds reach the market through the correct channels, strict controls are applied. Trade with Gem Diamonds is by invitation only. A screening process is undertaken to identify potential clients, and selected clients are assessed to ensure their good standing and compliance with internal and external anti-money laundering and anti-bribery and corruption protocols.

Through continuous and transparent communication, trust relationships are developed and maintained with clients and other stakeholders.

Gem Diamonds maintains the highest level of transparency and integrity during the marketing and sales process. Diamonds are made available for detailed viewing by clients prior to the conclusion of a tender. Gem Diamonds does not provide warranties in respect of its diamonds. The confidentiality of Gem Diamonds' clients is protected in all instances. The Group's tenders are governed by tender conditions that are agreed to by all clients. Following the conclusion of each rough tender, a complete list of the winning bids is electronically circulated to all tender participants. This ensures a transparent tender process.

Security and theft prevention is a serious risk management consideration when dealing with high-value products such as diamonds. Operations assess their risk profiles on an ongoing basis. Top specialists and insurers are engaged on a regular basis to assess the status of the Group's security risk management systems and solutions, and to ensure that the diamonds remain secure.



SD *Letšeng's flagship CSI project is the wool and mohair project which aims to develop the skills of local sheep farmers in terms of wool shearing, ram breeding, business skills and animal health management.*

Sign off of our Strategic Report

Our Strategic Report, as set out on pages 2 to 40, has been reviewed and approved by the Board of Directors on 17 March 2014.

Roger Davis
Chairman

17 March 2014

Glove box in the Letšeng recovery plant.

Governance

GEM DIAMONDS

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

Non-Executive Directors

Roger Davis (57)

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 t 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.

Dave Elzas (47)

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.

Mike Salamon (58)

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 Central Rand Gold, Ferrexpo plc and Minera las Cenizas.

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 (64)

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 (47)

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 a founding member of CENTAR Limited, a mining investment company focused on central Asia and Zimbabwe, Chief Executive Officer of Afghan Gold and Minerals Company, Director of Central Asian Mining Services Limited and a Director of Meikles-Centar Mining (Zimbabwe). 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.

Executive Directors

Clifford Elphick (53)

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.

Glenn Turner (53)

Chief Legal and Commercial Officer

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.

Alan Ashworth (59)

Chief Operating Officer

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

Alan holds a BSc in Mining Engineering and has 38 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 (43)

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 as a trainee accountant and became audit partner at the firm in March 2000. In 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.

Chairman's overview of corporate governance

In the present climate, 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 your 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 2012, of the latest additions to the UK Corporate Governance Code (the Code). The most significant reporting changes have been to the Directors' Remuneration Report with a binding vote on the remuneration policy.

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.

I am pleased to confirm that during the year the Company adhered to the latest principles of the Code published in September 2012. In respect of provisions of the Code, the only exception relates to section C.3.1 committee membership, where we, as we did last year, felt that compliance for its own sake would not prove more effective to the management of your Company and the effectiveness of the Audit Committee. This is more fully explained in the following UK Corporate Governance Code Compliance Report.

During 2013, we undertook a Board evaluation process to review the Board's approach to strategy, particularly in relation to both process and initiatives. The evaluation was carried out by way of a questionnaire administered by Prism, an external contractor. A detailed description of the evaluation process is set out on page 50. The results of this evaluation were taken into account at our strategy meeting in November 2013, culminating in the focus areas for 2014 detailed on the afore-mentioned page.

Key focus areas confirmed by the evaluation process were the Board's commitment to apply best practice with regards to corporate responsibility, environmental management, health and safety. In other words, doing what is best for our stakeholders and the broader environment.

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

A key concern for good corporate governance is to eradicate bribery, fraud and corruption. As reported last year, following the implementation of the UK Bribery Act, the Group began a review of its policies, procedures and the principles set out in the related Ministry of Justice Guidance. 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 also 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 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.

I would like to take this opportunity to set out our approach to diversity in the boardroom, a topic which has aroused considerable interest in the business community. 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 range 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 52.

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
Chairman

17 March 2014

UK Corporate Governance Code compliance

This report combines the Directors' Report, the Management Report and the Group's compliance with the principles and provisions of 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 Company has fully complied with the best practice governance provisions of the Code for the year up to 31 December 2013, with one exception. As previously advised in last year's Annual Report, the position of Lord Renwick on the Audit Committee was taken over by Roger Davis on 25 August 2009. As Roger Davis is also the Chairman of the Board, this was not in compliance with section C.3.1 of the Code. In this regard the Chairman was considered to be independent upon his appointment. This situation will continue for the foreseeable future but will be kept under review. In the event that the Company remains below the FTSE 350 until 31 December 2014, the current composition of the Audit Committee will be compliant with section C.3.1 of the Code because the Code's smaller companies regime will apply.

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. 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, disposals and bank borrowings and were last reviewed in March 2013.

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 which 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 2013

Name	Title	Held appointment during 2013	Committee chairmen and number of members
Executive Board members (4)			
C T Elphick	Chief Executive Officer	✓	
A R Ashworth	Chief Operating Officer	✓	
K M Burford	Chief Financial Officer	Until 1 April 2013	
M Michael	Chief Financial Officer	From 22 April 2013	
G E Turner	Chief Legal and Commercial Officer	✓	
Non-Executive Board members (5)			
R W Davis	Chairman	✓	Nominations (3)
G A Beevers		✓	Health, Safety, Social and Environment (3)
D J Elzas		✓	Audit (3)
M Salamon	Senior Independent Director	✓	
R J 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 2013, 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 and Remuneration Committees) and Gavin Beevers (HSSE Committee).

Attendance at Board and Committee meetings during 2013

	Number of meetings held				
	Board	Audit	Remuneration	Nominations	HSSE
Director					
R W Davis	5/5	4/4	4/4	3/3	–
C T Elphick	5/5	–	–	3/3	–
G A Beevers	5/5	–	–	–	4/4
D J Elzas	5/5	3/4	4/4	–	–
M Salamon	5/5	–	4/4	3/3	4/4
R J Williams	5/5	4/4	4/4	–	–
A R Ashworth	5/5	–	–	–	–
K M Burford[1]	1/1	–	–	–	–
M Michael[1]	4/4	–	–	–	–
G E Turner	5/5	–	–	–	4/4

[1] *K M Burford retired on 1 April 2013 and M Michael was appointed on 22 April 2013.*

A further nine unscheduled Board or committee meetings were held during the year to approve, inter alia, the appointment of Michael Michael, the vesting of shares post-exercise, approval of bank facilities and to consider the merits of certain corporate plans.

Non-Executive Directors meetings

Before the scheduled Board meetings, 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 are detailed below, as well as the responsibilities of the Senior Independent Director (SID) and non-Executive Directors.

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 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 annually the output from these to the Board and Nominations Committee.
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 their views and concerns are understood by the Board.	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. Encouraging a culture of openness and discussion to foster a high-performing and collegial team of Directors that operates effectively. 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.	Developing, for the Board's approval, appropriate values and standards to guide all activities undertaken by the Group. Providing clear and visible leadership in responsible business conduct.

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.

UK Corporate Governance Code compliance continued

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 high-quality diamonds for which the Letšeng mine is renowned.

As the Group has moved into cutting and polishing and as new 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 44 and 45, 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 52)
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 pool of appropriately qualified individuals is small and suitable candidates are known to management. The Nominations Committee's section of this report is set out on page 59.

It is required that all Directors retire at the end of the year and, if appropriate, offer themselves for re-election at each Annual General Meeting 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 to 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 to assist 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 is 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
Recognising that 2013 had been a year during which a number of strategic challenges, as set out on pages 32 and 33, came to the fore, it was agreed that the Board evaluation exercise should primarily focus on the Directors' understanding of the current strategy and the processes by which the Board engaged with the formulation and implementation of strategy. The evaluation exercise also considered the current composition of the Board.

Approach
In line with best practice on Board evaluation, as set out in Code provision B.6.2 of the Code 2012, the Board appointed Prism to undertake an externally facilitated independent review of Board effectiveness during November and December 2013. The scope of the 2013 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 Prism who then presented their analysis, findings and recommendations in a report to the Board. Prism has no other connection with the Group.

Analysis

The Prism Report to the Board noted that the Board had allocated considerable time and attention to discussing strategy, against a backdrop of a difficult strategic environment. As a result, the understanding of that context and the initiatives being taken in response had developed considerably during the year. Two principal recommendations were made to the Board: first, the need to continue the dialogue on strategy in order to give extra clarity to the direction and detail of the Company's approach; second, the Board was encouraged to further consider how it communicated with the Company's shareholders about the strategy.

The review of the composition of the Board noted that, in a changing company context, the membership of the Board needed to be reviewed in view of the future needs of the Company. The Nominations Committee was encouraged to pay particular attention to this during 2014.

Next step

The findings and recommendations have been discussed with the Board by the Chairman. All agreed that the Board would continue to work to both ensure a value creating strategy going forward and to monitor and support the Executive in the successful implementation of that strategy. The need to ensure that the Company's shareholders were aware of the strategic direction of the Group, was also recognised.

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 possibly 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' which it reviews annually (most recently in November 2013). 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 has been circulated to all insiders. The insider list is reviewed 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 in the Annual Report on Directors' Remuneration on pages 62 to 78.

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. EY 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 monitoring by the Group's internal audit function on a regular basis.

UK Corporate Governance Code compliance continued

Board diversity

As encouraged by the Davies Report, the Board supports and welcomes diversity of all types on its board, including gender diversity. In the event of recruitment, the aim would be to maintain a high level of diversity. Board appointments are based on a spectrum of factors including experience, skills and diversity. Since there has been little movement in the composition of the Board since listing, the Board did not believe any great benefit would be gained in setting gender-based targets at present.

More information on gender-based employment is contained in the Sustainability Development Review on page 38.

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: interim management statements; trading updates; year-end and half-year results; analysts' briefings; and all 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 41.

The Responsibility Statement of the Directors in respect of the Annual Report and Financial Statements is set out on page 86.

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 budgets for the year ahead and a three-year rolling plan.

The Board reviews and approves the Group's annual budget and business plan. These are prepared in cooperation 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 of strategic issues are circulated to Board members and Senior Executives.

Internal control

The Board of Directors is responsible for the Group's system of internal control, which is embedded in all key operations. In accordance with the Turnbull Guidance (Committee on Internal Control published in October 2005), the Board relies on reviews undertaken by the Audit Committee throughout the year, and 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

Internal audit is an important element of the overall process by which the Audit Committee and the Board obtains the assurance it requires that risks are being properly identified, managed and controlled. An internal audit function was established in 2007. A risk-based internal audit programme was prepared for 2013 and approved by the Audit Committee, with reports on the achievement of the programme and findings presented to the Audit Committee for consideration and approval.

The programme covers all operating units, focusing in particular on the more 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.

The internal audit function is provided by KPMG Services Proprietary Limited (KPMG) as an outsourced service provider.

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. An ongoing process, in accordance with the Turnbull Guidance has been established for identifying, evaluating and managing the most significant risks faced by the Group. 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 annually. 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 32 and 33 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 55 to 58.

Whistleblowing programme

The Company has implemented a formal mechanism to report suspected fraud, corruption and irregularities. This is via independently operated and confidential toll-free phone hotlines in each country in which the Group operates, through which 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 to 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.

UK Corporate Governance Code compliance continued

Relations with shareholders

Majority interest in shares

On 14 March 2014, 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 Diamonds International Limited	20 906 699	15.12
Lansdowne Partners Limited	20 721 413	14.99
BlackRock Inc	17 936 619	12.97
FIL Limited/FMR LLC	15 782 766	11.14
Capital Group Companies Inc	9 611 688	6.95
Gem Diamonds Holdings Limited	9 325 000	6.74

There has been no change reported to the Group since 14 March 2014.

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.

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.

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 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.

All shareholders can access the Group's annual and half-year reports; interim management statements; trading updates; and other published and current information about the Group through the Company's website at www.gemdiamonds.com.

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. The results of the resolutions will be announced through the Regulatory News Service and on the Company's website.

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, 10 June 2014.

Audit Committee

"The purpose of the Audit Committee is to reassure shareholders that their interests are properly protected in respect of the Company's financial management and reporting."

Dave Elzas, Chairman

Composition, meetings and attendance in 2013

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.

Committee members	Member throughout 2013	Number of meetings held/ attended 2013
D J Elzas – Chairman	✓	3/4*
R W Davis	✓	4/4
R J Williams	✓	4/4

* *In Dave Elzas' absence, Roger Davis acted as Chairman.*

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.

Four meetings of the Audit Committee were held in 2013. 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.

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.

Audit Committee continued

Activities of the Audit Committee during 2013

Internal controls and risk

- 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.
- Agreed on the internal audit programme, considered the effectiveness of the internal auditors and their reappointment.
- 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.

External auditors

- Reviewed reports on audit findings.
- Considered the independence of the auditors and its 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 2013 audit, including going-concern assessment, impairment reviews, introduction of new accounting standards (IFRIC 20) 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.

Financial reporting

- Reviewed the annual financial (2012) and half-year (2013) statements and the significant financial reporting judgements and the Auditors' Report thereon.
- Reviewed the trading announcements published in January and June 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.

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.

Audit Committee continued

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 2013 accounts, and how these were addressed, were:

- Impairment testing and going concern assessment:

  The judgements in relation to asset impairment largely relate to the assumptions underlying the calculation of the value in use and the fair value less costs of disposal of the operations being tested for impairment. 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. The business plans are approved by the Board. In addition, this area is a primary source of audit focus and accordingly EY provides detailed reporting to the Committee.

- The introduction of new accounting standards – IFRIC 20 *Stripping costs in the production phase of a surface mine*:

  The judgement in relation to IFRIC 20 is to determine, during the production phase, stripping costs that are incurred in the production of inventory and those incurred in the creation of future benefits by improving access and mining flexibility in respect of the ore to be mined. Furthermore, judgement is required in identifying the orebodies into various separately identifiable components. The Committee addresses these issues through receiving reports from management outlining the assessment of the introduction of the new accounting standards.

- Revenue recognition:

  The judgement in relation to revenue recognition is around determining the timing of the recognition and the measurement of the additional uplift 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. 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 their assessment of the key risks. These risks are tracked throughout the year and we challenge the work performed by the auditors to test management's assumptions and estimates. We assess 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$0.6 million in total. This was against external audit fees of US$0.8 million representing approximately 71% 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 2014. 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, 10 June 2014.

Nominations Committee

"The Nominations Committee continued its work of ensuring that the Board and Committees 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 2013

Committee members 2013	Member throughout 2013	Number of meetings held/ attended 2013
R W Davis – Chairman	✓	3/3
M Salamon	✓	3/3
C T Elphick	✓	3/3

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.

Three meetings were held in 2013.

All recommendations for Board appointments, such as the commendation and subsequent appointment of Michael Michael as Chief Financial Officer in April 2013, are made on merit and against objective criteria. Since Michael Michael's appointment was internal, there was no need to employ outside consultants.

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:

- 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 is 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 developing and retaining our people section of the Sustainable Development Review on page 38.

Activities of the Nominations Committee during 2013

The Nominations Committee in 2013 deliberated upon:

- appointing a new Chief Financial Officer;
- succession planning for all Directors and senior executives;
- the composition of various committees;
- the effectiveness of the Nominations Committee; and
- the composition 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 continue to be our first priority. We strive to identify potentially hazardous tasks and conditions so that safe working procedures are implemented and embedded throughout all levels in the organisation. 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 2013	Number of meetings and attendance
G A Beevers – Chairman	✓	4/4
M Salamon	✓	4/4
G E 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:

- reviewing 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, trends and/ or forthcoming significant legislation on HSSE 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 2013

In 2013, 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.

Specific activities of the HSSE Committee in 2013 included the following:

Health	Safety	Social	Environment	Governance
• Reviewed the effectiveness of disaster contingency planning on the mine sites in Botswana and Lesotho. • Reviewed reports on project affected communities and employee health indicators and trends. • Monitored the effectiveness of on-site clinics at Letšeng and Ghaghoo. • Considered a report on the impact of antiretroviral treatment on the incidence of HIV/Aids and the effects on individuals undergoing treatment.	• Reviewed the implementation of the strategic plan to improve safety. • Received reports from, and interviewed accountable managers, on all serious safety 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.	• Reviewed key sustainability-related risks and associated mitigation plans. • Reviewed reports on key environmental indicators and trends. • Reviewed changes to local and international environmental regulations. • 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. • Received reports from and interviewed accountable managers on significant environmental incidents, including a detailed analysis of cause and contributory factors and the corrective and preventative measures taken. • 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 changes to local and international best practice guidelines on safety, health and environmental governance. • Reviewed changes to the United Kingdom's GHG reporting requirements and associated Department of Environment, Food and Rural Affairs (DEFRA) best practice guidance. • Considered changes to the Global Reporting Initiative reporting standard and agreed the indicators to be disclosed in the 2013 Sustainable Development Report.

SD More detailed information concerning the Group's sustainability-related activities is set out in the full 2013 Sustainable Development Report, which can be downloaded from the Company's website at www.gemdiamonds.com.

Directors' remuneration report

"Our remuneration policy is designed to support our business strategy, thereby maximising long-term sustainable shareholder returns. This year, for the first time, the report includes a policy which will be subject to a binding vote, as well as describing how this policy has been implemented during 2013."

Chairman's statement

Dear shareholder,

On behalf of the Board I am pleased to present the Remuneration Committee's Directors' Remuneration Report for 2013, for which we will be seeking shareholder approval at the Annual General Meeting (AGM) in June 2014.

In August 2013, the UK Government Department for Business Innovation and Skills (BIS) published regulations setting out what companies must disclose in the Directors' Remuneration Report with the aim of improving transparency and promoting best practice. This report is therefore divided into three parts:

- Chairman's Statement;
- Directors' Remuneration Policy, which outlines the Company's remuneration policy for Executive Directors (subject to a binding vote); and
- Annual Report on Remuneration, which focuses on remuneration outcomes for the year under review and how the Committee intends to implement the policy in the following year (subject to an advisory vote).

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. In 2013, the achievement of the annual bonus scorecard objectives was strong in terms of growth and HSSE performance, though a number of operating performance targets were missed. The achievement of personal objectives ranged from 70% to 100% of maximum for the Executive Directors. As such, the remuneration outcomes for the Directors for the year were as follows:

	2013[1,2] £	2012 £	% change
Basic salaries	**1 269 560**	1 307 147	(2.9)
Benefits	**74 031**	76 308	(3.0)
Annual bonuses	**758 422**	174 449	334.8
Pension contribution equivalent	**171 470**	174 707	(1.9)
Other[4]	**481 983**	65 688	633.7
ESOP	**–**	–	–
Total remuneration of Executive Directors	**2 755 466**	1 798 299	53.2
Non-Executive Director fees	**310 000**	307 500	0.8
Total of all Directors	**3 065 466**	2 105 799	45.6
Total Group base salaries, benefits, pensions, bonuses and ESOP	**13 332 710**	28 113 370[3]	(52.6)

1 K M Burford retired on 1 April 2013. M Michael was appointed on 22 April 2013.
2 The detail by individual Director can be found on page 71.
3 Included in this figure is an amount of £13 326 101 relating to Kimberley Diamonds NL, which was disposed of at 31 December 2012.
4 K M 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 G E 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 have been disclosed on page 63.

Towards the end of 2012 the Committee commenced a review of the ESOP, with a view to making 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. During 2013, the Board undertook a mid-year review of its corporate planning, and the Committee felt it was appropriate that any changes to the ESOP should be made after the finalisation of such deliberations. As such, no awards were made to Executive Directors under the ESOP in 2013; the Committee intends to grant ESOP awards to the Executive Directors in 2014 with vesting subject to a revised set of performance measures which capture a wider range of the key performance indicators for the Group.

Following the review of the ESOP, the Committee has proposed a number of revisions, for which shareholder approval is being sought at the 2014 AGM. For awards to be made in 2014 and subsequent years, the maximum award opportunity will be increased from 100% to 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). Awards to Executive Directors will vest based on relative TSR (measured versus the FTSE 350 mining companies), profit and production, measured over a three-year performance period. The Committee is proposing a slight increase in the maximum award opportunity on the basis that the performance targets being proposed are set at a significantly more stretching level than in prior years. For

example, under the new arrangements, the Company's TSR will need to be at the 85th percentile of the comparator group for the TSR-based awards to vest in full (relative to 12% outperformance under the old plan, which was estimated to be equivalent to 75th percentile).

In 2013, the Committee also agreed a new policy on annual leave entitlements for staff based in South Africa and the UK including Executive Directors. Previously, the policy and contractual arrangements allowed for any unused annual leave to be carried over into the next year which could be accumulated to date of termination. Under the new policy, effective from July 2013, a cap is placed on the total number of annual leave days that can be carried over each year, thereby limiting payments in lieu of annual leave in case of termination. In terms of the new policy, any annual leave entitlement in excess of the cap is forfeited at the end of the year. To effect the change at the time of implementation, any excess annual leave entitlements above the cap were settled to bring all those with excess annual leave in line with the policy. Payments in lieu of annual leave entitlement were made in 2013 to two Executive Directors totalling £83 913. Further details are provided in the Annual Report on Remuneration.

We look forward to receiving your support for this Directors' Remuneration Report at this year's AGM.

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 page 87 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 UK Corporate Governance Code as amended in September 2012 (the Code) and the guidance provided by institutional investor representative bodies in determining executive remuneration arrangements. In deciding upon 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 (set out on pages 64 to 66) will be put to shareholders for approval in a binding vote at the AGM in 2014. The Committee intends that this policy will formally come into effect from 10 June 2014, the date of the AGM.

Directors' remuneration report continued

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 2013 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

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.

Directors' remuneration report continued

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.

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 Michael 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

Our 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 senior executives 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 financial measures. A number of senior executives also receive ESOP awards. Performance conditions and award sizes vary to be appropriate to the organisational level.

Pay for performance: scenario analysis

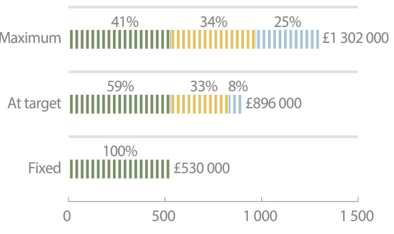
The following charts provide an estimate of the potential future remuneration for the Executive Directors and the potential split between the different elements of pay under three performance scenarios: 'fixed', 'at target' and 'maximum'. Potential remuneration is based on the incentive opportunities for 2014 (ie annual bonus of 100% of salary and performance share awards under the ESOP of 75% of salary) and current benefit and pension policy, applied to the latest salaries as at 5 March 2014, and excludes the impact of any share price movements.

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% of maximum annual bonus and 20% vesting under the ESOP.

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

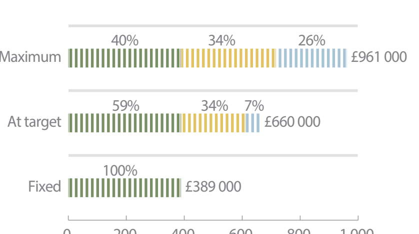
Chief Executive Officer



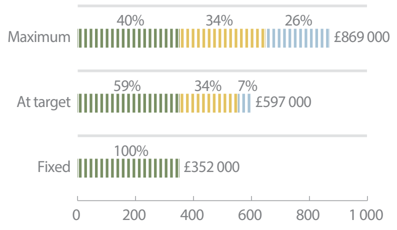
Chief Financial Officer

Maximum 40% 34% 26% £703 000
At target 59% 34% 7% £483 000
Fixed 100% £284 000
0 200 400 600 800

Chief Operating Officer



Chief Legal and Commercial Officer



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

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

On appointment of an external Executive Director, the Committee may consider it appropriate to compensate for incentive arrangements the Director forfeits on leaving his 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 were required.

Directors' remuneration report continued

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]
C T 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	
G E Turner	1 July 2008	Rolling contract	12 months	
A R 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
• 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
R W Davis	1 February 2007	Rolling appointment	Three months	No provision for payment of compensation.
D J Elzas	1 February 2007	Rolling appointment	Three months	
G A Beevers	1 February 2007	Rolling appointment	Three months	
M Salmon	3 February 2008	Rolling appointment	Three months	
R J 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. Please see page 78 for further details.

Directors' remuneration report continued

Composition of the Remuneration Committee

The Committee comprises the following members:

Committee members	Member throughout 2013	Number of meetings held/ attended 2013
R J Williams – Chairman	✓	4/4
R W Davis	✓	4/4
D J Elzas	✓	4/4
M Salamon	✓	4/4

The Chief Executive Officer and the Chief Financial Officer also 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 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 Executives;
- 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 2013

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 2013. There were no material issues identified or action arising therefrom.

During the year activities undertaken by the Committee included:

- approved the Directors' Remuneration Report for 2012;
- agreed the basis of the award of annual bonuses;
- reviewed share plan performance;
- reviewed changes to performance measures and targets of the ESOP applicable to grants made to all participants;
- reviewed senior executive remuneration in light of developments in best practice and market trends;
- reviewed and approved the base salary and benefits of the Chairman, Executive Directors and Company Secretary;
- set and approved targets for 2013 cash bonuses applicable to Executive Directors and senior management; and
- reviewed specific operating unit incentive plans – particularly relating to the Group's operations associated with Project Kholo and Ghaghoo.

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 2013. 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 are therefore considered to be independent. The fees payable in relation to 2013 were £62 953 (US$98 497) excluding VAT.

Richard Williams MBE MC
Chairman
17 March 2014

The Annual Report on Directors' remuneration

Voting outcome for 2012

The table below shows the results of the advisory vote on the 2012 Directors' Remuneration Report at the 11 June 2013 AGM.

	For	Against	Total votes cast	Abstentions
Total number of votes	99 927 967	425 180	100 353 147	20 721 413
Percentage of votes cast (%)	99.6	0.4	100	

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One major institutional shareholder withheld its vote on the Directors' Remuneration Report. However, as they did not identify any specific aspect of remuneration as meriting criticism, the Board regarded the abstention as a general reluctance to vote in favour rather than specific disapproval.

Total single figure of remuneration for Directors

The table below sets out the total single figure remuneration received by each Director for 2013 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] £		ESOPs[4]		Other[5] £		Full-year total £	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Executive														
C T Elphick	**428 480**	424 360	**23 566**	23 340	**262 230**	55 702	**62 130**	61 017	**Nil**	Nil	**Nil**	Nil	**776 406**	564 419
A R Ashworth	**317 280**	314 227	**19 037**	18 854	**181 484**	41 246	**41 246**	40 468	**Nil**	Nil	**Nil**	Nil	**559 047**	414 795
K M Burford[1]	**71 760**	284 280	**4 306**	17 057	**Nil**	34 445	**9 329**	36 611	**Nil**	Nil	**398 070**	65 688	**483 465**	438 081
M Michael[1]	**165 000**	Nil	**9 900**	Nil	**139 040**	Nil	**21 450**	Nil	**Nil**	Nil	**26 765**	Nil	**362 155**	N/A
G E Turner	**287 040**	284 280	**17 222**	17 057	**175 668**	43 056	**37 315**	36 611	**Nil**	Nil	**57 148**	Nil	**574 393**	381 004
Total of Executive Directors	**1 269 560**	1 307 147	**74 031**	76 308	**758 422**	174 449	**171 470**	174 707	**Nil**	Nil	**481 983**	65 688	**2 755 466**	1 798 299
Non-Executive														
R W Davis	**100 000**	97 500	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**100 000**	97 500
G A Beevers	**52 500**	52 500	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**52 500**	52 500
D J Elzas	**52 500**	52 500	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**52 500**	52 500
M Salamon	**52 500**	52 500	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**52 500**	52 500
R J Williams	**52 500**	52 500	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**52 500**	52 500
Total non-Executive Directors	**310 000**	307 500	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**310 000**	307 500
Total of all Directors	**1 579 560**	1 614 647	**74 031**	76 308	**758 422**	174 449	**171 470**	174 707	**Nil**	Nil	**481 983**	65 688	**3 065 466**	2 105 799

Audited

[1] Salary and fees: amount earned for the year. KM Burford retired on 1 April 2013. M Michael was appointed on 22 April 2013.

[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 2012 (for ESOP 2010) and 31 December 2013 (for ESOP 2011) (the latter will lapse in full in June 2014).

[5] K M 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 G E 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 have been disclosed on page 63.

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.

The Annual Report on Directors' remuneration continued

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 2013.

2013 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; (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 2013 are shown below.

Scorecard

The executive bonus scheme for 2013 was based on the 2013 business plan objectives and premised on a similar structure to that of the 2012 bonus scheme. In March 2013, the executive bonus scheme was based on:

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

Business performance

The following key metrics were considered under business performance in 2013:

Performance measure	Approved weighting
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 the development of Ghaghoo in relation to budget and delivery, 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 % to business plan target (50% payout)	Stretch % to business plan target (100% payout)	Actual performance	Payout
Underlying EBITDA	20%	80%	120%	Below threshold	0%
Earnings per share	20%	80%	120%	Below threshold	0%
Waste tonnes mined	20%	95%	100%	Above stretch	20%
Ore tonnes treated	20%	95%	105%	Below threshold	0%
Productions – carats recovered	20%	85%	115%	Below threshold	0%
Total					**20%**

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

Performance measure (HSSE performance)	Weighting	Threshold % to business plan target (50% payout)	Stretch % to business plan target (100% payout)	Actual performance	Payout
Fatalities	25%	Zero	Zero	Stretch	25%
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	Above stretch	25%
Total					**100%**

The business performance targets 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;
- bank financing projects; and
- improvement of the Group finance processes.

Actual bonuses awarded for 2013

Based on business and personal performance, actual bonuses for 2013 were as follows:

Directors	Percentage of salary %	Bonus £
C T Elphick	**61.2**	**262 230**
A R Ashworth	**57.2**	**181 484**
M Michael	**63.2**	**139 040**
G E Turner	**61.2**	**175 668**

Audited

2011 Employee Share Option Plan (ESOP)

On 13 June 2011, 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 Total Shareholder Return (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 2011 cycles comprised Mountain Province Diamonds, Petra Diamonds, Rockwell Diamonds, Shore Gold and Trans Hex Group. African Diamonds Limited was taken over by Lucara in December 2010, and was dropped for the 2011 grant. Lucara 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 both the 2011 and 2012 grants.

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 2013. Actual TSR was -13.7% per annum versus the diamond peer group and -24.6% per annum versus the FTSE 250 (excluding investment trusts). As a result, the awards will lapse on 13 June 2014.

The Annual Report on Directors' remuneration continued

The table below sets out the awards held by Executive Directors under the 2011 ESOP:

Executive Directors		Awards held	Vesting %	Interest vesting	Date vesting	Exercise price
C T Elphick	Performance shares	50 000	0	Nil	13 June 2014	US$0.01
	Performance options	100 000	0	Nil	13 June 2014	263.40p
A R Ashworth	Performance shares	34 000	0	Nil	13 June 2014	US$0.01
	Performance options	68 000	0	Nil	13 June 2014	263.40p
M Michael	Performance shares	20 000	0	Nil	13 June 2014	US$0.01
	Performance options	40 000	0	Nil	13 June 2014	263.40p
G E Turner	Performance shares	30 333	0	Nil	13 June 2014	US$0.01
	Performance options	60 667	0	Nil	13 June 2014	263.40p

Audited

ESOP awards made during 2013

No awards were made to Executive Directors in 2013.

Exit payments/payments to previous Directors

K M Burford retired on 1 April 2013 and received a lump sum termination payment of £341 578, equivalent to 12 months' notice period (base salary; pension; and benefits) in line with his contractual entitlements. He also received £56 492 in lieu of annual leave entitlement at date of leaving.

No payments to previous Directors were made during the year.

Implementation of Remuneration Policy for 2014

The Committee approved the following salary increases from 1 April 2014.

Executive Directors	2013 salary £	2014 salary £	% increase
C T Elphick	**428 480**	441 334	3
A R Ashworth	**317 280**	326 798	3
M Michael[1]	**220 000**	238 960	8.6
G E Turner	**287 040**	295 651	3

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[1] *M Michael was appointed to the Board on 22 April 2013 at an initial salary which was below the median for a Chief Financial Officer. Consequently, the Committee has awarded a salary increase of 8.6% to M Michael for 2014 based on the Committee's assessment of his progress in the role during 2013 and the desire to ensure his remuneration better reflects market conditions.*

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 2014 the annual bonus will have the same maximum opportunity and will operate on broadly the same basis as for 2013. 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 2013 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.

ESOP

In 2014, the Committee will put to the shareholders a revised ESOP. If approved by shareholders, this plan will be adopted and form the basis for future long-term incentive awards. Subject to shareholder approval, from 2014 onwards for awards under the ESOP for Executive Directors will 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). It is intended that awards of performance shares with a face value of 75% of salary will be made to Executive Directors in 2014. Awards to Executive Directors will vest based on relative TSR (measured versus the FTSE 350 mining companies), profit and production, measured over a three-year performance period. The TSR targets will be disclosed in the notice of AGM, and the profit and production targets will be disclosed after the performance period has ended as these targets relate to the Group's business plan and are therefore considered commercially sensitive. Further details of the revised ESOP will be available with the notice of the AGM.

Chairman and non-Executive Director fees

Chairman and non-Executive Director fees were last reviewed in March 2013 when no increases were awarded. Fees were also reviewed in March 2014 when it was agreed no changes would be made at this time.

The percentage increase in Chief Executive Officer remuneration (salary, benefits, and annual bonus) compared to employee pay 2013

	C T Elphick			Other employees		
	2013 £	2012 £	Increase %	**2013 £**	2012 £	% increase
Base salaries	**428 480**	424 360	1%	**10 950 685**	10 003 741	9
Benefits	**23 566**	23 340	1%	**931 855**	797 242	17
Annual bonuses	**262 230**	55 702	371%	**1 369 135**	922 935	48
Total	**714 276**	503 402	42%	**13 251 675**	11 723 918	13

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 2012 to the financial year ended 31 December 2013.

	2013 (US$)	2012 (US$)	% change
Distribution to shareholders	**Nil**	Nil	Nil
Employee remuneration[1]	**21 949 159**	24 168 372	(9)

Audited

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

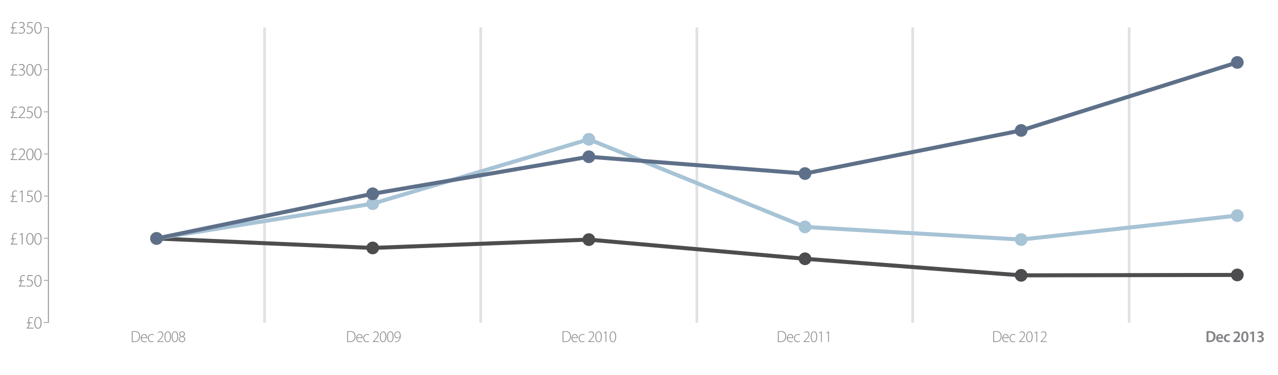
Pay for performance

The chart 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 five-year period to 31 December 2013. 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.

The table below details the Chief Executive Officer's single figure remuneration and actual variable remuneration outcomes over the same period.

Value of £100 invested on 1 January 2009

Gem Diamonds vs. ESOP global mining and exploration comparators and FTSE 250 xIT index



	2009	2010	2011	2012	2013
Chief Executive Officer single figure of remuneration (£)	640 150	726 050	797 755	564 419	**776 406**
Annual bonus outcome (% of maximum)	54	67	75	13	**61**
ESOP vesting outcome (% of maximum)	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 2013, 2 074 000 shares (1.50% of issued share capital) have been, or may be issued, pursuant to all awards made over the last 10 years.

The Annual Report on Directors' remuneration continued

Details of awards of performance shares to Directors

Directors	Performance shares[1] as at 1 January 2013	Exercised in the year	Granted in the year	Lapsed in the year[2]	Exercise price US$	Market value at date of grant £	Date of grant	Earliest normal exercise date	Expiry date	Performance shares at 31 December 2013
C T Elphick	57 000			57 000	0.01	131 670	23 June 2010	23 June 2013	23 June 2020	–
	50 000				0.01	131 700	13 June 2011	13 June 2014	13 June 2021	**50 000**
	45 000				0.01	135 023	20 March 2012	20 March 2015	20 March 2022	**45 000**
Total										**95 000**
A R Ashworth	42 600			42 600	0.01	98 406	23 June 2010	23 June 2013	23 June 2020	–
	34 000				0.01	89 556	13 June 2011	13 June 2014	13 June 2021	**34 000**
	34 000				0.01	102 017	20 March 2012	20 March 2015	20 March 2022	**34 000**
Total										**68 000**
K M Burford (retired 1 April 2013)	38 600			38 600	0.01	89 166	23 June 2010	23 June 2013	23 June 2020	–
	30 333			30 333	0.01	79 897	13 June 2011	13 June 2014	13 June 2021	–
	30 000			30 000	0.01	90 015	20 March 2012	20 March 2015	20 March 2022	–
Total										–
M Michael	19 000			19 000	0.01	43 890	23 June 2010	23 June 2013	23 June 2020	–
	20 000				0.01	52 680	13 June 2011	13 June 2014	13 June 2021	**20 000**
	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	1 January 2016	1 January 2024	**24 000**
Total										**64 000**
G E Turner	38 600			38 600	0.01	89 166	23 June 2010	23 June 2013	23 June 2020	–
	30 333				0.01	79 897	13 June 2011	13 June 2014	13 June 2021	**30 333**
	30 000				0.01	90 015	20 March 2012	20 March 2015	20 March 2022	**30 000**
Total										**60 333**

Audited

1 *Conditional right to acquire shares.*

2 *2010 awards were granted on 23 June 2010. The vesting criteria runs on a calendar year basis. Based on performance to 31 December 2012, it was determined that none would vest on 23 June 2013.*

3 *These awards were granted to M Michael before he became a Director. The terms of these 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, 68% of M Michael's award will be banked.*

Details of awards of performance options to Directors

Directors	Performance options[1] as at 1 January 2013	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 options at 31 December 2013
C T Elphick	114 000			114 000	231.00	23 June 2010	23 June 2013	23 June 2020	–
	100 000				263.40	13 June 2011	13 June 2014	13 June 2021	**100 000**
	90 000				300.05	20 March 2012	20 March 2015	20 March 2022	**90 000**
Total									**190 000**
A R Ashworth	85 200			85 200	231.00	23 June 2010	23 June 2013	23 June 2020	–
	68 000				263.40	13 June 2011	13 June 2014	13 June 2021	**68 000**
	68 000				300.05	20 March 2012	20 March 2015	20 March 2022	**68 000**
Total									**136 000**
K M Burford (retired on 1 April 2013)	77 200			77 200	231.00	23 June 2010	23 June 2013	23 June 2020	–
	60 667			60 667	263.40	13 June 2011	13 June 2014	13 June 2021	–
	60 000			60 000	300.05	20 March 2012	20 March 2015	20 March 2022	–
Total									–
M Michael	38 000			38 000	231.00	23 June 2010	23 June 2013	23 June 2020	–
	40 000				263.40	13 June 2011	13 June 2014	13 June 2021	**40 000**
	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 2024	1 January 2024	**48 000**
Total									**128 000**
G E Turner	77 200			77 200	231.00	23 June 2010	23 June 2013	23 June 2020	–
	60 667				263.40	13 June 2011	13 June 2014	13 June 2021	**60 667**
	60 000				300.05	20 March 2012	20 March 2015	20 March 2022	**60 000**
Total									**120 667**

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 145.25 pence. The highest and closing prices in the year were 173.0 pence and 107.25 pence respectively. Details of the vesting conditions, which are subject to audit, for awards made under the ESOP are included on pages 138 to 140 of the Annual Report and a full set of the rules will be available for inspection at the AGM.*

[2] *2010 awards were granted on 23 June 2010. The vesting criteria run on a calendar year basis. Based on performance to 31 December 2012, it was determined that none would vest on 23 June 2013.*

[3] *These awards were granted to M Michael before he became a Director. The terms of these 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, 68% of M Michael's award will be banked.*

The Annual Report on Directors' remuneration continued

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 2013 are given below. It is confirmed that there were no changes to the Directors' holdings between 31 December 2013 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 27 on page 138.

Executive Directors

	Shares owned outright at 31 December 2013	Performance shares held		Performance options held		Total shareholding
		Subject to performance conditions	Vested but not exercised	Subject to performance conditions	Vested but not exercised	
C T Elphick[1]	9 325 000	95 000	Nil	190 000	Nil	9 610 000
A R Ashworth	21 900	68 000	Nil	136 000	Nil	225 900
M Michael	10 000	64 000	Nil	128 000	Nil	202 000
G E Turner	400 000	60 333	Nil	120 667	Nil	581 000

Audited

[1] *C T 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 2013 held in own right
R W Davis	1 267 752
G A Beevers	145 164
D J Elzas	144 664
M Salamon	316 944
R J 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
Chairman, Remuneration Committee

17 March 2014

Directors' Report

The Directors take pleasure in submitting the financial statements of the Group for the year ended 31 December 2013.

As a BVI registered company, Gem Diamonds Limited is not required 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 the context of the specific risk factors affecting the Company identified in the Strategic Report. 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 24 of the financial statements, the Company did not have any transactions with, nor make 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 2011/12 resource drilling programme which was completed in early 2013 and a further phase of drilling initiated towards the end of the year. The drilling programme was successful in extending the resource depth to approximately 800 metres below surface on both the Main and Satellite pipes and improving the orebody definition, significantly increasing the overall resource base tonnage. Discrete production sampling of both orebodies continued in 2013 together with detailed geological and petrographical analysis of the orebodies. Several continuous improvement work streams were identified and prioritised during 2013, with respect to resource development, which will be progressed during 2014. Further details can be found in the mineral resource management section on page 28.

No exploration activities are currently being pursued by the Group.

Results and dividends

The Group's attributable profit after taxation amounted to US$21 million (2012: attributable loss after tax US$117.9 million)

The Group's detailed financial results are set out in the financial statements section on pages 85 to 142.

The current focus of the Group is on internal growth and surplus cash is invested into its capital projects at Letšeng and Ghaghoo, thus the Board recommends that no dividend be declared for the 2013 financial year. The Board keeps the Company's dividend policy under review. The factors which are most likely to influence a change in its current policy will be the Company's financial and cash position together with capital projects relating to its growth strategy. Other factors may also have a bearing and these will be taken into account at the time of consideration of the dividend policy.

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 35 to 40.

Greenhouse gas emissions

In 2012, the Group reviewed and adopted a more thorough process for data collection, which yielded a more complete picture of the carbon footprint of the Group. The total 2012 carbon footprint for the Group was 254 611 tonnes CO_2e. Due to the disposal of our Ellendale operation as well as ongoing carbon reduction initiatives, the Group's carbon footprint has decreased significantly since 2012.

Directors' Report continued

The total carbon footprint for the Group in 2013 was 124 812 tonnes CO_2e. This figure includes the direct GHG emissions (Scope 1) and energy indirect GHG emissions (Scope 2). 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 74 130 tonnes CO_2e. Fuel combustion accounted for 48 394 tonnes CO_2e while other operational consumption accounted for 5 978 tonnes CO_2e. No heat, steam or cooling sources are used by the Group and therefore no data is provided.

As outlined above, the Group recorded a smaller carbon footprint in 2013 when compared to the 2012 footprint. The Group also tracks the tonnes CO_2 emitted per carat recovered. In 2012 the Group emitted 0.63 tonnes CO_2 per recovered carat; this increased in 2013 to 1.31 tonnes CO_2 per recovered carat.

The 2013 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. The Group intends to formulate a GHG emissions reduction strategy in 2014 with a view to pursuing our goal of zero harm to the environment in connection with the Group's operations.

Political donations

The Group made no political donations in 2013.

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 2013 the Group contributed US$0.4 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 35 to 40 together with the full 2013 Sustainable Development Report, 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.

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, see Note 27.

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, whether 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 47 to 54 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 16 to 23. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Report on pages 24 to 27. In addition, Note 26 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.

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 had 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 44 and 45, 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 Directors' Remuneration on page 78.

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

Executive Directors

K M Burford	20 January 2006 (retired 1 April 2013)
C T Elphick	20 January 2006
A R Ashworth	22 April 2008
G E Turner	22 April 2008
M Michael	22 April 2013 (appointed)

Non-Executive Directors

D J Elzas	18 October 2005
G A Beevers	1 February 2007
R W Davis	1 February 2007
M Salamon	3 February 2008
R J 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, DTR, 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 Director's service contracts is included in the Directors' Remuneration Report on page 68.

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 18 to the financial statements.

As at 17 March 2014, there were 138.27 million fully paid ordinary shares of 0.01c 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 regards 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, same 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 2013, shareholders authorised the Company to make on-market purchases of up to 13 826 718 of its ordinary shares, representing approximately 10% of the Company issued share capital at that time. During 2013, 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 2014 AGM to renew this authority. The Directors have no present intention to exercise this authority, if granted. Details of deadlines for exercising

Directors' Report continued

voting rights and proxy appointments will be set out in the 2014 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 54.

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 Directors' Remuneration on page 78.

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 2013 represented 58 days of the Company's annual purchases.

Subsequent events

Refer to Note 29 for details of events subsequent to the reporting date.

Electronic copies of documents

Copies of the 2013 Annual Report, HSSE policies and other corporate publications, reports, press releases and announcements are available on the Company's website at 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 2014 AGM.

The Strategic Report, the Directors' Report and the Directors' Remuneration Report were approved by the Board on 17 March 2014.

By order of the Board

André Confavreux
Company Secretary

17 March 2014

A view of Letšeng's Satellite pipe.

CATERPILLAR

Financial statements

GEM DIAMONDS

The Group's revenue is primarily derived from its two business activities, namely its mining operation at Letšeng and its advanced rough analysis and manufacturing operation in Antwerp.

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 Management Report, which incorporates 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 standards 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);

(b) the Directors' remuneration disclosures made under LR 9.8.8R(2) – (5) and (11) – (12); and

(c) 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

17 March 2014

Independent auditor's report to the members of Gem Diamonds Limited

We have audited the Group Financial Statements of Gem Diamonds Limited (the Group) for the year ended 31 December 2013 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS).

This report is made solely to the Company's members, as a body, in accordance with the terms of our engagement letter dated 7 November 2013 (Addendum to the engagement letter dated 7 March 2014). 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 86, 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 as to whether the Directors' Report for the financial year for which the Group Financial Statements are prepared is consistent with the financial statements.
- report as to whether 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.
- report as to whether 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.
- review the Directors' statement in relation to going concern as set out on page 80, which for a premium listed UK incorporated company, is specified for review by the Listing Rules of the Financial Services 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.

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 2013 and of its profit for the year then ended; and
- have been properly prepared in accordance with IFRS.

Our assessment of risks of material misstatement

We identified the following risk 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:

- Revenue recognition in particular cut off procedures in relation to recognising additional revenue from the cutting and polishing beneficiation arrangements; and
- Impairment of property, plant and equipment and goodwill.

Independent auditor's report to the members of Gem Diamonds Limited continued

Our application of materiality

We determined planning materiality of the Group to be US$2.9 million, which is 5% of pre-tax profit. 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.

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$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.

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

An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, we selected six components which represent the principal business units within the Group and account for 100% of the Group's revenue and 90% of the Group's profit before tax. Two of these were subject to a full scope audit, while the remaining four 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 component. 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 six components was executed at the lower of Group and Statutory materiality.

The Group audit team follows a programme of planned site visits. This year, the Group audit partner visited both the full scope location teams, reviewed key working papers, participated in component team's planning, including discussion on fraud and error, and attended the audit closing meetings for each full scope component.

Our response to the risk identified above included the following:

Revenue

- Understanding the process management undertake in relation to their role in the cutting and polishing beneficiation arrangements;
- Challenging management's determination that the revenue recognition criteria has been met to appropriately measure and recognise the additional uplift on these arrangements; and
- Confirming inter-company sales transactions are appropriately eliminated.

Impairment testing

- Obtaining and assessing management's impairment memorandum on the processes followed on identifying impairment indicators; given that the Group's market capitalisation is lower than the Group's asset carrying values;
- Auditing of the Letšeng Diamonds and Calibrated Diamonds goodwill impairment models; including testing of the forecasted cash flows and underlying assumptions; and
- Challenging management's assumptions used and performing sensitivity testing on the models to confirm that no reasonable change would result in an impairment.

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

In our opinion:

- the information given in the Directors' 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 pages 52 to 54 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' Responsibilities 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 Services Authority for premium listed UK incorporated companies or the UK Companies Act, 2006, and instructed us to review such items:

The Directors' statement, set out on page 80, in relation to going concern.

Ernst & Young LLP

London

17 March 2014

Consolidated income statement

for the year ended 31 December 2013

	Notes	2013 US$'000 Before exceptional items	2013 US$'000 Exceptional items	2013 US$'000 Total	2012 US$'000 Before exceptional items	2012 US$'000 Exceptional items	2012 US$'000 Total
Revenue	2	**212 828**	**–**	**212 828**	202 118	–	202 118
Cost of sales		**(120 136)**	**–**	**(120 136)**	(120 478)	–	(120 478)
Gross profit		**92 692**	**–**	**92 692**	81 640	–	81 640
Other operating income		**746**	**–**	**746**	1 271	–	1 271
Royalties and selling costs		**(18 485)**	**–**	**(18 485)**	(19 142)	–	(19 142)
Corporate expenses		**(14 124)**	**–**	**(14 124)**	(15 629)	–	(15 629)
Share-based payments	27	**(932)**	**–**	**(932)**	(2 281)	–	(2 281)
Foreign exchange gain	3	**606**	**–**	**606**	3 815	–	3 815
Reversal of impairment/(impairment) of assets	4	**–**	**155**	**155**	–	(16 241)	(16 241)
Operating profit	3	**60 503**	**155**	**60 658**	49 674	(16 241)	33 433
Finance (cost)/income	5	**(1 639)**	**–**	**(1 639)**	1 312	–	1 312
Finance income		**1 218**	**–**	**1 218**	2 564	–	2 564
Finance costs		**(2 857)**	**–**	**(2 857)**	(1 252)	–	(1 252)
Profit before tax for the year from continuing operations		**58 864**	**155**	**59 019**	50 986	(16 241)	34 745
Income tax expense	6	**(20 855)**	**–**	**(20 855)**	(18 407)	–	(18 407)
Profit for the year from continuing operations		**38 009**	**155**	**38 164**	32 579	(16 241)	16 338
Loss after tax for the year from discontinued operations	7	**–**	**–**	**–**	–	(118 686)	(118 686)
Loss after tax		**–**	**–**	**–**	–	(70 297)	(70 297)
Recycling of foreign currency translation reserve on disposal of subsidiary		**–**	**–**	**–**	–	(48 389)	(48 389)
Profit/(loss) for the year		**38 009**	**155**	**38 164**	32 579	(134 927)	(102 348)
Attributable to:							
Equity holders of parent		**21 015**	**155**	**21 170**	17 072	(134 927)	(117 855)
Profit for the year		**21 015**	**155**	**21 170**	17 072	(16 241)	831
Loss for the year from discontinued operations		**–**	**–**	**–**	–	(118 686)	(118 686)
Non-controlling interests		**16 994**	**–**	**16 994**	15 507	–	15 507
Earnings per share (cents)	8						
Basic earnings per share		**15.2**	**0.1**	**15.3**	12.4	(85.9)	(73.5)
Diluted earnings per share*		**15.1**	**0.1**	**15.2**	12.2	(85.1)	(72.9)

* *Options are dilutive at the profit from continuing operations level and so in accordance with IAS 33 have been treated as dilutive for the purpose of diluted earnings per share.*

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	2013 US$'000	2012 US$'000
Profit/(loss) for the year	**38 164**	(102 348)
Other comprehensive income that could be reclassified to the income statement in subsequent periods		
Loss on valuation of available-for-sale financial asset	–	(204)
Exchange differences on translation of foreign operations	**(64 612)**	(23 237)
Recycling of exchange differences on disposal of subsidiary	–	48 389
Impairment of available-for-sale financial asset	–	906
Other comprehensive income for the year, net of tax	**(64 612)**	25 854
Total comprehensive income for the year	**(26 448)**	(76 494)
Attributable to:		
Equity holders of the parent	**(32 272)**	(89 378)
Non-controlling interests	**5 824**	12 884
Total comprehensive income for the year, net of tax	**(26 448)**	(76 494)

Consolidated statement of financial position
as at 31 December 2013

	Notes	2013 US$'000	2012 US$'000
Assets			
Non-current assets			
Property, plant and equipment	9	**373 625**	408 605
Investment property	10	**615**	616
Intangible assets	11	**20 202**	24 973
Other financial assets	13	**28**	14
		394 470	434 208
Current assets			
Inventories	15	**29 326**	22 652
Receivables and other assets	16	**6 749**	7 273
Other financial assets	13	**13**	16 444
Cash and short-term deposits	17	**71 178**	70 842
		107 266	117 211
Total assets		**501 736**	551 419
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	18	**1 383**	1 383
Share premium		**885 648**	885 648
Treasury shares[1]		**(1)**	(1)
Other reserves	18	**(69 408)**	(17 130)
Accumulated losses		**(518 091)**	(539 261)
		299 531	330 639
Non-controlling interests		**70 879**	70 993
Total equity		**370 410**	401 632
Non-current liabilities			
Trade and other payables	19	**1 109**	1 007
Provisions	20	**23 186**	29 496
Deferred tax liabilities	14	**64 824**	71 277
		89 119	101 780
Current liabilities			
Interest-bearing loans and borrowings	22	**–**	2 947
Trade and other payables	19	**37 086**	43 775
Income tax payable		**5 121**	1 285
		42 207	48 007
Total liabilities		**131 326**	149 787
Total equity and liabilities		**501 736**	551 419

[1] *Shares held by Gem Diamonds Limited Employee Share Trust.*

Approved by the Board of Directors on 17 March 2014 and signed on their behalf by:

C T Elphick
Director

M Michael
Director

Consolidated statement of changes in equity

for the year ended 31 December 2013

	Issued capital[2]	Share premium[2]	Own shares[1]	Other reserves[2]	Accumulated (losses)/ retained earnings	Total	Non-controlling interests	Total equity
	Attributable to the equity holders of the parent							
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 income	–	–	–	(53 442)		(53 442)	(11 170)	(64 612)
Total comprehensive income	**1 383**	**885 648**	**(1)**	**(53 442)**	**21 170**	**(32 272)**	**5 824**	**(26 448)**
Share-based payments (Note 27)	–	–	–	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**
Balance at 1 January 2012	1 383	885 648	(1)	(48 720)	(421 406)	416 904	66 879	483 783
Loss for the year	–	–	–	–	(117 855)	(117 855)	15 507	(102 348)
Other comprehensive income	–	–	–	28 477	–	28 477	(2 623)	25 854
Total comprehensive income	–	–	–	28 477	(117 855)	(89 378)	12 884	(76 494)
Share-based payments (Note 27)	–	–	–	3 113	–	3 113	–	3 113
Dividends paid	–	–	–	–	–	–	(8 770)	(8 770)
Balance at 31 December 2012	1 383	885 648	(1)	(17 130)	(539 261)	330 639	70 993	401 632

[1] *Being shares held by Gem Diamonds Limited Employee Share Trust.*
[2] *Refer to Note 18, Issued capital and reserves, for further detail.*

Consolidated statement of cash flows

as at 31 December 2013

	Notes	2013 US$'000	2012 US$'000
Cash flows from operating activities		**87 614**	90 199
Cash generated by operations	21.1	**114 462**	143 699
Working capital adjustments	21.2	**(17 491)**	(25 084)
		96 971	118 615
Interest received	21.1	**1 218**	3 109
Interest paid		**(517)**	(213)
Income tax paid		**(10 058)**	(31 312)
Cash flows used in investing activities		**(73 730)**	(170 883)
Purchase of property, plant and equipment		**(29 651)**	(69 000)
Waste cost capitalised		**(59 278)**	(96 617)
Proceeds from sale of property, plant and equipment		**1 191**	1 144
Purchase price of business combination		**–**	(786)
Purchase of other financial assets		**(22)**	(5 015)
Cash received/(disposed of) from disposal of subsidiary[1]	21.3	**14 030**	(609)
Cash flows used in financing activities		**(8 529)**	(5 728)
Financial liabilities (repaid)/raised		**(2 591)**	3 042
Dividends paid to non-controlling interests	24	**(5 938)**	(8 770)
Net increase/(decrease) in cash and cash equivalents		**5 355**	(86 412)
Cash and cash equivalents at beginning of year		**70 842**	158 750
Foreign exchange differences		**(5 019)**	(1 496)
Cash and cash equivalents at end of year held with banks		**70 998**	70 681
Restricted cash at end of year	17	**180**	161
Cash and cash equivalents at end of year	17	**71 178**	70 842

[1] *This relates to the disposal of the operations in Australia in the prior year and subsequent receipt of proceeds in the current year.*

Notes to the annual financial statements

for the year ended 31 December 2013

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. The Company's registration number is 669758.

These financial statements were authorised for issue by the Board on 17 March 2014.

1.1.2 Operational information

The Company has the following investments directly in subsidiaries at 31 December 2013:

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 it 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 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 the annual financial statements continued

for the year ended 31 December 2013

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 2013	Lesotho US$'000	Botswana US$'000	Belgium and Mauritius US$'000	BVI, RSA and UK US$'000	Total continuing operations 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	212 828
Results					
Depreciation and amortisation	51 067	–	869	415	52 351
Depreciation and mining asset amortisation	16 012	–	869	415	17 296
Waste amortisation	35 055	–	–	–	35 055
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	340 853	107 004	11 209	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

* *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 total 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.

1. Notes to the financial statements *(continued)*

1.1 Corporate information (continued)

1.1.3 Segment information (continued)

Year ended 31 December 2012	Lesotho US$'000	Botswana US$'000	Belgium and Mauritius US$'000	BVI, RSA and UK US$'000	Total continuing operations US$'000	Discontinued operations US$'000	Total US$'000
Revenue							
Total revenue	207 744	–	201 443	10 188	419 375	113 704	533 079
Inter-segment	(205 492)	–	(1 729)	(10 036)	(217 257)	–	(217 257)
External customers	2 252	–	199 714	152	202 118	113 704	315 822
Results							
Depreciation and amortisation	44 618		473	912	46 003	49 530	95 533
Depreciation and mining asset amortisation	17 651	–	473	912	19 036	18 278	37 314
Waste amortisation	26 967	–	–	–	26 967	31 252	58 219
Share-based equity transactions	305	–	–	1 977	2 281	650	2 931
Impairment	1 428	–	–	14 813	16 241	4 121	20 362
Segment operating profit/(loss)	67 683	(246)	1 473	(35 477)	33 433	(6 107)	27 326
Net finance income/(cost)					1 312	(493)	819
Profit/(loss) before tax					34 745	(6 600)	28 145
Income tax expense					(18 407)	–	(18 407)
Remeasurement to fair value					–	(63 697)	(63 697)
Recycling of foreign currency translation reserve on disposal of subsidiary					–	(48 389)	(48 389)
Profit/(loss) for the year					16 338	(118 686)	(102 348)
Segment assets	372 778	100 490	17 171	60 980	551 419	–	551 419
Segment liabilities	51 042	6 702	6 402	14 365	78 510	–	78 510
Other segment information							
Capital expenditure							
– Property, plant and equipment*	31 677	36 731	3 339	474	72 219	15 457	87 676
– Waste cost capitalised	60 559	–	–	–	60 559	36 058	96 617
Total capital expenditure	92 236	36 731	3 339	474	132 778	51 515	184 293

* *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$88.7 million arising from sales reported in the discontinued operations segment.

Segment liabilities do not include deferred tax liabilities of US$71.3 million.

Notes to the annual financial statements continued

for the year ended 31 December 2013

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, except as modified by the revaluation for available-for-sale financial assets through other comprehensive income and derivative financial instruments at fair value through profit or loss. 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 2013:

IAS 1 *Presentation of Items of Other Comprehensive Income* – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (eg net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (eg actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment had no impact on the Group's financial position or performance. Presentation has been amended in the statement of comprehensive income.

IAS 1 *Clarification of the requirement for comparative information* (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes.

IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set off financial instruments and related arrangements (eg collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

1. Notes to the financial statements *(continued)*

1.2 Summary of significant accounting policies (continued)

1.2.1 Basis of presentation (continued)

IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that 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, including:

(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.

IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for such investments but will have no impact on the Group's financial position or performance. Additional disclosures have been presented in Note 28, Material partly owned subsidiaries.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not impacted the fair value measurements carried out by the Group.

IFRIC 20 *Stripping costs in the Production Phase of Surface Mine*

IFRIC 20 applies to stripping costs incurred during the production phase of a surface mine. Such costs incurred are to be capitalised as part of an asset if it can be demonstrated that its probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an orebody for which access has been improved. This asset is to be called the 'stripping activity asset' and is to be depreciated or amortised on a units-of-production basis unless another method is more appropriate. As the Group's amortisation methodology applied in prior periods is consistent with the principles of IFRIC 20, the application of this new standard did not impact the financial results of the Group.

Notes to the annual financial statements continued

for the year ended 31 December 2013

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 10	*Consolidated Financial Statements*	The amendment provides an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9. Based on preliminary analyses no material impact is expected.	1 January 2014
IAS 32	*Offsetting Financial Assets and Financial Liabilities* – Amendments to IAS 32	Clarification of the meaning of 'currently has a legally enforceable right to set off' and clarification of offsetting criteria to settlement systems. Based on the preliminary analyses performed it is not expected to have any impact on the currently held investments of the Group.	1 January 2014
IFRS 9, IFRS 7	*Financial Instruments: Classification and Measurement*	Classification and measurement of financial assets and financial liabilities as defined in IAS 39. Measurement of fair value. Based on preliminary analyses no material impact is expected.	IFRS 7 - 1 January 2015 IFRS 9 - 1 January 2018

* *Annual periods beginning on or after.*

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 16 to 23. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Review on pages 24 to 27. In addition, Note 26, 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 26, 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 the annual financial statements continued

for the year ended 31 December 2013

1. Notes to the financial statements *(continued)*

1.2 Summary of significant accounting policies (continued)

1.2.3 Basis of consolidation (continued)

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.

1.2.4 Exploration and evaluation expenditure

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.

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 accounted for as an addition to, or an enhancement of, an existing asset, being the mine asset included under mining asset and disclosed in Note 9, 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 the annual financial statements continued

for the year ended 31 December 2013

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.

1. Notes to the financial statements *(continued)*

1.2 Summary of significant accounting policies (continued)

1.2.9 Other financial assets

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

When financial assets are recognised initially, they are measured at fair value plus (in the case of investments, not at fair value though 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.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the time value of money is significant, held-to-maturity investments are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Cash flow hedges

For cash flow hedges, the effective portions of the fair value gains and losses are recognised in equity until the hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. Then any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is eventually recognised in the income statement or included in the initial measurement of covered assets and liabilities. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement and then the gains and losses are recognised in earnings or included in the initial measurement of covered assets or liabilities. The ineffective portion of fair value gains and losses is reported in earnings in the period to which they relate.

Hedge accounting is applied provided certain criteria are met. At the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, its risk management objective and its strategy for undertaking the hedge is documented. A documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the cash flows of the hedged items, is also prepared.

Notes to the annual financial statements continued

for the year ended 31 December 2013

1. Notes to the financial statements *(continued)*

1.2 Summary of significant accounting policies (continued)

1.2.9 Other financial assets (continued)

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost

Held-to-maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest rate method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

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 and loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

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.

1. Notes to the financial statements *(continued)*

1.2 Summary of significant accounting policies (continued)

1.2.11 Fair value measurement (continued)

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 purposes 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.

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 assets' 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.

Available-for-sale financial investments

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

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, are 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.

Notes to the annual financial statements continued

for the year ended 31 December 2013

1. Notes to the financial statements *(continued)*

1.2 Summary of significant accounting policies (continued)

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 consists 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
- all 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 18, Issued capital and reserves.

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 and 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.

1. Notes to the financial statements *(continued)*

1.2 Summary of significant accounting policies (continued)

1.2.17 Share-based payments (continued)

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.

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.

Notes to the annual financial statements continued

for the year ended 31 December 2013

1. Notes to the financial statements *(continued)*

1.2 Summary of significant accounting policies (continued)

1.2.20 Taxation (continued)

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 provisions 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.

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.

1. Notes to the financial statements *(continued)*

1.2 Summary of significant accounting policies (continued)

1.2.22 Leases (continued)

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:

Sale of goods

The sale of rough diamonds (which are made through competitive tender processes or through partnership arrangements) and the sale of polished diamonds and other products (which are made through direct sale transactions) 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.

Rendering of service

Sales of services 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.

Notes to the annual financial statements continued

for the year ended 31 December 2013

1. Notes to the financial statements *(continued)*

1.2 Summary of significant accounting policies (continued)

1.2.26 Critical accounting estimates and judgements (continued)

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.

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 in the cutting and polishing process by management 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 regards to rough diamonds sold into partnership arrangements. Management is required to make certain estimates and assumptions based as to 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 Diamonds and Calibrated Diamonds operations is tested annually, with no impairment evident in the current year. Refer Note 12, Impairment testing for further detail.

1. Notes to the financial statements *(continued)*

1.2 Summary of significant accounting policies (continued)

1.2.26 Critical accounting estimates and judgements (continued)

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.

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 each of the surface operations. The orebodies need 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 is 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' 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 the annual financial statements continued

for the year ended 31 December 2013

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.

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. The Group elected that the employees were not awarded some or all of an award and have thus been treated as cancellation by forfeiture. The expenses relating to these charges previously recognised have been reversed.

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

	2013 US$'000	2012 US$'000
Sale of goods	**212 020**	201 606
Rendering of services	**808**	512
	212 828	202 118

Finance revenue is reflected in Note 5, Finance (cost)/income.

Other operating income is reflected in Note 3, Operating profit.

3. Operating profit

	2013 US$'000	2012 US$'000
Operating profit includes the following:		
Other operating income		
Profit on disposal of property, plant and equipment – continuing operations	**689**	121
– discontinued operations	**–**	194
Depreciation, mining asset amortisation and waste amortisation		
Depreciation, mining asset amortisation and waste amortisation – continuing operations	**(54 324)**	(47 098)
– discontinued operations	**–**	(49 984)
Less: Depreciation capitalised to development assets – continuing operations	**1 454**	1 133
Less: Depreciation and mining asset amortisation capitalised to inventory – continuing operations	**519**	416
	(52 351)	(95 533)
Amortisation of intangible assets	**(159)**	(105)
	(52 510)	(95 638)
Inventories		
Cost of inventories recognised as an expense	**(102 843)**	(85 003)
Write-down of inventories to net realisable value	**(90)**	–

3. Operating profit *(continued)*

	2013 US$'000	2012 US$'000
Foreign exchange gain		
Foreign exchange gain	**1 480**	2 624
Mark-to-market revaluations on forward exchange contracts	**(874)**	1 191
	606	3 815
Operating lease expenses as a lessee		
Mine site property	**(90)**	(85)
Equipment and service leases	**(43 665)**	(45 210)
Contingent rental – Alluvial Ventures	**(9 605)**	(7 463)
Leased premises	**(1 743)**	(792)
	(55 103)	(53 550)
Auditor's remuneration – Ernst & Young		
Audit fee		
Group financial statements	**(479)**	(834)
Continuing operations	**(479)**	(560)
Discontinued operations	**–**	(274)
Statutory	**(331)**	(298)
Continuing operations	**(331)**	(298)
	(810)	(1 132)
Auditor's remuneration – other		
Statutory	**(18)**	(15)
Continuing operations	**(18)**	(15)
	(18)	(15)
Other non-audit fees – Ernst & Young		
Tax services advisory and consultancy	**(73)**	(283)
Continuing operations	**(73)**	(112)
Discontinued operations	**–**	(171)
Corporate finance services	**(320)**	(143)
Continuing operations	**(320)**	(143)
Tax compliance services	**(13)**	(16)
Continuing operations	**(13)**	(16)
Other services	**(86)**	(150)
Continuing operations	**(86)**	(150)
Other assurance services	**(87)**	(187)
Continuing operations	**(87)**	(187)
	(579)	(779)

Notes to the annual financial statements continued

for the year ended 31 December 2013

3. Operating profit *(continued)*

	2013 US$'000	2012 US$'000
Other non-audit fees – other		
Other services		
Internal audit	**(132)**	(134)
Continuing operations	**(132)**	(134)
Tax services advisory and consultancy	**(163)**	(164)
Continuing operations	**(163)**	(164)
	(295)	(298)
Employee benefits expense		
Salaries and wages[1]	**(20 845)**	(21 124)

[1] *Includes contributions to defined contribution plan of US$0.9 million (31 December 2012: US$0.8 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:

	2013 US$'000	2012 US$'000
Operating profit	**60 503**	49 674
Foreign exchange gain	**(606)**	(3 815)
Share-based payments	**932**	2 281
Other operating income	**(746)**	(1 271)
Depreciation and mining asset amortisation (excluding waste amortisation)	**17 296**	18 582
Underlying EBITDA	**77 379**	65 451

4. Exceptional items

	2013 US$'000	2012 US$'000
Recognised in arriving at operating profit from continuing operations		
Reversal of impairment/(impairment) – Chiri	**159**	(14 813)
Impairment – Project Kholo	**(58)**	(1 428)
Net reversal of impairment – Other assets	**54**	–
	155	(16 241)

Impairment – Chiri

During 2007, the Group entered into a Cooperation Agreement and Option Agreement in relation to the Chiri Concession in Angola, which is believed to be a diamondiferous kimberlite. During the prior year, the Group was unable to agree to a commercial agreement with its partner in Angola which would have given the Group an option to acquire an indirect interest in the Chiri Concession. In October 2012, it was decided not to continue with the project, which resulted in the total resource and development costs expended on the project to date to be written off. The write-off is represented by a loan advanced to the project of US$5.6 million, costs associated and incurred in securing the option to acquire the indirect interest of US$0.5 million and costs associated with the exploration and other associated assets of US$8.7 million. These costs were not directly related to current operations and were therefore disclosed as exceptional.

During the current year, a previously written off sampling plant was sold, resulting in an impairment reversal of US$0.2 million.

Impairment – Project Kholo

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 have been assessed as no longer having an enduring benefit to the operation, have been written off. As the write-off of these assets has arisen from circumstances other than the write-off of assets at the end of their usual expected lives, this write-off has been classified as exceptional.

Net reversal of impairment – Other assets

Included in the net reversal of impairment is an impairment charge reversal of US$0.3 million relating to the sale of a front-end sorting plant which had previously been written off; offset by an impairment charge of US$0.2 million relating to a deposit which was impaired on the basis of the execution of the contract to which it related to being uncertain.

5. Finance (cost)/income

	2013 US$'000	2012 US$'000
Finance income		
Bank deposits	**992**	2 514
Other	**226**	50
Total finance income	**1 218**	2 564
Finance costs		
Bank overdraft	**(143)**	(123)
Interest on debt, borrowings and trade and other payables[1]	**(1 501)**	(1)
Finance costs on unwinding of rehabilitation provision	**(1 213)**	(1 128)
Total finance costs	**(2 857)**	(1 252)
	(1 639)	1 312

[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.*

6. Income tax expense

	Notes	2013 US$'000	2012 US$'000
Income statement			
Current			
– Overseas		**(12 980)**	(9 860)
Withholding tax			
– Overseas		**(1 498)**	(2 140)
Deferred			
– Overseas		**(6 377)**	(6 407)
		(20 855)	(18 407)
Profit before taxation from continuing operations		**59 019**	34 745
Loss before taxation from discontinued operations	7	**–**	(118 686)
Profit/(loss) before taxation		**59 019**	(83 941)

Reconciliation of tax rate	%	%
Applicable income tax rate	**23.3**	24.5
Permanent differences	**6.1**	9.1
Tax impact on exceptional items	**–**	11.5
Unrecognised deferred tax assets	**1.5**	1.0
Effect of overseas tax at different rates	**1.9**	0.6
Withholding tax	**2.5**	6.3
Effective income tax rate	**35.3**	53.0

Notes to the annual financial statements continued

for the year ended 31 December 2013

7. Discontinued operations

There are no discontinued operations for the current year.

Australia

During the prior year, on 30 November 2012, the Group entered into a sale agreement for the disposal of its Australian mining activities, the Ellendale mine (Kimberley Diamonds Company NL), with an effective date of 31 December 2012. The net assets were remeasured to fair value, derecognised and the investment was recorded as an available-for-sale investment at fair value.

In January 2013, the Kimberley Diamonds Company NL sale was finalised and sold for the agreed purchase price of A$14.8 million, the proceeds of which were all received during the current year.

The results of the Australian operation for the year ended 31 December 2012:

	2012 US$'000
Revenue	113 704
Cost of sales and other operating costs[1]	(108 667)
Gross profit	5 037
Other operating income	80
Royalties and selling costs	(6 912)
Finance costs[2]	(493)
Share-based payments	(650)
Impairments	(4 121)
Foreign exchange gain	459
Loss before remeasurement to fair value	(6 600)
Remeasurement to fair value	(63 697)
Recycling of foreign currency translation reserve	(48 389)
Loss before tax from discontinued operations	(118 686)
Income tax expense	–
Loss after tax from discontinued operations	(118 686)
Earnings per share from discontinued operations (cents)	
– Basic	(86)
– Diluted	(85)
The net cash flows attributable to the discontinued operation are as follows:	
Operating	43 007
Investing	(51 217)
Net cash outflow	(8 210)

[1] *Included in cost of sales is an amount of US$1.7 million relating to write-down of inventories.*
[2] *Included in finance costs is unwinding of discount rate of rehabilitation provision of US$1.0 million.*

8. Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2013 US$'000	2012 US$'000
Profit for the year	**38 164**	32 579
Loss for the year from discontinued operations	**–**	(70 297)
Recycling of foreign currency translation reserve on discontinued operation	**–**	(48 389)
Less: Non-controlling interests	**(16 994)**	(15 507)
Net profit/(loss) attributable to equity holders of the parent for basic and diluted earnings	**21 170**	(101 614)
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)	**138 194**	138 177

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 is 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 2013 '000	Number of shares 2012 '000
Weighted average number of ordinary shares outstanding during the year	**138 194**	138 177
Effect of dilution:		
– Future share awards under the Employee Share Option Programme	**710**	1 350
Weighted average number of ordinary shares outstanding during the year adjusted for the effect of dilution	**138 904**	139 527

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 the annual financial statements continued

for the year ended 31 December 2013

9. Property, plant and equipment

As at 31 December 2013	Mining assets[1] US$'000	Exploration & development assets US$'000	Decommissioning assets US$'000	Leasehold improvements US$'000	Plant and equipment[2] US$'000	Other assets[3] US$'000	Total US$'000
Cost							
Balance at 1 January 2013	**340 250**	**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	**(59 980)**	**(11 107)**	**(3 382)**	**(3 556)**	**(23 014)**	**(2 119)**	**(103 158)**
Balance at 31 December 2013	**347 114**	**94 339**	**13 014**	**19 891**	**92 814**	**12 818**	**579 990**
Accumulated depreciation/ amortisation							
Balance at 1 January 2013	**125 155**	**–**	**2 613**	**8 610**	**48 051**	**4 730**	**189 159**
Depreciation and amortisation charge	**38 162**	**–**	**1 170**	**2 104**	**10 278**	**2 610**	**54 324**
Disposals	**–**	**–**	**–**	**(85)**	**(2 479)**	**(62)**	**(2 626)**
Impairment reversal	**–**	**–**	**–**	**–**	**(386)**	**–**	**(386)**
Foreign exchange differences	**(19 849)**	**–**	**(639)**	**(2 085)**	**(10 471)**	**(1 062)**	**(34 106)**
Balance at 31 December 2013	**143 468**	**–**	**3 144**	**8 544**	**44 993**	**6 216**	**206 365**
Net book value at 31 December 2013	**203 646**	**94 339**	**9 870**	**11 347**	**47 821**	**6 602**	**373 625**

As at 31 December 2012	Mining assets[1] US$'000	Exploration & development assets US$'000	Decommissioning assets US$'000	Leasehold improvements US$'000	Plant and equipment[2] US$'000	Other assets[3] US$'000	Total US$'000
Cost							
Balance at 1 January 2012	507 469	98 647	28 991	81 600	282 282	13 430	1 012 419
Additions	97 065	32 852	–	7 328	27 174	2 125	166 544
Net movement in rehabilitation provision	–	2 736	15 013	–	–	–	17 749
Disposals	–	(17)	–	(1 180)	(3 251)	(852)	(5 300)
Disposal of subsidiaries	(253 149)	(39 773)	(25 111)	(78 039)	(174 626)	(4 375)	(575 073)
Reclassifications	–	(1 246)	–	7 616	(8 760)	2 390	–
Foreign exchange differences	(11 135)	(2 739)	(540)	37	(3 719)	(479)	(18 575)
Balance at 31 December 2012	340 250	90 460	18 353	17 362	119 100	12 239	597 764
Accumulated depreciation/ amortisation							
Balance at 1 January 2012	290 605	31 475	12 009	66 542	181 236	5 614	587 481
Depreciation and amortisation charge	62 168	–	4 582	6 503	20 632	3 197	97 082
Disposals	–	–	–	(1)	(2 009)	(802)	(2 812)
Disposal of subsidiaries	(227 017)	(39 773)	(13 979)	(66 571)	(153 120)	(3 077)	(503 537)
Impairment	1 040	7 800	–	1 852	1 910	–	12 602
Foreign exchange differences	(1 641)	498	1	285	(598)	(202)	(1 657)
Balance at 31 December 2012	125 155	–	2 613	8 610	48 051	4 730	189 159
Net book value at 31 December 2012	215 095	90 460	15 740	8 752	71 049	7 509	408 605

[1] *Included in mining asset is waste costs capitalised during the year of US$54.0 million (31 December 2012: US$90.9 million).*

[2] *Included in plant and equipment is capital work in progress of US$32.1 million (31 December 2012: US$47.4 million).*

[3] *Other assets comprise motor vehicles, computer equipment, furniture and fittings and office equipment.*

10. 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 long-term rental agreement entered into with a tenant for a period of five years which commenced on 23 July 2010.

	2013 US$'000	2012 US$'000
Cost		
Balance at 1 January	**617**	617
Balance at 31 December	**617**	617
Accumulated depreciation		
Balance at 1 January	**1**	–
Depreciation	**1**	1
Balance at 31 December	**2**	1
Net book value at 31 December	**615**	616
Fair value[1]	**1 099**	879
Amounts recognised in profit or loss		
Rental income	**53**	53
Direct operating expenses	**(20)**	(11)

[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 2013, weighted towards the most recent sales activity, which is valued using a Level 2 input in terms of the fair value hierarchy.*

The future minimum rental income under the rental agreement in aggregate and for each of the following periods are as follows:

	2013 US$'000	2012 US$'000
– Within one year	**57**	56
– After one year but not more than five years	**35**	92
– More than five years	**–**	–
	92	148

11. Intangible assets

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**

Notes to the annual financial statements continued

for the year ended 31 December 2013

11. Intangible assets *(continued)*

As at 31 December 2012	Intangibles US$'000	Goodwill US$'000	Total US$'000
Cost			
Balance at 1 January 2012	–	58 712	58 712
Disposal of subsidiaries	–	(33 604)	(33 604)
Additions	786	–	786
Foreign exchange differences	–	(816)	(816)
Balance at 31 December 2012	786	24 292	25 078
Accumulated amortisation/impairment			
Balance at 1 January 2012	–	33 183	33 183
Disposal of subsidiaries	–	(33 604)	(33 604)
Amortisation	105	–	105
Foreign exchange differences	–	421	421
Balance at 31 December 2012	105	–	105
Net book value at 31 December 2012	681	24 292	24 973

Impairment of goodwill within the Group was tested in accordance with the Group's policy. Refer to Note 12, Impairment testing, for further details.

12. Impairment testing

	2013 US$'000	2012 US$'000
Goodwill		
Goodwill acquired through business combinations has been allocated to the individual cash-generating units, as follows:		
– Letšeng Diamonds	**18 229**	22 502
– Calibrated Diamonds	**1 451**	1 790
Balance at end of year	**19 680**	24 292

Movement in goodwill relates to foreign exchange translation from functional to presentation currency.

Discount rates are outlined below, 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.

	2013 %	2012 %
Discount rate for each cash-generating unit		
– Letšeng Diamonds	**13.9**	13.3
– Calibrated Diamonds	**13.1**	14.0

Goodwill impairment testing is undertaken annually and whenever there are indications of impairment. The most recent test was undertaken at 31 December 2013. 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 2013, recoverable amounts for Letšeng Diamonds and Calibrated Diamonds have been determined based on value in use and fair value less costs of disposal models respectively.

12. Impairment testing *(continued)*

Letšeng Diamonds

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 11-year mining lease period. This date depends on a number of variables, including recoverable reserves and resources, the forecast selling prices and the treatment costs.

Key assumptions used in the calculations

The key assumptions used in the calculation for goodwill asset are:

- Recoverable reserves and resources
- Expected carats recoverable
- Expected grades achievable
- Expected US$/carat prices
- Expected plant throughput
- Costs of extracting and processing
- Discount rates

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 foreign exchange rates.

Long-term US$/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. Costs are determined on management's experience and the use of contractors over a period of time whose costs are fairly reasonably determinable.

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 purposes of testing for impairment of goodwill using the value-in-use basis for Letšeng Diamonds, the excess of the recoverable amount based on the remaining lease period over the carrying value is US$211 million. Based on the life of mine period using current reserves, the excess over the recoverable amount is US$519 million.

No reasonably possible change in any of these key assumptions would cause Letšeng Diamonds' carrying amount to exceed its recoverable amount.

Calibrated Diamonds

Fair value less costs of disposal

The recoverable amount of Calibrated Diamonds was determined based on fair value less costs of disposal using discounted cash flow projections from financial budgets approved by senior management. The key assumptions include management's best estimate of the recoverability of the residual value of the assets taking into account the location of the assets and the ability to dispose of the assets in the current economic climate.

Key assumptions used in the calculations

The key assumptions used in the calculation of goodwill asset are:

- Expected volumes of production and yield
- Expected US$/carat prices
- Costs of manufacturing
- Discount rates

Expected volume of production and yield has been based on current plant specifications and tests performed. US$/carat prices are based on external data published by independent retailers and adjusted accordingly for this specific operation. Costs which are reasonably determinable are based on management's experience.

The foreign exchange rates have been based on current spot exchange rates at the date of the fair value less costs of disposal calculation.

Notes to the annual financial statements continued

for the year ended 31 December 2013

12. Impairment testing *(continued)*

Sensitivity to changes in assumptions

Given the current volatility in the market, adverse changes in key assumptions could result in changes to impairment charges.

The impairment test is most sensitive to changes in commodity prices and foreign exchange rates. No reasonably possible change in any of these key assumptions would cause Calibrated Diamonds' carrying amount to exceed its recoverable amount.

Other

Chiri

During 2012, the Group was unable to agree to a commercial agreement with its partner in Angola in relation to the Chiri Concession and in October 2012 it was decided not to continue with the project which resulted in the total resource and developments costs expended on the project to date, to be written off. During the current year, a previously written off asset was sold, resulting in a reversal of impairment.

Project Kholo

In 2011, Letšeng initiated an expansion programme (Project Kholo) to double its production capacity. During 2012, Project Kholo as originally envisaged was re-evaluated. As work had already commenced on Project Kholo, some of the costs incurred to date have been considered to have no future benefit and the cost related to this work has been written off.

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.

	2013 US$'000	2012 US$'000
Other non-current assets		
(Reversal of impairment)/impairment – Chiri[1]	**(159)**	14 813
Impairment – Project Kholo	**58**	1 428
Net reversal of impairment – other assets	**(54)**	–

[1] *Refer to Note 4, Exceptional items, for a breakdown of these amounts.*

13. Other financial assets

	2013 US$'000	2012 US$'000
Non-current		
Other assets	**28**	14
	28	14
Current		
Available-for-sale investment[1]	–	15 369
Forward exchange contract	–	1 067
Other assets	**13**	8
	13	16 444
	41	16 458

[1] *The available-for-sale investment related to Kimberley Diamonds Company NL which was disposed of in the prior year.*

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 assets at year end. The Group performs no hedge accounting. At 31 December 2013, the Group has no forward exchange contracts outstanding.

14. Deferred taxation

	2013 US$'000	2012 US$'000
Deferred tax assets		
Accrued leave	**45**	80
Operating lease liability	**5**	–
Provisions	**5 919**	7 295
	5 969	7 375
Deferred tax liabilities		
Property, plant and equipment	**(66 951)**	(74 766)
Prepayments	**(154)**	(10)
Provisions	**350**	162
Unremitted earnings	**(4 038)**	(4 038)
	(70 793)	(78 652)
Net deferred tax liability	**(64 824)**	(71 277)
Reconciliation of deferred tax liability		
Balance at beginning of year	**(71 277)**	(68 061)
Movement in current period:		
– Accelerated depreciation for tax purposes	**(6 404)**	(9 447)
– Accrued leave	**(22)**	(2)
– Operating lease liability	**6**	(5)
– Prepayments	**(146)**	(1)
– Provisions	**(1)**	2 771
– Tax losses utilised in the year	**190**	217
– Foreign exchange differences	**12 830**	3 251
Balance at end of year	**(64 824)**	(71 277)

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$31.9 million (31 December 2012: US$44.5 million).

The Group has estimated tax losses of US$293.0 million (31 December 2012: US$310.0 million). No deferred tax assets have been recognised in respect of such losses at 31 December 2013 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$293.0 million (31 December 2012: US$310.0 million) estimated tax losses, US$3.2 million (31 December 2012: US$1.4 million) losses in various jurisdictions expire as follows:

	31 December 2013 US$'000	31 December 2012 US$'000
2014	**31**	30
2015	**2**	2
2016	**6**	5
2017	**1 244**	1 224
2018	**1 914**	–
	3 197	1 378

Notes to the annual financial statements continued

for the year ended 31 December 2013

15. Inventories

	2013 US$'000	2012 US$'000
Diamonds on hand	**18 806**	14 247
Ore stock piles	**3 281**	311
Consumable stores	**7 239**	8 094
	29 326	22 652
Net realisable value write-down	**90**	–

16. Receivables and other assets

	2013 US$'000	2012 US$'000
Trade receivables	**1 002**	1 858
Prepayments	**739**	1 400
Deposits[1]	**230**	475
Other receivables	**134**	541
VAT receivable	**4 644**	2 999
	6 749	7 273

[1] *Refer to Note 4, Exceptional items, for details on a deposit that was impaired.*

The carrying amounts above approximate their fair value.

Terms and conditions of the receivables:

These amounts are non-interest bearing and are settled in accordance with terms agreed between the parties.

	2013 US$'000	2012 US$'000
Analysis of trade receivables		
Neither past due nor impaired	**939**	1 768
Past due but not impaired:		
< 30 days	**31**	33
30 – 60 days	**32**	18
60 – 90 days	**–**	39
	1 002	1 858
Movements in the provision against trade receivables were as follows:		
Balance at beginning of year	**–**	1 084
Utilised during the year	**–**	(1 097)
Foreign exchange differences	**–**	13
Balance at end of year	**–**	–

17. Cash and short-term deposits

	2013 US$'000	2012 US$'000
Cash on hand	**9**	4
Bank balances	**22 724**	35 754
Short-term bank deposits	**48 445**	35 084
	71 178	70 842

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 2013, the Group had restricted cash of US$0.2 million (31 December 2012: US$0.2 million).

The Group's cash surpluses are deposited with major financial institutions of high-quality credit standing predominantly within Lesotho, the United Kingdom and Switzerland.

At 31 December 2013, the Group has a US$20.0 million three-year unsecured revolving credit facility with Nedbank Capital and, through its subsidiary Letšeng Diamonds, a M250.0 million (US$23.9 million) three-year revolving working capital facility.

As at 31 December 2013, there has been no draw down (31 December 2012: US$2.9 million) on either of the above facilities. At 31 December 2012, the outstanding amount was classified under interest-bearing loans and borrowings and was fully repaid in January 2013.

After the reporting date, a US$25.0 million nine-month unsecured facility was concluded through Nedbank Capital, for the completion of the Ghaghoo Phase 1 development capital expenditure. This facility is due to be refinanced through a longer-term debt facility prior to its expiry in October 2014. US$5.0 million has been drawn down on this facility to date.

18. Issued capital and reserves

	31 December 2013		31 December 2012	
	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	**138 267**	**1 383**	138 267	1 383
Allotments during the year	**3**	**–**	–	–
Balance at end of year	**138 270**	**1 383**	138 267	1 383

On 31 July 2013 there was an allotment of shares when employee share options were exercised. Refer to Note 27, Share-based payments.

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, 14 667 shares were exercised (31 December 2012: 10 500) and no shares lapsed (31 December 2012: nil). At 31 December 2013, 65 550 (31 December 2012: 80 217) shares were held by the trust.

Notes to the annual financial statements continued

for the year ended 31 December 2013

18. Issued capital and reserves *(continued)*

Other reserves

	Foreign currency translation reserve US$'000	Share-based equity reserve US$'000	Other reserves US$'000	Total US$'000
Balance at 1 January 2013	**(62 800)**	**45 670**	**–**	**(17 130)**
Other comprehensive income	**(53 442)**	**–**	**–**	**(53 442)**
Total comprehensive income	**(53 442)**	**–**	**–**	**(53 442)**
Share-based payments		**1 164**		**1 164**
Balance at 31 December 2013	**(116 242)**	**46 834**		**(69 408)**
Balance at 1 January 2012	(90 575)	42 557	(702)	(48 720)
Other comprehensive income	27 775	–	702	28 477
Total comprehensive income	27 775	–	702	28 477
Share-based payments		3 113		3 113
Balance at 31 December 2012	(62 800)	45 670	–	(17 130)

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	2013	2012
Average rate	ZAR/Maloti to 1 US$	**9.65**	8.21
Period end	ZAR/Maloti to 1 US$	**10.47**	8.48
Average rate	AUD to 1 US$	**1.04**	0.97
Period end	AUD to 1 US$	**1.12**	0.96
Average rate	Pula to 1 US$	**8.40**	7.62
Period end	Pula to 1 US$	**8.78**	7.79
Average rate	Rupee to 1US$	**30.75**	30.13
Period end	Rupee to 1US$	**30.05**	30.55
Average rate	Dirham to 1 US$	**3.67**	3.67
Period end	Dirham to 1 US$	**3.67**	3.67

Share-based equity reserves

For detail on the share-based equity reserve refer to Note 27, Share-based payments.

Other reserves

In the prior year Blina Minerals NL was disposed of due to the loss of control in Kimberley Diamonds Company NL. All relevant movements were recognised through other comprehensive income and subsequently recycled through profit and loss.

Capital management

For details on capital management, refer to Note 26, Financial risk management.

19. Trade and other payables

	2013 US$'000	2012 US$'000
Non-current		
Operating lease	2	–
Severance pay benefits[2]	1 107	1 007
	1 109	1 007
Current		
Trade payables[1]	12 023	15 302
Accrued expenses[1]	20 790	24 578
Leave benefits	790	1 236
Royalties[1]	2 761	1 445
Operating lease	141	6
Other	581	1 208
	37 086	43 775
Total trade and other payables	38 195	44 782

The carrying amounts above approximate fair value.

Terms and conditions of the trade and other payables:

[1] *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 5, Finance (cost)/income.*

[2] *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.*

20. Provisions

	2013 US$'000	2012 US$'000
Rehabilitation provisions	23 186	29 496

2013 Reconciliation of movement in provisions	Rehabilitation provisions US$'000	Employee provisions US$'000	Other US$'000	Total US$'000
Balance at beginning of year	29 496	–	–	29 496
Arising during the year	442	–	–	442
Decrease in rehabilitation provisions	(2 791)	–	–	(2 791)
Unwinding of discount rate	1 213	–	–	1 213
Foreign exchange differences	(5 174)	–	–	(5 174)
Balance at end of year	23 186	–	–	23 186

Notes to the annual financial statements continued

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20. Provisions *(continued)*

2012 Reconciliation of movement in provisions	Rehabilitation provisions US$'000	Employee provisions US$'000	Other US$'000	Total US$'000
Balance at beginning of year	41 712	551	195	42 458
Arising during the year	–	245	–	245
Utilised during the year	(872)	–	(190)	(1 062)
Disposal of subsidiaries	(30 162)	(802)	–	(30 964)
Increase in rehabilitation provisions	17 749	–	–	17 749
Unwinding of discount rate	2 077	–	–	2 077
Foreign exchange differences	(1 008)	6	(5)	(1 007)
Balance at end of year	29 496	–	–	29 496

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 and 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 5.5% – 7.5% (31 December 2012: 7.5% – Letšeng only), estimated rehabilitation timing of 11 to 14 years (31 December 2012: 12 years – Letšeng only) and an inflation rate range of 5.6% – 6.0% (31 December 2012: 6.8% – Letšeng only). In addition to the changes in the discount rates, inflation and rehabilitation timing, the decrease in the provision is attributable to unrealised foreign exchange translation from functional to presentation currency.

21. Cash flow notes

21.1 Cash generated by operations

	Notes	**2013 US$'000**	2012 US$'000
Profit before tax for the year from continuing operations		**59 019**	34 745
Loss before tax for the year from discontinued operations		**–**	(118 686)
Adjustments for:			
Depreciation, mining asset amortisation and waste amortisation on property, plant and equipment and amortisation on intangible assets	3	**52 510**	95 638
(Reversal of impairment)/impairment of assets	3	**(155)**	19 456
Write-down of inventory	3	**90**	1 650
Finance income	5	**(1 218)**	(3 109)
Finance costs	5	**2 857**	2 291
Movement in provisions		**(655)**	(1 512)
Mark-to-market revaluations		**984**	(2 435)
Unrealised foreign exchange differences		**620**	43 483
Profit on disposal of property, plant and equipment	3	**(689)**	(315)
Prepayments		**160**	(627)
Other non-cash movements		**7**	6 492
Loss on disposal of subsidiaries		**–**	63 697
Share-based equity transaction	27	**932**	2 931
		114 462	143 699

21. Cash flow notes *(continued)*

21.2 Working capital adjustments

	2013 US$'000	2012 US$'000
Increase in inventories	**(10 962)**	(24 945)
(Increase)/decrease in receivables	**(4 009)**	565
Decrease in trade and other payables	**(2 520)**	(704)
	(17 491)	(25 084)

21.3 Cash received/(disposed) from disposal of subsidiary

	2013 US$'000	2012 US$'000
Property, plant and equipment	–	11 001
Inventories	–	30 891
Trade and other receivables	–	3 049
Other financial assets	–	13 492
Cash and cash equivalents	–	282
Trade and other payables	–	(12 382)
Provisions	–	(30 964)
	–	15 369
Proceeds on sale of subsidiaries	**14 030**	–
Proceeds on disposal not yet received	–	(15 369)
Net costs incurred	–	(327)
Cash equivalents sold	–	(282)
Cash received/(disposed) from disposal of subsidiary	**14 030**	(609)

In January 2013, the Kimberley Diamonds Company NL sale was finalised and sold for the agreed purchase price of A$14.8 million (US$15.4 million). During the current year the full purchase price of A$14.8 million (US$14.0 million) was received. The difference in the cash proceeds received relates to foreign exchange movements.

22. Interest-bearing loans and borrowings

	2013 US$'000	2012 US$'000
Current		
Working capital facility	–	2 947

The carrying values of the liabilities approximate their fair values.

The drawn down portion of the Letšeng Diamonds facility at 31 December 2012 was repaid in the current year. The interest rate on this loan is prime less 0.8%, which equated to 9.12% (2012: 8.95%) at year end and interest paid during the year was US$0.1 million (31 December 2012: US$0.1 million).

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23. 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:

	2013 US$'000	2012 US$'000
– Within one year	**1 813**	1 508
– After one year but not more than five years	**5 437**	6 406
– More than five years	**11 126**	16 795
	18 376	24 709

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:

	2013 US$'000	2012 US$'000
– Within one year	**84**	88
– After one year but not more than five years	**381**	403
– More than five years	**735**	957
	1 200	1 448

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 pertaining to loading and hauling terminates at the end of December 2014 and is currently being negotiated on new commercial terms for a period of seven years. As the final commercial terms have not been concluded, the figures below do not include future commitments.

	2013 US$'000	2012 US$'000
– Within one year	**29 422**	32 774
– After one year but not more than five years	**718**	32 767
– More than five years	**–**	–
	30 140	65 541

	2013 US$'000	2012 US$'000
Capital expenditure		
Approved but not contracted for	**40 070**	35 342
Approved and contracted for	**3 853**	22 002

23. Commitments and contingencies *(continued)*

Contingent rentals – Alluvial Ventures

The contingent rentals represents 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 40% to 50% of the value of the diamonds recovered by Alluvial Ventures and is limited to US$0.9 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 2012: 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$3.6 million (December 2012: US$4.1 million) and tax claims within the various jurisdictions in which the Group operates approximating US$1.2 million (December 2012: US$1.4 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.

24. 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.

Notes to the annual financial statements continued

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24. Related parties *(continued)*

		2013 US$'000	2012 US$'000
Compensation to key management personnel (including Directors)			
Share-based equity transactions	– continuing operations	**1 054**	1 574
	– discontinuing operations	**–**	145
Short-term employee benefits	– continuing operations[1]	**5 819**	7 660
	– discontinuing operations	**–**	1 392
		6 873	10 771
Fees paid to related parties			
Jemax Aviation (Proprietary) Limited		**(82)**	(109)
Jemax Management (Proprietary) Limited		**(98)**	(107)
Royalties paid to related parties			
Government of Lesotho		**(15 868)**	(16 382)
Lease and licence payments to related parties			
Government of Lesotho		**(112)**	(85)
Sales to/(purchases) from related parties			
Jemax Aviation (Proprietary) Limited		**214**	200
Geneva Management Group (UK) Limited		**(6)**	(13)
Amount included in trade receivables owing by/(to) related parties			
Jemax Aviation (Proprietary) Limited		**51**	51
Jemax Management (Proprietary) Limited		**(8)**	(9)
Amounts owing by/(to) related party			
Government of Lesotho		**(2 425)**	(1 062)
Blina Minerals NL		**–**	372
Dividends paid			
Government of Lesotho		**(5 938)**	(8 770)

[1] *Included in this amount is payments made to an executive director on retirement, comprising 12 months' notice period payment and payments in lieu of holiday entitlement at the date of retirement.*

Jemax Management (Proprietary) Limited and Jemax Aviation (Proprietary) Limited provided administrative and aviation services with regards 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.

25. Financial instruments

Fair value

Set out below is a table of carrying amounts of all of the Group's financial instruments that are carried in the financial statements. The carrying amounts approximate their fair value.

		Carrying amount	
	Fair value hierarchy	2013 US$'000	2012 US$'000
Financial assets			
Cash (net of overdraft)	3	**71 178**	70 813
Receivables	3	**6 749**	7 273
Other assets	3	**41**	22
Available-for-sale investments[1]	3	**–**	15 369
Forward exchange contract	2	**–**	1 067
Financial liabilities			
Interest-bearing loans and borrowings	3	**–**	2 947
Trade and other payables	3	**38 195**	44 782

[1] *The available-for-sale investment related to Kimberley Diamonds Company NL which was disposed of in the prior year.*

Valuation technique Level 2: Forward exchange contract

The foreign currency forward exchange contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies.

Fair value hierarchy

- 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.

26. 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.

Notes to the annual financial statements continued

for the year ended 31 December 2013

26. Financial risk management *(continued)*

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 2013, the Group has 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 M250.0 million (US$23.9 million), three-year unsecured revolving working capital facility. The facility is due for renewal in November 2014 and as part of the capital management process, negotiations are in place to roll over the facility for a further three-year period. This facility bears interest at the South African prime rate less 0.8%.

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 plus 5.33%.

At year end there is no drawdown on either of these two facilities.

Unsecured – Nedbank Capital (a division of Nedbank Limited) – nine-month facility

Post the reporting date, the following additional facility has been completed:

For the completion of the Ghaghoo Phase 1 development capital expenditure, a nine-month unsecured US$25.0 million facility was concluded in January 2014. This facility is due to be refinanced through a longer-term debt facility prior to its expiry in October 2014. Currently, US$5.0 million has been drawn down on this facility. The facility bears interest at London USD Interbank three-month LIBOR rate plus 4%.

(a) Market risk

(i) Commodity price risk

The Group is subject to commodity price risk. Diamonds are not a homogeneous product 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$/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 2013. There has been no change in the assumptions or method applied from the prior year.

26. Financial risk management *(continued)*

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

Sensitivity analysis

If the US dollar had appreciated (depreciated) 10% against currencies significant to the Group at 31 December 2013, income before taxation would have been US$0.1 million higher (lower) (31 December 2012: US$0.5 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 2013, the Group has no forward exchange contracts outstanding (31 December 2012: US$44.0 million notional cover).

(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.

(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 the 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$43.9 million at year end, which was increased to US$63.9 million subsequent to year end.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments:

	2013 US$'000	2012 US$'000
Floating interest rates		
Interest-bearing loans and borrowings		
– Within one year	–	2 947
Total	–	2 947
Trade and other payables		
– Within one year	**37 086**	43 775
– After one year but not more than five years	**1 109**	1 007
Total	**38 195**	44 782

Notes to the annual financial statements continued

for the year ended 31 December 2013

27. Share-based payments

The expense recognised for employee services received during the year is shown in the following table:

	2013 US$'000	2012 US$'000
Equity-settled share-based payment transactions charged to the income statement		
– continuing operations	**932**	2 281
– discontinued operations (refer to Note 7, Discontinued operations)	**–**	650
Equity-settled share-based payment transactions capitalised	**232**	182
	1 164	3 113

There were no options granted during the current year.

During the year a number of employees resigned before the end of the performance period. These employees were not awarded some or all of an award and have thus been treated as cancellation by forfeiture. The effect of this cancellation resulted in the reversal of previously recognised costs of US$1.2 million.

The long-term incentive plans are described below:

Employee Share Option Plan

Certain key employees are entitled to a grant of options, under the Employee Share Option Plan (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.

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.

Employee Share Option Plan for 2011 (long-term incentive plan (LTIP))

On 13 June 2011, 1 314 000 options were granted to certain key employees under the LTIP of the Company. Of the total number of shares, 438 000 were nil value options and 876 000 were market value options. The exercise price of the market value options is £2.63 (US$4.38), which was equal to the market price of the shares on the date of the grant. 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 options which vest are exercisable between 13 June 2014 and 12 June 2021. 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.

For the purpose of the performance criterion, the conditions were tested up to 31 December 2013 and the outcome was that the 2011 options will not vest as neither the diamond peer group nor the FTSE 250 was outperformed.

27. Share-based payments *(continued)*

Employee Share Option Plan for March 2012 (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 777 000 are still outstanding following the resignation of a number of employees. The vesting of the options will be subject to the same conditions as the LTIP 2011 on the previous page. The awards which vest on 20 March 2015 are exercisable between 20 March 2015 and 20 March 2022. The fair value of these options is estimated in a similar manner as the LTIP 2011 on the previous page.

Employee Share Option Plan 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 540 000 are still outstanding following the resignation of a number of employees. The awards which vest over a three-year period in tranches of a quarter 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 LTIP 2011 on the previous page.

Movements in the year

Employee Share Option Plan

The following table illustrates the number ('000) and movement in share options during the year:

	2013 '000	2012 '000
Outstanding at beginning of year	**33**	44
Exercised during the year	**(15)**	(11)
Balance at end of year	**18**	33
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:

Employee Share Option Plan	
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.

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for the year ended 31 December 2013

27. Share-based payments *(continued)*

Employee Share Option Plan for September 2012, March 2012, 2011 and 2010 (LTIP)

The following table illustrates the number ('000) and movement in the outstanding share options during the year:

	2013 '000	2012 '000
Outstanding at beginning of year	**4 501**	2 467
Granted during the year	**–**	2 283
Exercised during the year	**(3)**	–
Forfeited	**(2 425)**	(249)
Balance at end of year	**2 073**	4 501

The following table lists the inputs to the model used for the plan for the awards granted during the current and prior year:

	LTIP September 2012	LTIP March 2012	LTIP 2011	LTIP 2010
Employee Share Option Plan				
Dividend yield (%)	–	–	–	–
Expected volatility (%)	42.10	63.88	66.32	76.33
Risk-free interest rate (%)	0.33	1.20	1.59	1.11
Expected life of option (years)	3.00	3.00	3.00	3.00
Weighted average share price (US$)	2.85	4.76	4.38	3.33
Fair value of nil value options (US$)	2.85	3.76	3.01	2.27
Fair value of market value options (US$)	1.66	2.27	1.95	1.45
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.

28. 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	2013	2012
Letšeng Diamonds (Proprietary) Limited	Lesotho	**30%**	30%
Accumulated balances of material non-controlling interest		**72 454**	76 319
Profit allocated to material non-controlling interest		**15 702**	18 084

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:

	2013 US$ '000	2012 US$ '000
Revenue	**201 310**	207 744
Cost of sales	**(114 150)**	(116 798)
Gross profit	**87 160**	90 946
Royalties and selling costs	**(16 099)**	(16 657)
Other (costs)/income	**(860)**	3 306
Operating profit	**70 201**	77 595
Net finance (costs)/income	**(614)**	885
Profit before tax	**69 587**	78 480
Income tax expense	**(17 246)**	(18 202)
Profit for the year	**52 341**	60 278
Total comprehensive income	**52 341**	60 278
Attributable to non-controlling interest	**15 702**	18 084
Dividends paid to non-controlling interest	**5 938**	8 770

Notes to the annual financial statements continued
for the year ended 31 December 2013

28. Material partly owned subsidiaries *(continued)*

Summarised statement of financial position as at 31 December:

	2013 US$ '000	2012 US$ '000
Assets		
Non-current assets		
Property, plant and equipment and intangible assets	281 017	326 152
Current assets		
Inventories, receivables and other assets and cash and short-term deposits	64 862	46 626
Total assets	345 879	372 778
Non-current liabilities		
Trade and other payables, provisions and deferred tax liabilities	81 951	93 312
Current liabilities		
Interest-bearing loans and borrowings and trade and other payables	22 415	25 069
Total liabilities	104 366	118 381
Total equity	241 513	254 397
Attributable to:		
Equity holders of parent	169 059	178 078
Non-controlling interest	72 454	76 319
Summarised cashflow information for the year ended 31 December:		
Operating	85 961	51 493
Investing	(68 782)	(83 344)
Financing	(8 529)	(5 727)
Net increase/(decrease) in cash and cash equivalents	8 650	(37 578)

29. Events after the reporting period

The following has taken place since the reporting date:

- On 31 January 2014 the Group concluded a US$25.0 million nine-month unsecured loan facility through Nedbank Capital (a division of Nedbank Limited) for the completion of the Ghaghoo Phase 1 development capital expenditure. This facility is due to be refinanced through a longer-term debt facility prior to its expiry in October 2014. The facility bears interest at London USD Interbank three-month LIBOR rate plus 4%. US$5.0 million has been drawn down on this facility to date.

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